


# Social entrepreneurship

Emerging business opportunities  
creating value for society



**EY**

Building a better  
working world



A fast growing world population, swelling middle class, scarcity of natural resources and the effects of climate change are considered to be the great challenges of our time. In this rapidly evolving world, companies face serious supply chain issues and governments struggle to deal with society's most pressing problems. Very often, resolving those problems goes beyond the direct outreach of public services, charities and corporate responsibility programs. Neither charity organizations nor traditional corporates have been able to eradicate poverty, hunger, ignorance and environmental degradation.

Therefore, a new approach is needed to tackle social and environmental issues and achieve sustainable economic prosperity. This approach is called social entrepreneurship. Social entrepreneurs target societal problems and provide innovative solutions by using market mechanisms. More specifically, a social enterprise has a societal mission: "impact first". At the same time, its mission is achieved in a financially viable manner.







### EY's vision:

EY is building a better working world by being actively involved in the field of social entrepreneurship. We believe that traditional businesses and social entrepreneurs can learn from each other. Collaboration could fuel innovation and maximize positive impact.

For more than 20 years, EY has supported traditional businesses in their sustainability ambitions and recent attempts at determining the value of their business to society. EY is actively supporting social entrepreneurs in building and growing their businesses. Our social entrepreneurship and impact investing solutions are set out in this thought leadership paper.

### Social entrepreneurship: Key trends and issues

In many countries the role of the government in the socio-economic domain is shifting towards privatization of public responsibilities. As a result, charities receive less public funds and social entrepreneurship is gaining momentum worldwide. Research in the fields of activity of social enterprises in Europe shows that social entrepreneurs focus on social services, employment & training, the environment (including cleantech and bio-systems), education and community development.<sup>1</sup> Hence, the increasing number of social enterprises may result in widespread gains for public budgets. The attractiveness of social enterprises as employers is increasing as well. The number of FTEs working in Dutch social enterprises

increased by 12% between 2012 and 2014.<sup>2</sup> Young professionals in particular, value the reputation of social enterprises above traditional companies that strive for profit maximization only.<sup>3</sup>

Notwithstanding the above, social entrepreneurs still face significant challenges related to lack of funding, business skills, scalability and supportive regulations. With social entrepreneurs coming up with innovative business ideas that include non-proven concepts, investors often consider them to have a high-risk profile. Moreover, many social entrepreneurs lack collateral security and strong business skills to quantify their business cases necessary to attract capital.

### Key challenges for social entrepreneurs:

- Limited access to finance (high-risk profile)
- Business skills: focus on creating impact and less on talking the business language
- Scalability: impact on a specific group or city and little attention being paid to scaling the social enterprise
- Need for support networks and infrastructure providing suitable business development services
- Lack of uniform regulations (recognized and regulated differently across countries)

<sup>1</sup> Social Europe guide, Vol. 4, European Commission, 2013

<sup>2</sup> Social Enterprise Monitor, Social Enterprise NL, 2014

<sup>3</sup> VU University of Amsterdam survey. Kirkman Company and YSE, 2014





Hence, the full potential of social enterprises will not be released, unless a level playing field is established that includes legal, administrative and financial instruments creating more opportunities for social entrepreneurs.<sup>4</sup> The European Union aims to create such a level-playing field through initiating various programs. The European Union Social Business Initiative aims to create an enabling eco-system across Europe conducive to the development of social enterprises and of the social economy at large.<sup>5</sup> The EU Social Investment Package highlights the need and opportunity to invest in the development of the social economy and social enterprises in view of their contributions to inclusive employment, community development and social innovation. In addition, new EU regulations set out a new "European Social Entrepreneurship Fund" label to help investors identify funds that focus on investing in European social businesses.<sup>6</sup>

### Impact investing and social entrepreneurship

Philanthropists, private equity funds, institutional investors and commercial banks have all made entries at varying levels into impact investing. Impact investments are investments made in companies, organizations and funds with the intention of generating measurable social and environmental impact alongside financial returns. In recent years, a wide variety of philosophies and models have evolved, motivating financials to invest responsibly. The core tenet of the "Profit with Purpose" philosophy is that businesses generating measurable and positive social and environmental outputs are more likely to achieve competitive and sustainable financial returns.



<sup>4</sup> Policy Brief on Social Entrepreneurship, European Commission, 2013

<sup>5</sup> [http://ec.europa.eu/internal\\_market/social\\_business/index\\_en.htm](http://ec.europa.eu/internal_market/social_business/index_en.htm)

<sup>6</sup> Social Europe guide, Vol. 4, European Commission, 2013



Clearly, impact investing provides opportunities for both investors and social entrepreneurs. However, driving social performance requires robust measurement of the impact value chain (a high-level impact value chain is shown in the figure below). Initiatives such as the Impact Reporting and Investment Standards (IRIS), spearheaded by the Global Impact Investing Network, are moving the impact investing industry towards a standard set of impact

indicators. And yet, financial institutions find it challenging to measure and quantify the desired impact for learning and reporting. Therefore, social entrepreneurs should clearly integrate sound financial and environmental, social and governance (ESG) indicators in their business plan, in that way boosting the business case for creating positive impact.

#### Impact Value Chain





**EY solutions for social entrepreneurs**

For more than 20 years, EY has supported traditional businesses with their corporate social responsibility programs, sustainability ambitions and recent attempts at determining the value of their businesses to society. In addition, EY is building a better working world by being actively involved in the field of social entrepreneurship. Profit is necessary to create a prosperous and

sustainable economy. Hence, we believe that traditional businesses and social entrepreneurs can learn from each other. Their collaboration could drive innovation and optimize impact. Through the Societal EYnovation™ initiative, we directly support social entrepreneurs in their endeavors - from business case development to financial management and impact measurement advisory services.

Social entrepreneurs	Intermediaries and (local) governments	Financial sector
<p>Through Societal EYnovation™ we directly support social entrepreneurs with their endeavors.</p> <p>A standard subscription to Societal EYnovation™ includes assistance in:</p> <ul style="list-style-type: none"> <li>▶ Developing business cases</li> <li>▶ Preparing investment prospectuses</li> <li>▶ Risk management</li> <li>▶ Fiscal advise</li> <li>▶ Financial management</li> <li>▶ Impact measurement</li> <li>▶ Sound investment and impact reporting</li> </ul>	<p>EY supports intermediary organizations and (local) governments in setting up smart solutions to finance social enterprises:</p> <ul style="list-style-type: none"> <li>▶ Provide multidisciplinary support to setting up a Social Impact Bond</li> <li>▶ Impact and defining KPIs</li> <li>▶ Acting as independent validator</li> <li>▶ Value and/or validate the business case</li> </ul>	<p>With the right mix of expertise and experience, we support financials in growing their business with social entrepreneurs.</p> <p>EY has multiple ESG and impact investing advisory and assurance services supporting financials from thought to finish in implementing or enhancing their ESG and impact profile.</p> <p>A detailed description of our ESG and impact-related services is set out in the figure below.</p>

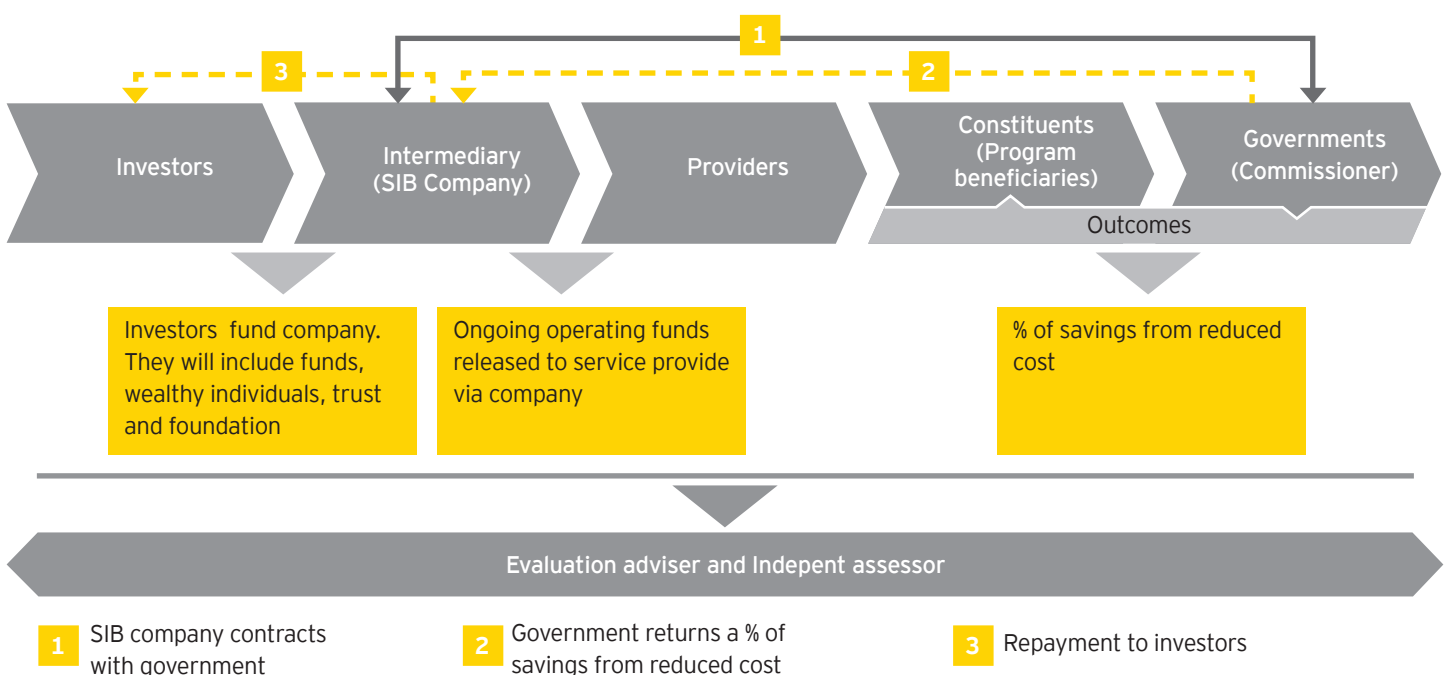




### EY solutions for intermediaries and (local) governments

EY supports intermediaries and (local) governments in the design, validation and valuation phases of smart solutions for financing social entrepreneurs. In the United States, United Kingdom, Canada, Australia and the Netherlands, a successful alternative financial instrument, the Social Impact Bond (SIB), has emerged.

A SIB is delivered by a bond-issuing organization that raises capital from investors based on a contract with the government. In the contract a commitment is made to pay for improved social outcomes that result in public sector savings. The expected public sector savings are used as a basis for raising investment for prevention and early intervention services that improve social outcomes.



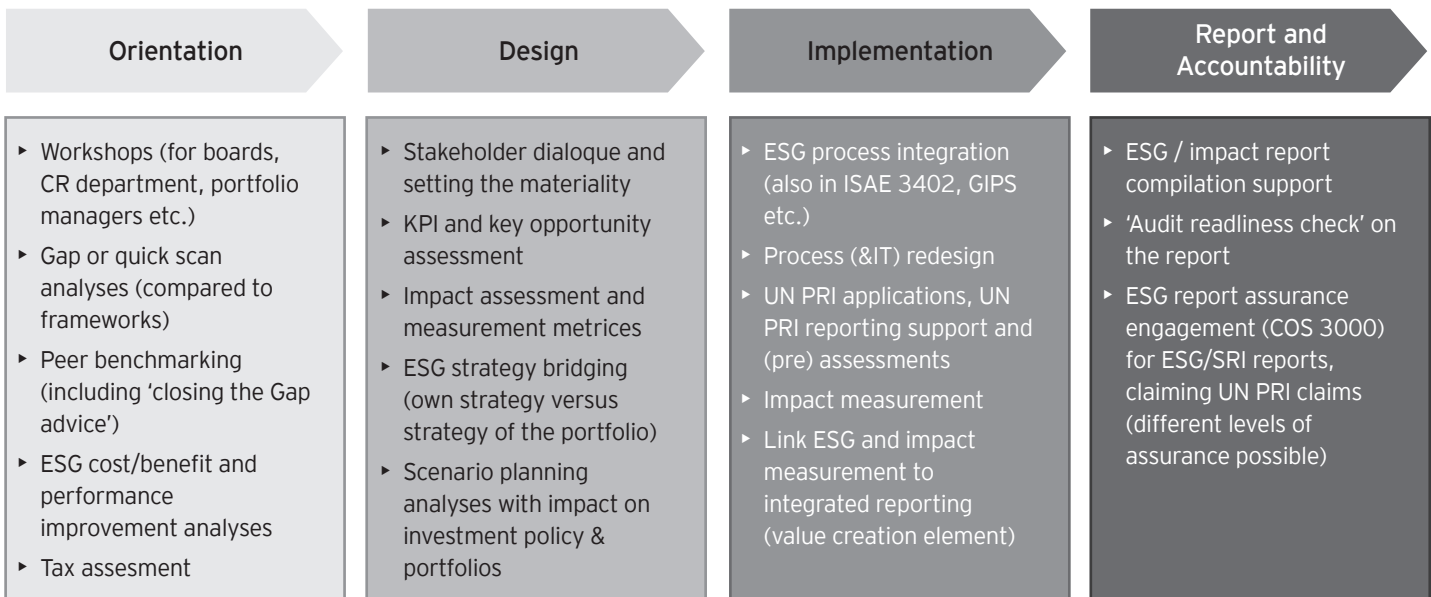




In that way, SIBs transfer the risk of failure of early intervention away from the public sector and allow investment in social entrepreneurs. Once the desired outcomes have been achieved, the SIB-issuing organization is repaid and investors receive their reward. In this process, the roles of the evaluation advisor and independent assessor are crucial for the success of a SIB.

**EY solutions for the financial sector: ESG/impact investing-related services**

In our opinion, ESG investment criteria are becoming mainstream and a business driver for financial institutions. Sound impact investing and driving social return requires robust measurement of the impact value chain. EY has a track record in supporting clients in this challenge by developing a roadmap to ESG integration. Key elements include the development of an ESG vision, design of an ESG framework, implementation, impact measurement and reporting.





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