





A social enterprise...

- Creates a positive impact on society (socially or environmentally)
- Realizes its primary objective by delivering a service or product as an independent organization
- Is financially self-sustainable and therefore not fully dependent on gifts and subsidies
- ► Runs its business in a sustainable way:
 - Profit is allowed, however, the financial goals are supportive of the company's societal mission
 - Scalability of the business model increases the level of impact
 - ► Dividends paid to shareholders are reasonable
 - Governance and policies are based on equal voting rights for all parties involved
 - ► Fair to everyone
 - ► Eco-footprint conscious
 - ▶ Transparent

Positioning of social enterprises: In between traditional businesses and charities

First of all, it is important to note that, in general, the main drivers of traditional businesses are financial returns and maximization of shareholder value. However, value creation in the globalized world of the 21st century requires a stronger relationship between society, the environment and economic growth than ever before. No longer can companies act in isolation of their surroundings and, therefore, increasingly need to be capable of adapting to a changing (business) environment. The source of value that lies at the heart of companies has shifted and broadened with much more being pegged on intangible assets, such as intellectual capital,

research & development, brand value, and natural and human capital. This requires companies to constantly innovate and co-create shared value with their stakeholders.

Moreover, public awareness about global (supply) chain issues has risen and stakeholders urge companies to be more transparent about their business practices. In response, traditional companies have developed sustainability ambitions, frameworks and strategies to mitigate risks, defend their reputations, anticipate laws and regulations and improve stakeholder relations.

More recently, a number of companies have started to measure their impact and calculate the true cost of their products to determine their value to society. However, their Corporate Social Responsibility (CSR) initiatives and sustainability goals frequently remain an add-on to their traditional business models driven by profit and shareholder value maximization only. By contrast, the core business of social enterprises is dedicated to creating a positive impact on society. Therefore, the financial goals of a social enterprise are supportive of maximizing the company's societal "impact first" mission. Profit distribution is driven by the company's societal objectives, with the surplus being reinvested in the business model.

Charities and NGOs are organizations set up to raise money and awareness for social causes. Hence, their mission is socially driven with a focus on "impact only". Furthermore, charities and NGOs are mainly dependent on gifts and subsidies for financing their activities.

The "impact first" mission of a social enterprise is also socially driven, but a social enterprise realizes its primary objective by delivering a service or product as an independent organization. In other words, social entrepreneurs provide innovative solutions to societal problems in a financially self-sufficient way by using market mechanisms.



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. 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 2014.² Young professionals in particular, value the reputation of social enterprises above traditional companies that strive for profit maximization only.³

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)

¹ Social Europe guide, Vol. 4, European Commission, 2013

² Social Enterprise Monitor, Social Enterprise NL, 2014

³ VU University of Amsterdam survey. Kirkman Company and YSE, 2014



Hence, the full potential of social enterprises will not be unleased, unless a level playing field is established that includes legal, administrative and financial instruments creating more opportunities for social entrepreneurs. 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. 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.

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.



⁴Policy Brief on Social Entrepreneurship, European Commission, 2013

⁵ http://ec.europa.eu/internal market/social business/index en.htm

⁶ 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 highlevel 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

Input	Activity	Output	Outcome	Impact
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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.

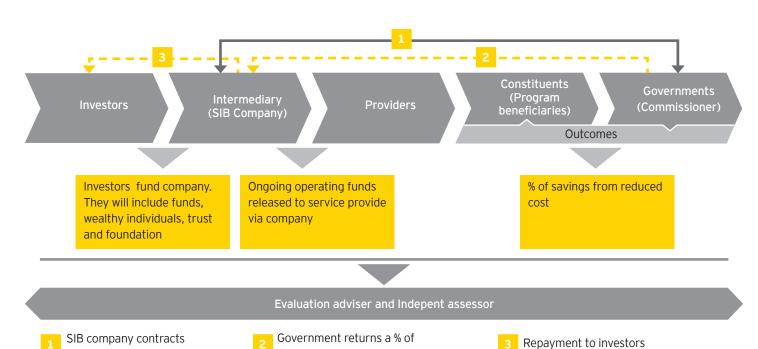
Social entrepreneurs	Intermediaries and (local) governments	Financial sector
Through Societal EYnovation™ we directly support social entrepreneurs with their endeavors. A standard subscription to Societal EYnovation™ includes assistance in: Developing business cases Preparing investment prospectuses Risk management Fiscal advise Financial management Impact measurement Sound investment and impact reporting	EY supports intermediary organizations and (local) governments in setting up smart solutions to finance social enterprises: Provide multidisciplinary support to setting up a Social Impact Bond Impact and defining KPIs Acting as independent validator Value and/or validate the business case	With the right mix of expertise and experience, we support financials in growing their business with social entrepreneurs. 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. A detailed description of our ESG and impact-related services is set out in the figure below.



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.



savings from reduced cost

with government



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.

Orientation

- Workshops (for boards, CR department, portfolio managers etc.)
- Gap or quick scan analyses (compared to frameworks)
- Peer benchmarking (including 'closing the Gap advice')
- ESG cost/benefit and performance improvement analyses
- Tax assesment

Design

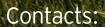
- Stakeholder dialoque and setting the materiality
- KPI and key opportunity assessment
- Impact assessment and measurement metrices
- ESG strategy bridging (own strategy versus strategy of the portfolio)
- Scenario planning analyses with impact on investment policy & portfolios

Implementation

- ► ESG process integration (also in ISAE 3402, GIPS etc.)
- ► Process (&IT) redesign
- UN PRI applications, UN PRI reporting support and (pre) assessments
- Impact measurement
- Link ESG and impact measurement to integrated reporting (value creation element)

Report and Accountability

- ESG / impact report compilation support
- 'Audit readliness check' on the report
- engagement (COS 3000) for ESG/SRI reports, claiming UN PRI claims (different levels of assurance possible)



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