

THE EUROPEAN VENTURE PHILANTHROPY ASSOCIATION'S (EVPA) ROLE IN THE EUROPEAN SOCIAL INNOVATION ECOSYSTEM

EVPA positions itself as a key network at European level that brings together actors working to finance social innovation with European policymakers and other key stakeholders.

SOCIAL ENTERPRISES AS A VEHICLE OF SOCIAL IMPACT

Today's complex **societal challenges** require increasingly innovative solutions, financed and delivered in new ways. There is a growing realisation that innovation and entrepreneurship must take into account the total impact on society (People, Planet, Profit). Social entrepreneurship and social innovation are recognised as vital drivers of a prosperous, inclusive and sustainable European economy¹.

In parallel, we also see a **surge in legislation in Member States** regarding the creation of innovative social enterprise legal vehicles for social impact. Based on a recent article published by the European Social Enterprise Law Association (ESELA)², social enterprise legislation has been increasing significantly since the turn of the century. According to the article, at least 15 European Union Member States have passed at least 18 laws to provide a framework, definition and benefits for social enterprises since 2000, and over half of the new laws were enacted in the past three years. This shows that Member State governments consider social enterprise and social investment as an important topic - now more than ever. We are also seeing an acceleration in the creation of new innovative social enterprise legal vehicles for social impact over the past five years (including Luxembourg, Italy, France, UK and Greece). These legal vehicles are intended to provide more legal certainty and visibility for social enterprises and social investments and contribute to the development of greater clarity around the legal framework governing social enterprises.

Social enterprises³ adopt models that combine elements of traditional non-profits with revenue-generating operations, thus integrating best practices from the private and public sectors as well as from civil society. Some social enterprises provide social services in innovative ways, and others address social problems using new solutions, or solutions that are imported from other geographies and contexts, and adapted locally. Many social enterprises are able to develop sustainable business

¹ For more information see: Commission Expert Group on Social Entrepreneurship (GECES). (2016, October). "Social enterprises and the social economy going forward". http://ec.europa.eu/growth/content/social-enterprises-and-social-economy-going-forward-0_en.

² For more information see: <http://esela.eu/news/wave-social-enterprise-legal-developments-across-europe>

³ The European Commission developed the following definition for social enterprises: A social enterprise is an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities. (For more: Social enterprises. (Last updated 2017, October 29). European Commission. http://ec.europa.eu/growth/sectors/social-economy/enterprises_en).

models that in the medium and long term do not depend on external funding, and can thus generate a **sustainable impact** on society.

With increasingly tight national budgets, there has been a shift in the provision of some social services to these new actors, who have the potential to attract **capital from non-public sources**.

The combined potential of **social and financial return** positions social enterprises as an attractive investment opportunity for investors; ranging from venture philanthropy organisations and specialised impact investors to more mainstream financial institutions. There is also growing interest in social enterprises among **policymakers** at both national and European Union level, due to their contribution to employment, social inclusion, economic integration, as well as local and regional development⁴. Recognising this, in its role as a thought leader EVPA strives to identify and publicise noteworthy **policy developments, programmes**, as well as **funding opportunities** to its network⁵.

THE ROLE OF VENTURE PHILANTHROPY IN SUPPORTING SOCIAL ENTERPRISES

Social enterprises struggle to obtain **adequate funding**⁶. Social enterprises find it especially difficult to attract capital in the **early stages** of their development, due to the lack of awareness of social enterprise as an investment opportunity, the relatively higher perceived risk, (initial) below-market financial returns, and the difficulty of capturing the true impact of invested funds. Where funding is available, it is rarely adapted to the specific nature and needs that these business models entail.

Innovation inherently implies **risk**, yet it is essential to driving societal progress. Therefore, there is a need for **patient and concessionary funding** that is willing and ready to bear this risk, and adapted to the specific nature of social enterprises. Additionally, social enterprises need non-financial support to build stronger organisations and to better measure and manage their impact.

Venture philanthropy is an **investment approach** that provides a combination of (i) tailored financing, (ii) organisational support, and (iii) impact measurement and management to build stronger, more sustainable and impactful social enterprises. Venture philanthropy directly addresses the challenges faced by social enterprises in their quest to generate societal⁷ impact.

(i) Tailored Financing

Innovative social enterprises that are experimenting with new solutions need patient capital that is willing to take the risk of failure, and that prioritises social impact over market return when required. Depending on the **business model**, level of **financial self-sufficiency**, and **stage of development**, a social enterprise may take on different types of **financial instruments**. In order to facilitate financial self-sufficiency in the long-term and sustain the social impact of an innovation, financial instruments should be **tailored** according to the capacity of the social enterprise and the risk level (pull, not push). Scaling societal solutions requires different funders supporting the enterprise along its

⁴ For more information see: SWECO, t33, University of Strathclyde – EPRC, Spatial Foresight and inEurope. (2016, June). “Factsheet: Financial instruments working with social entrepreneurship”_fi-compass. https://www.fi-compass.eu/sites/default/files/publications/Factsheet_Financial_instruments_working_with_social_entrepreneurship.pdf

⁵ For more information on the developments on national level see: National Policy Nexus. EVPA. <https://evpa.eu.com/policy/national-policy-nexus>. For more information on EU funding opportunities, please see: EU Funding. EVPA. <https://evpa.eu.com/policy/eu-funding>.

⁶ Working Group 1 of the GECES. (2017, February). “Subject Paper: Improving access to funding”. <http://ec.europa.eu/DocsRoom/documents/21252/attachments/5/translations/en/renditions/pdf>.

⁷ EVPA purposely uses the term “societal” because the impact may be social, environmental, medical or cultural. However, throughout this paper we also refer to “social impact” to indicate the same concept.

growth path, bridging early-stage high-risk funding with later-stage investors. EVPA has developed useful guidance on how to provide tailored financing, and on innovative ways for actors to cooperate through **hybrid finance**⁸.

(ii) Organisational Support

Besides financing, social enterprises often lack the necessary **management skills** and **networks** to build stronger organisations capable of generating both social impact and financial returns. Investors can help social enterprises build critical skills by providing them with organisational support. EVPA has developed a useful practical guide on providing **non-financial support**⁹. Organisational support optimises the operations of the social enterprise to **maximise the impact** of the solution, and paves the way for a **successful exit** of the investor by building the financial sustainability and organisational resilience of the social enterprise.

(iii) Impact Measurement and Management

Managing impact involves **collecting and applying information** that can enhance the **effectiveness** and **accountability** of the social enterprise¹⁰. Successful impact management is proportionate to the size and capacity of the social purpose organisation, optimising and maximising the value for the final beneficiaries. EVPA has been at the forefront of developing advice and training on impact measurement and management through its research¹¹ and learning offer¹², as well as its contribution on the policy side through the European Commission's Expert Group on Social Entrepreneurship (GECES) and G8 Social Impact Investment Taskforce¹³.

THE VENTURE PHILANTHROPY ECOSYSTEM

The venture philanthropy ecosystem includes diverse organisations united in a commitment to generating social impact through different ways of financing innovative solutions. The spectrum of venture philanthropy organisations encompasses funders with **different financing objectives** – either seeking exclusively social impact, or a blend of societal and financial value. Venture philanthropy is therefore a methodology that is applicable to both **grant-makers** and **social investors**. The ecosystem gathers not only funders, but also many other players, including social investment intermediaries and academics. Since 2004, the European Venture Philanthropy Association (EVPA) has built a community of organisations based in Europe interested in or practising venture philanthropy.

We are convinced that venture philanthropy organisations can act as key partners in working with the **public sector** to support social innovation. Recognising the distinct yet complementary roles of each actor, there are many advantages and much shared value to be generated through

⁸ For more guidance on tailored financing see: Gianoncelli, A. and Boiardi, P. (2017). "Financing for Social Impact. The Key Role of Tailored Financing and Hybrid Finance". EVPA. <https://evpa.eu.com/knowledge-centre/publications/financing-for-social-impact>

⁹ Hehenberger, L. and Boiardi, P. (2015, December). "Adding value through non-financial support - A practical guide". EVPA. <https://evpa.eu.com/knowledge-centre/publications/adding-value-through-non-financial-support-a-practical-guide>

¹⁰ Galitopoulou, S. and Noya, A. (2016). "Policy Brief on Social Impact Measurement for Social Enterprises - Policies for Social Entrepreneurship". Organisation for Economic Co-operation and Development. <http://www.oecd.org/cfe/leed/Policy-brief-Scaling-up-social-enterprises-EN.pdf>

¹¹ Hehenberger, L., Harling, A-M. and Scholten, P. (2015, June). "Measuring and managing impact - A practical guide". EVPA. <https://evpa.eu.com/knowledge-centre/publications/measuring-and-managing-impact-a-practical-guide>

¹² EVPA's Learning Offer. EVPA. <https://evpa.eu.com/knowledge-centre/evpa-learning-offer>

¹³ For more information see: Global Social Impact Investment Steering Group (successor to the G8 Social Impact Investment Taskforce). <http://socialimpactinvestment.org/>

collaboration¹⁴. As a high-engagement and long-term approach, venture philanthropy is well placed to bear the risk of early-stage financing. Venture philanthropy organisations can catalyse innovation by enabling risk-taking in areas where national authorities handling public funds may need to engage more prudently. By bearing the brunt of the risk, venture philanthropy unlocks other complementary sources of funding, paving the way for **co-investment** and **hybrid finance**¹⁵. On the other hand, governments are best placed to **scale services to entire populations**, and are often instrumental in bringing about true **systemic change**. Where innovation concerns public services, the expertise and mandate of government in the public domain is invaluable. Therefore, to maximise the impact of innovation and its benefit for society, involving public actors already at the very **early stages** is key. We believe venture philanthropy and public institutions together can achieve what neither can alone in building innovative societal solutions.

EU POLICY STATE OF PLAY

Many significant initiatives and developments can be noted at the European level, recognising the growing importance of social entrepreneurship and social innovation, and aiming to support their proliferation. The social dimension is evidently growing in importance within **European Union policies** – the recently published *Reflection Paper on the Social Dimension of Europe*¹⁶ demonstrates the European Commission's commitment to a **long-term social agenda**, and to mainstreaming social considerations across all policy areas. Similar messages have been reaffirmed in two other high-level publications – the European Pillar of Social Rights¹⁷, as well as the Rome Declaration¹⁸. The report of the European Commission's Expert Group on Social Entrepreneurship (GECES)¹⁹, to which EVPA contributed significantly, has set the direction of policy development in support of social entrepreneurship and social innovation going forward.

These written proclamations have been reaffirmed in practice by means of **dedicated programmes** and **financial instruments** to bolster social innovation and to support the development of social enterprises. Building on the ground-breaking Social Business Initiative in 2011²⁰, the Start Up & Scale Up strategy²¹ is potent in its cross-cutting nature, uniting disparate efforts across the European Commission. The **Employment and Social Innovation (EaSI) programme** of the Directorate General for Employment, Social Affairs & Inclusion²² has been another cornerstone initiative. Encompassing dedicated financial instruments for different stakeholders within the space, it has

¹⁴ For more information on advantages of public-private collaboration see: Lipparini, F., Phillips, S., Addarii, F. and Johar, I. (2015, March) "From good to growth. Promoting social investment and public good to stimulate the European economy". Young Foundation. <http://youngfoundation.org/wp-content/uploads/2015/10/From-good-to-growth.pdf>.

¹⁵ EVPA defines hybrid finance as the allocation of financial resources to impact-oriented investments combining different types of financial instruments and different types of risk/return/ impact profiles of capital providers.

¹⁶ See: Reflection paper on the social dimension of Europe. (2017, April 26). European Commission. https://ec.europa.eu/commission/publications/reflection-paper-social-dimension-europe_en.

¹⁷ See: The European Pillar of Social Rights in 20 principles. European Commission.

https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights/european-pillar-social-rights-20-principles_en.

¹⁸ See: The Rome Declaration - Press release. (2017, March 25). <http://www.consilium.europa.eu/en/press/press-releases/2017/03/25-rome-declaration/>.

¹⁹ See: Commission Expert Group on Social Entrepreneurship (GECES). (2016, October). "Social enterprises and the social economy going forward". http://ec.europa.eu/growth/content/social-enterprises-and-social-economy-going-forward-0_en.

²⁰ See: Social enterprises. (Last updated 2017, October 29). European Commission. <http://ec.europa.eu/growth/sectors/social-economy/enterprises>.

²¹ See: A new initiative for startups to start and scale up in Europe. (2016, November 22). European Commission. <https://ec.europa.eu/digital-single-market/en/news/new-initiative-startups-start-and-scale-europe>.

²² See: EU Programme for Employment and Social Innovation (EaSI). European Commission. <http://ec.europa.eu/social/main.jsp?catId=1081>

supported ecosystem-building networks such as EVPA, as well as intermediaries engaged in social investment. The **European Investment Bank (EIB) Group**²³ plays an instrumental role, designing and deploying these and other measures, including the European Fund for Strategic Investments (EFSI)²⁴ and the Social Impact Accelerator (SIA)²⁵. EVPA has also been invited to participate in a new **Expert Group on Venture Philanthropy & Social Investments**²⁶, launched recently by the Directorate General for Research & Innovation. Within the framework of its mandate, the group will explore new dedicated **financial facility policy actions** and **collaborative approaches**, in order to fully harness the impact of venture philanthropy on social innovation.

CONCLUSION

We believe venture philanthropy organisations should be considered **indispensable partners**, as well as **targets**, of European initiatives and instruments in the area of social innovation. We at EVPA acknowledge the promising momentum reflected at the European Union policy level that these efforts all represent. Confident that it will continue and grow, we wish to contribute to shaping it. We are convinced of the synergistic link between venture philanthropy and social entrepreneurship and innovation, which can act as a multiplier effect for sustainable economic development of European societies. As a strong network at European level bringing together different types of actors with a common objective of supporting innovative and sustainable solutions to societal problems, EVPA is uniquely placed to act as a nexus between the sector and European policymakers. Through its market-, capacity- and ecosystem-building efforts, it has become an instrumental counterpart for the EU in social enterprise finance. EVPA adds value to the sector as a **catalyst**, bringing different actors together in conversation and collaboration, and as a **thought leader** – shaping the debate on key sectoral issues such as impact measurement and management and access to finance.

EVPA invites key stakeholders, including policymakers, associations, financial institutions, foundations, funds, academics and others, to work with EVPA to unleash Europe's potential for social innovation, and to co-create an enabling ecosystem for social entrepreneurship. Let's work together to leverage our full potential as an association serving those who finance the most innovative solutions to society's problems!

ACKNOWLEDGMENTS

This position paper was co-authored by Bernard Uyttendaele, CEO of EVPA, and Suzanna Sobolewska, former Public Affairs Manager, with expert input from Dr. Lisa Hehenberger, Director of the ESADE Entrepreneurial Institute and Strategic Advisor to EVPA. Valuable input was obtained from the members of EVPA's Policy Committee: Camilla Backström, Independent Advisor at Fryshuset and Ashoka Scandinavia; Jochen Herdrich, Partner at BonVenture; Federico Mento, CEO of Human Foundation and Secretary General of Social Value Italy; Jane Newman, EVPA Board Member and International Director at Social Finance UK; Alissa Pelatan, Founder of Cabinet AMP AVOCAT and Development Director of ESELA; Yuriy Vulkovsky, Bulgaria Country Manager at Reach for Change as well as from Priscilla Boiardi, Director of EVPA's Knowledge Centre and Alessia Gianoncelli, Research Manager.

²³ See: The EU Bank. European Investment Bank. <http://www.eib.org/about/index.htm>

²⁴ See: European Fund for Strategic Investments. European Investment Bank. <http://www.eib.org/efsi/>.

²⁵ See: Social Impact Accelerator. European Investment Fund. http://www.eif.org/what_we_do/equity/sia/index.htm.

²⁶ See: Expert Group on Venture Philanthropy and Social Investments. (last updated 2017, October 17). European Commission. <http://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetail&groupID=3495>.