Blended finance mechanisms for social enterprises

Pragmatic options to promote access to finance

Policy Brief

MedRiSSE project

Replicable Innovations of **SSE** in the **provision of services** & creation of **decent jobs** in the **post covid-19** crisis **recovery**

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Contents: Barbara Daoud
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Abbreviations:

SE: social enterprise

SME: small and medium enterprise

SSE: social and solidarity economy

MFI: microfinance institution

SESO: social enterprise support organizations

SDGs: sustainable development goals

1. Executive Summary

Social enterprises are indisputably key actors in helping achieve the UN's SDGs. Although social enterprises derive a portion of their revenues from the markets, financial support from various streams remains essential to them during their scaling trajectory. However, concessional funds are more and more scarce. The need for private capital to pitch in for driving development and closing up on the SDGs has become critical.

The blending of funds on commercial and concessional terms can make things happen that would otherwise not. For social enterprises challenged by the sustainability of their own business model as well as by the markets they operate in, blended finance can spur positive developments toward sustainable organizations, and hence impact.

This policy brief builds a case for blended finance mechanisms as channels to grow the volume of funds targeting social enterprise growth in developing markets, as well as to diversify the sources of funds and innovate in terms of financial deal structuring to support SEs that provide impact. It argues that SEs face a number of challenges that traditionally repel private investors, especially at the beginning of their lifecycle as they struggle to set up their business model. Consequently, SEs tend to grow a dependence to grants, which in turn, acts as a glass ceiling preventing them from growing beyond a certain point.

While acknowledging the core importance of concessional finance in supporting social entrepreneurship, the brief introduces blended finance as a solution to the major global financial gap that is weighing on development. At the level of SEs, blended finance initiatives would increase financing opportunities for them. In turn, this availability of finance to SEs is likely to foster more impact-generating initiatives, acting as a catalyst for growth and sustainability.

The policy brief calls on all stakeholders, on top of which donor and concessional finance providers, private sector investors and commercial lenders, to embark on common financial ventures of blended finance where risk and return would be tailored to all the co-partners' needs.

Furthermore, the brief pinpoints some of the main conditions for success deriving from international experiences, and emphasizes the critical part that can be played by non-financial support mechanisms (capacity building, technical assistance, reform advocacy,

etc.) to help promote SEs' investment readiness and hence attractiveness for private investors.

Impact is also set forth as a key element to help build sustainable and replicable blended finance mechanisms and mobilize even more private funds for development. As major impact providers, SEs represent a great opportunity for the private sector globally to embark on efficient and impactful ESG initiatives, which would in turn require more standardized, precise and mainstream impact measurement. Blended finance solutions represent an opportunity to tackle this impact measurement challenge, and turn it into a great opportunity for further developing blended finance instruments and solutions, as well as for supporting other developmental ventures.

2. Introduction

Social enterprises can play a key role in driving sustainable development. They bring innovative solutions to everyday economic, environmental and social challenges, while at the same time, producing long-term impact. But social enterprises around the world face numerous challenges, and access to finance ranks high among them. Blended finance is increasingly being recognized as a solution to channel finance to SEs.

What are the main reasons why SEs have limited access to finance? What type of solutions have been considered to date in order to provide funding to SEs? Who are the actors and stakeholders involved? What are the pillars of blended finance transactions and what are the lessons learnt to date from such transactions? What would it take to mainstream blended finance solutions for SEs?

This policy brief aims to emphasize the pertinence and usefulness of blended finance solutions. It sets forth evidence-based answers to questions on the reasons behind the challenges of social enterprises' access to finance, and gives an overview of the solutions that have been designed to date. It then describes blended finance transactions and presents arguments supporting this type of financial solution, in addition to analysing some of the main conditions underlying their success.

3. A Rapid Overview of Social Enterprises and the Financing Challenges they Face

3.1. Social enterprises in a nutshell

Defining Social Enterprises

"A social business / social enterprise is an undertaking:
- whose primary objective is to achieve social impact rather than generating profit for owners and shareholders,
- which uses its surpluses mainly to achieve these social goals,
- which is managed by social entrepreneurs in an accountable, transparent and innovative way, in particular by involving workers, customers and stakeholders affected by its business activity."

Source: The Social Business Initiative of the European Commission

Social enterprises are "businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners".

Source: Fergus Lyon and Rob Baldock, Financing social ventures and the demand for social investment, Third Sector Research Centre Working Paper 124, University of Birmingham, June 2014

"Social enterprises are entrepreneurial organizations that innovate to solve problems. They include non-profit and for-profit ventures, and their returns blend social benefit and financial revenues".

Source: Antony Bugg-Levine, Bruce Kogut, and Nalin Kulatilaka, A New Approach to Funding Social Enterprises, Harvard Business Review, (January–February 2012)

While many developed countries have a legal framework defining SEs and governing their activities, others, among which many Southern Mediterranean countries, have none to date. SEs formally established in those countries therefore operate under the legal forms that are available to them and are likely to correspond to the type of activities that they carry. In many cases, especially where there are weak legal frameworks, self-declared social enterprises are registered as not-for-profit organizations such as NGOs or associations, thus accessing tax incentives and tax breaks that are generally applied to non-profit-generating activities.

3.2. Access to finance: some of the main challenges encountered by SEs

Social enterprises face several challenges which are mainly related to the context within which they operate and to the experience of the entrepreneurs.

- **Lack of legal recognition**. Legal frameworks that do not offer a clear taxonomy of businesses, including social businesses, are likely to make it harder for social entrepreneurs to govern and grow their businesses successfully by accessing financial resources that are compatible with their activities and their income streams.

- **Weak entrepreneurship experience.** Social entrepreneurs often come from a non-profit background and do not have the financial expertise to either develop a sound business plan or manage their finances effectively. Even worse, in markets where access to grants is a realistic funding opportunity, social entrepreneurs are often so engaged in trying to mobilize such grants and in the ensuing administrative work, that it impedes their efforts to steer their enterprise's growth, thus further hindering impact delivery and scaling potential.

- **Investment readiness**. Many social enterprises are not investment-ready and rely heavily on grants or donations. Most of the time, they are still searching for business models that generate revenue streams and can allow them to attract larger forms of capital. On the other end, funders (and potential funders) are increasingly interested in impact investments, but the absence of a pipeline of investment opportunities prevents them from engaging directly with investment-ready social enterprises.

- **Misperception by traditional investors**. Traditional investors may ignore the principles of social enterprises and misunderstand their risks and their impact. They often overestimate the risks and prioritize financial return, whereas SEs usually have a need for patient capital that does not require quick returns which they are unlikely to be able to produce.

- **Valuation dilemmas**. According to recent research [1], in contexts where there are no theoretical directives or legal distinctions in terms of financial decision-making, social entrepreneurs face practical dilemmas when moving beyond donation. In brief, SEs' financial decisions are highly influenced by the entrepreneurs' own valuation of their enterprise, often based on discretionary beliefs on value.

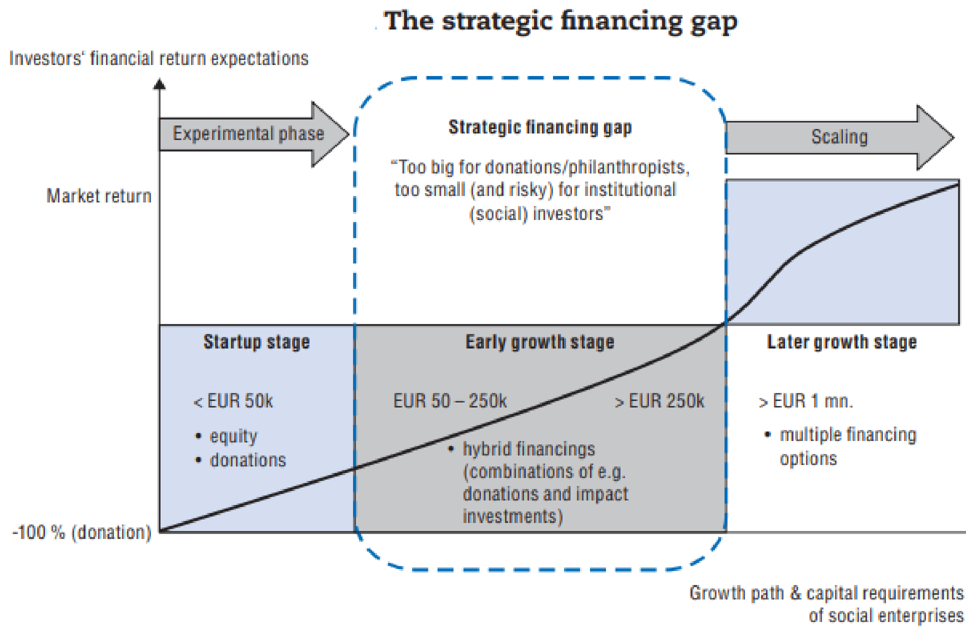
- **Inefficient financial markets**. In many developing markets, access to formal finance might be limited, and interest rates might be too high to allow for realistic reimbursement schedules or decent return on investment.

- **Little or lack of government support**. Public authorities in developing countries often do not have policies in place to support social enterprises. This can make it difficult for social enterprises to access finance and other resources.

- **Market gaps in repayable finance**. Social enterprises (combining social and commercial objectives) are almost as likely to seek repayable finance as their SME counterparts[2]. However, where social enterprise borrowing actually takes place (especially from commercial banks), evidence has shown that market gaps are left by banks in terms of access to borrowing. These gaps are more likely to occur in the earlier stages of social enterprise development, namely for smaller, younger social enterprises that lack track record and collateral to secure lending.

[1] Shahi, R., & Parekh, N. (2022). Financing Social Enterprises: An Upper Echelon Perspective. FIIB Business Review, 11(2), 235-250. https://doi.org/10.1177/23197145211033092

[2] Lyon, F., & Owen, R. (2019). Financing social enterprises and the demand for social investment. Strategic Change. https://doi.org/10.1002/JSC.2245.



Source: OECD (2017), Boosting Social Enterprise Development: Good Practice Compendium

Box 1. The strategic financing gap

A social enterprise's lifecycle usually involves a diverse group of funders. Most projects initially rely on friends and family, or philanthropic seed capital; this is often referred to as "venture philanthropy". In later stages, some social enterprises become very attractive investment candidates, and institutional impact investors, social venture funds or even banks are interested in being involved. However, many investors fail to meet the funding needs of a specific group of companies – early-stage social enterprises, which typically require EUR 100.000-500.000 to scale, and are generally unable to cover more than 75% of their operating costs with revenues. Most impact investors are waiting at the very end of the investment pipeline, for mature social enterprises that have already broken even. The result is a strategic financing gap for early-stage social enterprise finance: the required investment amounts tend to be too large for donations or philanthropic foundations, and too small and risky for institutional social investors. This calls for developing innovative financing strategies, securing more impact-minded investors, and building a pipeline of investment-ready social enterprises. This market failure is often termed "the valley of death": many social enterprises risk failing prematurely due to sheer lack of funding.

Source: Extract, OECD (2017), "Financing Agency for Social Entrepreneurship (FASE): An intermediary for hybrid financing, Germany", in Boosting Social Enterprise Development: Good Practice Compendium, OECD Publishing, Paris.

4. Blended Finance

Blended finance is still a relatively new tool in the development co-operation toolkit and as the blended finance environment is rapidly changing, new practices and approaches can develop quickly. This section presents the basic concepts, mechanisms and international trends in blended finance.

4.1. Definition and underlying concepts

The OECD[3] defines blended finance as 'the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets, resulting in positive results for both investors and communities'. Blended Finance deliberately channels private investment to sectors of high-development impact while at the same time delivering risk-adjusted returns.

This definition refers to the realm of development finance, as it became obvious that private capital would be critical in bridging the huge financing gap left by development and philanthropic funds, and in enabling the world to get closer to achieving SDG commitments and goals. Nevertheless, it seems pertinent and relevant to transpose the definition into the realm of enterprise finance and the ecosystem of SEs where a similar gap exists.

'One of the barriers social enterprises face in reaching scale and sustainability is the "valley of death" that exists between securing grant funding and investment capital. To bridge this gap, we need innovative tiered capital structures that blend "patient capital" with debt and equity.'

Chris West, previous manager of the Shell Foundation

Practically, blended finance is an approach to structuring transactions in a way that brings in multiple types of investors. For instance, blended finance makes it possible for a government agency, a private equity firm and an impact investor to all invest alongside each other while achieving their own objectives.

[3] OECD and World Economic Forum, 'Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders', Sept. 2015.

Blended finance allows for private investors, who expect a high risk-adjusted return, to invest alongside public and philanthropic investors who can absorb more risk and expect less return, and impact investors who do have return expectations, but who tend to be more flexible especially if they perceive significant impact from the deal.

Blended finance is an approach to structuring transactions with multiple types of investors who have different risk tolerance levels, different return expectations and most likely, different objectives.

Interestingly enough, it was clear from inception (the expression 'blended finance' was first floated in 2015 in UN, World Bank and IMF gatherings) that the point of blended finance was to act as honey trap, a sweetener. The underlying principle is to use public or charitable (aid) funds to allow private capital to flow to places and projects it would usually shun.

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In accordance with the definitions above, and in reference to OECD publications on the topic, blended finance has 3 pillars:

- Leverage: development finance and philanthropic funds are used to attract or catalyse private capital into deals.
- Impact: funded investments drive social, environmental and economic progress.
- Returns: transactions generate financial returns for private investors in line with market expectations, based on real and perceived risks.

4.2. A multi-stakeholder approach with focus on impact and efficiency

The financial engineering known as blended finance, has taken many shapes to date. The basic model is one where capital put in by multilateral aid organizations or by development agencies – whether free or even if it were charging an interest – can encourage stakeholders who pursue a development goal and who can supply cheap money in this aim, to pitch in. Both these investors might in turn, stimulate commercial lenders – who would otherwise avoid this kind of risk, to join the team by lending additional capital. Overall, with a blended finance structuring, the pool of funds is

secured by investors who – alone - would not have participated in the funding. As for the amount of capital raised, it is much larger and therefore potentially more impactful than had a single stakeholder (e.g. a donor or a private investor) financed the project.

A broad range of organizations have already structured and deployed blended finance transactions: local or multilateral development banks and development finance institutions, foundations, philanthropic investors, commercial actors, institutional investors, commercial banks, private equity and venture capital funds, hedge funds, and companies.

Lessons from the IFC: minimizing concessionality

The International Finance Corporation (IFC - the private investment arm of the World Bank) ranks among the international financial organizations that have been structuring blended finance solutions for many years. At the IFC, blended finance (mostly targeting market creation, with support to large projects in sectors that are initially unable to attract commercial capital) refers to a financing package made up of concessional funding provided by donor partners, commercial funds from IFC's own resources and from other development finance institutions, and funds from the private sector.

In the framework of its deal structuring, IFC identified a best practice[4] pertaining to the use of concessionality within a blended finance deal structuring. Their experience reveals that, to make progress on the front of blended finance for development, the crowding-in of private investment through de-risking (for instance through providing guarantees, thus reducing credit risk) and risk-reward rebalancing mechanisms, should make minimal use of concessional (free or cheap) funds. In other words, aid funds are scarce; they should therefore be used in the right proportions so as to give just the right push for private commercial capital to pitch in and help provide the necessary funding on sustainable terms.

[4] Sierra-Escalante, Kruskaia; Lauridsen, Morten Lykke. 2018. Blended Finance: A Stepping Stone to Creating Markets. EMCompass,no. 51. International Finance Corporation, Washington, DC.

4.3. Designing blended finance solutions: not a 'one size fits all' approach

Whereas SEs rely on various streams of financial support along their scaling trajectory, many financial instruments have also proven relevant to social enterprises.

The more classic loans, equity, quasi-equity, and subordinated debt from commercial banks or finance cooperatives… seem to be appropriate for SEs with consolidated business models and a lower risk profile or greater collateral. Hybrid[5] financial solutions, impact investment funds or venture philanthropy could also apply to social enterprises, depending on their investment readiness.

> Blended finance initiatives would increase financing opportunities for SEs. In turn, this availability of finance to SEs is likely to foster more impact-generating initiatives, acting as a catalyst for growth and sustainability.

Several elements can characterize blended finance investment vehicles[6]. They include: the size of the fund (e.g. in millions of $ or €), sectors of focus, geographies of focus, market opportunity, profile of investors/partners, capital structure of the vehicle, risk and return (returns for development funders, return for private actors, including for debt, equity, guarantees, grants, technical assistance), target returns and realized returns, impact achieved, scalability, replicability, ability to raise funds, etc.

Based on findings from an OECD survey[7] conducted on blended finance funds and support mechanisms that invested in development projects (not necessarily in SEs), private capital leverage (contribution of private capital to the fund) is limited at early investment stages, but can range over 20 times for some of the supporting

[5] **A hybrid financial instrument is a financial security that combines the characteristics of both debt and equity. This means that it has features of both a loan and an investment. Examples of such instruments include: convertible bonds, equity-linked bonds, mezzanine debt, warrants, etc. Hybrid instruments can offer investors the potential for higher returns than traditional debt securities, due to their equity component. For the company, they can be an opportunity to raise capital without dilution.**

[6] **Insights from Blended Finance Investment Vehicles & Facilities, OECD and WEF, Jan. 2016**

[7] **See previous footnote.**

mechanisms[8], suggesting a need for increased development funding support (grant or concessional funding) for early-stage and higher risk projects that need to mature in order to attract private capital at scale.

Lessons from the IFC*

The type of blended finance instrument used (such as debt, equity, risk-sharing mechanisms, guarantees, or performance-based incentives) should be carefully chosen to address the specific development challenge at hand. There is no one-size-fits-all solution.

To decide whether blended finance is needed and how to structure it effectively, it is important to understand the market failures and restrictions, as well as the sectoral and country context. It is also important to articulate how blended finance will help beneficiaries become commercially sustainable.

Also, blended finance solutions should not be considered in isolation from the market context. It is key to consider other complementary tools, such as advisory services, regulatory reform, or public infrastructure improvements, which may help make projects commercially viable.

** International Finance Corporation, World Bank Group (2018), Blended Finance— A Stepping Stone to Creating Markets, Note 51, April 2018,*

To date, most blended financial solutions to SEs have been tailored on a case-by-case basis, and more and more deals are being structured inclusive of non-financial support such as network development (to maximize impact), organizational capacity building and performance measurement.

[8] E.g. 1- technical assistance (supplements the capacity of investees and lowers origination and transaction costs), 2- risk underwriting (fully or partially protects the investor against risks and capital losses).

Illustrations of funding models and blended finance instruments adapted for SEs

Given the frequent lack of clarity on the concept of social entrepreneurship, one approach[9] used to determine the financial needs of SEs and fund them efficiently, is based on the enterprise's business model, its level of maturity (growth stage) and on whether the enterprise is a public or a private goods provider.

- *Social enterprises that provide public goods*. These are typically mission-driven not-for-profit organizations that create mainly social or economic benefits that cannot be monetized in markets for goods and services. They usually address the needs of the 'bottom of the pyramid' populations and fill in welfare gaps left by the public sector.
  Public good social enterprises require grant and technical assistance funds, but typically little, or no, debt or equity for fueling core businesses. To the extent that performance and impact can be measured and linked to monetary returns, then these SEs, as they grow, can be good candidates for social impact bonds or development impact bonds.

- *Social enterprises that provide private goods*. These are typically mission-driven for-profit or not-for-profit organizations that create both social and economic benefits, and whose business models are financially sustainable or even profitable. There is often a thin line between private good SEs and commercial entrepreneurship represented such as SMEs.
  They typically start with grant funding and can transition to other forms of funding once they reach critical mass, sourcing forms of capital that require repayment and/or a financial return (equity, debt, mezzanine and other hybrids).

[9] Martin, Maximilian. "Building Impact Businesses through Hybrid Financing " Entrepreneurship Research Journal, vol. 5, no. 2, 2015.

5. Recommendations and Ways Forward

Preliminary note: Even though there are still many countries, especially in low and middle-income countries, that have not legally recognized the specificities of the SSE (social and solidarity economy) or its players, much clarification has been achieved, at the global level, in terms of circumscribing, comprehending and formally identifying SSE entities. This makes the terrain more favourable for donor support and allows for more specific action.

5.1. Identifying opportunities: there is broad space to intervene

Actors from the SSE sphere should grab the international readiness and propensity to pool resources and allocate them for supporting SDGs through supporting social enterprises. Indeed, several major donor organizations have set access to finance SSE entities (with particular focus on SEs) high on their agendas, including UN system (see Box 2).

In the framework of their Social Economy Action Plan (December 2021), the European Union (EU), for instance, acknowledges the primacy of tapping private capital which is also increasingly turning to philanthropic and impact investing. It has pinpointed several actions as spearheading strategies on its international cooperation agenda: building a community of impact investors, working more closely with international financial institutions (IFIs) and trying to bridge between their strategies and EU financial tools.

Development programs emphasizing social investment and access to finance for social enterprises, are likely to be heading towards a more intensive use of existing financial tools, and the design of new financial instruments capitalizing on new partnerships between donor agencies and a variety of development agencies and private investors.

Box 2. Extract from the Resolution adopted by the UN General Assembly on 18 April 2023: Promoting the social and solidarity economy for sustainable development

The General Assembly, [...] Recognizing that social entrepreneurship, including cooperatives and social enterprises, can help to alleviate poverty and catalyse social transformation by strengthening the productive capacities of those in vulnerable situations and producing goods and services accessible to them, [...]

1. Encourages Member States to promote and implement national, local and regional strategies, policies and programmes for supporting and enhancing the social and solidarity economy as a possible model for sustainable economic and social development, taking into account national circumstances, plans and priorities by, inter alia, developing specific legal frameworks, where appropriate, for the social and solidarity economy, making visible, when feasible, the contribution of the social and solidarity economy in the compilation of national statistics and providing fiscal and public procurement incentives, acknowledging the social and solidarity economy in education curricula and capacity-building and research initiatives and reinforcing entrepreneurship and business support, including by facilitating access for social and solidarity economy entities to financial services and funding, and encourages the participation of social and solidarity economy actors in the policymaking process;

2. Encourages relevant entities of the United Nations development system, including United Nations country teams, to give due consideration to the social and solidarity economy as part of their planning and programming instruments, ...

3. Encourages multilateral, international and regional financial institutions and development banks to support the social and solidarity economy, including through existing and new financial instruments and mechanisms adapted to all stages of development [...].

5.2. Effective coordination between development actors and opportunities for partnerships

To make progress on the development agenda – and in particular on the social enterprise chapter – donors, investors (across categories), development finance institutions and actors from the development sphere (NGOs active in supporting

private sector, MFIs, various support organizations from the ecosystem, such as SESOs, etc.) have to coordinate their efforts in a more efficient and systematic manner.

Knowledge and experience sharing are critical to move forward in areas where regulatory frameworks evolve, obstacles as well, some actors have developed experiences and have learnt what works and what does not, how to avoid pitfalls, etc. An alignment of knowledge can be beneficial for speeding the design and rollout of pertinent blended finance solutions to support social enterprises whose impact is badly needed in a world of growing challenges. It can also provide powerful potential for replication of successful experiences.

On a similar note, scaling blended finance solutions (for instance, expanding the geographic coverage of a blended finance fund or reaching out to a higher number of target SEs) would require a bundling of competences, resources and knowledge that can only be brought by building partnerships, joint ventures or other types of cooperation with other investors pursuing the same impact objective,

5.3. OECD's blended finance principles: guidelines for efficiency

OECD Development Assistance Committee (DAC) has equally confirmed the huge opportunities that blended finance represents in driving progress toward achieving the SDGs. By adopting the 'Blended Finance Principles for Unlocking Commercial Finance for the SDGs' (in 2017), the OECD straightforwardly underscored the role of the private sector in development, both as the financier and as the investee in the context of blended finance.

These principles aim to ensure that blended finance is deployed in the most effective way to address the financing needs for sustainable development by mobilizing additional commercial capital and enhancing impact. The principles are a policy tool for all providers of development finance — donor governments, multilateral donors, development cooperation agencies, philanthropies and other stakeholders — to undertake blended finance approaches with high-quality standards.

In anticipation of the momentum that would take place in terms of blended finance in the backdrop of the development landscape, the OECD's blended finance principles

were set as high-level recommendations[10] serving as a call to action to deliver optimal blended finance and to seize the opportunities that come with it for all stakeholders.

Blended finance offers an opportunity to move towards fully market-based financing in support of the SDGs. By allowing more effective and sophisticated assessments of risk, blended finance

The OECD DAC Blended Finance Principles each target a specific area of blended finance. They are intended to be universal guidelines for blended finance stakeholders (from policy makers to organizations implicated in delivering the financial mechanisms) targeting greater efficiency and development impact of blended finance solutions.

- Principle 1: Anchor blended finance use to a development rationale,
- Principle 2: Design blended finance to increase the mobilisation of commercial finance,
- Principle 3: Tailor blended finance to local context,
- Principle 4: Focus on effective partnering for blended finance,
- Principle 5: Monitor blended finance for transparency and results.

Whether a donor is looking to begin a blending programme or already has one, the blending transaction would gain efficiency if its assumptions are tested against the critically important aspects brought forth by the 5 blending principles.

5.4. Social investors and lenders should prioritize filling in for market inefficiencies

Evidence (see footnote 2 and Box 1) shows that, in contexts where access to bank borrowing is possible, social enterprises are just as likely as SMEs to access bank loans. However, it also shows that the younger and smaller SEs that are seeking to grow and cannot provide collateral against loans, are left out of these repayable finance mechanisms and are discouraged by borrowing altogether.

Consequently, not only is there a greater risk that these enterprises fail and disappear before having the opportunity to scale, but there is also growing distortion in the SE

[10] OECD (2021), The OECD DAC Blended Finance Guidance, OECD Publishing, Paris.

market as international donors and philanthropist organizations are continuously solicited for grant capital across all SE growth stages. Development practitioners often refer to this single-type supply of funds as 'market pollution' as it has been observed that:

- SEs in these ecosystems give up on seeking other forms of funding and settle for grants from donor agencies, especially as this type of funding generally comes with lighter due diligence prerequisites and often weak post-grant monitoring.
- These ecosystems generate little innovation in terms of providing repayable finance, which means alternatives are usually scarce.

In this backdrop, there is a growing strand in development literature that calls for specialist social investment providers (whether donors or lenders) who are more likely to invest without requiring collateral, to invest first and foremost in those SEs that have weak chances of accessing market finance or achieving commercial borrowing.

5.5. Support mechanisms for accompanying blended finance solutions: privileging the holistic approach

Support services to SEs

Promoting access to finance for SEs would be best through an ecosystem approach, with assistance being directed towards different pillars of social entrepreneurship. Alongside financial support, it is hence pragmatic to consider other types of support mechanisms that would enable the beneficiary SEs to grow their investment readiness and make the best out of the capital that was invested with them.

These supporting services facilitate the implication of private investment in blended finance vehicles targeting social ventures. They can even be made mandatory by the donors and investors so as to access capital. Indeed, they serve the dual purpose of empowering entrepreneurs and the SE teams to optimize their management and therefore better their results, as well as alleviating the risk borne by the investors.

Preparation of SEs for scaling up is also critical. Growing beyond initial operating level is a major challenge encountered by these enterprises as it implies securing capital sources and having the skills and the capacity to steer the growth of the enterprise.

International assistance would make a visible impact as it taps this market segment, focusing on both pillars of growth: finance and capacity building.

Support to the ecosystem

As importantly as support mechanisms to beneficiary SEs in order to foster their business sustainability, blended finance mechanisms should not be viewed as standalone solutions; indeed, they can be great opportunities to push for other efforts (for instance, regulatory reforms) or to provide, as part of the overall solution, advisory services or capacity building support to the partners themselves, so as to optimize development impact and its sustainability.

5.6. Actively building investor traction

The huge need to produce 'impact' (understood as social, environmental, and developmental) is bound to drive mainstream finance players to enter the space of impact finance.

The design of aid and development programs will be increasingly more focused on multi-stakeholder partnerships and collaboration schemes to deliver sufficient accessible capital for SE startup as well as scaling needs.

The design of new financial solutions involving private capital to support social enterprises raises several considerations:

- Private investor patience (patient capital) will have to be aided in order to conciliate between project funding and the actual expected impact outcome.
- Donor agencies are likely to be called on for de-risking investments (taking on part of the potential losses, guaranteeing investments, etc.)
- Impact measurement will have to become mainstream in order to grow confidence in blended finance mechanisms and attract further capital, thus driving more social economy growth.
- There is a huge opportunity to build a strong link with corporate ESG strategies: the global trend in corporate ESG programs i.e. the trend towards a more institutionalized organizational involvement and contribution to achieving the SDGs, is a boon for growing the pool of potential investors in the social economy

and in social enterprises in particular. Commercial capital is indeed one of the main sources of funding philanthropy and impact funds can tap into.

5.7. Building the case for mainstreaming impact measurement

For social businesses, impact measurement should be perceived as key to mobilize funds. When financial yield is not the main incentive for investors, impact achievements can make up for that. However, impact measurement still has a way to go beyond aid programs, in the realm of investment and private interventions.

There is an undisputable need for rapidly developing and standardizing KPIs to forecast and measure the impact of aid and development programs, as well as the impact of SE activities on the areas (health, social, economic, environmental…) of life that they aim to improve.

This approach can be directly connected to the ESG approaches rapidly rising in the corporate world. In the backdrop of a global awareness on private sector responsibility to resonate the SDGs and multiply the efforts to reach them, private corporate funds are increasingly being channelled towards ESG activities taken by companies to improve their environmental performance, social impact, and corporate governance practices.

> ESG stands for environmental, social, and governance. ESG investing is a way of investing in companies based on their commitment to one or more ESG factors. It is often also called sustainable investing, socially responsible investing, and impact investing.
>
> *Source: Investor.gov, the US Securities and Exchange Commission*

According to one article by the Harvard Business Review, it's actually all a question of point of view. If social impact becomes systematically recognizable as return, then charitable money or donor money is not perceived anymore as non-yielding money, but rather, its yield is measured differently from financial yield. Such measurement would pave the way for great opportunities in terms of private capital enthusiasm to join blended finance structures dedicated to development.

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