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Third Training Visit Arta, 2019

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Moments from the Training Visit



Invest In Social Capital

Welcome to the next newsletter of IDEA project. The overall objective of the project is to "Improve cross border capacity to support entrepreneurship, business survival and competitiveness" regarding the social entrepreneurship sector .

Hybrid Financial Mechanisms for Social Enterprises: Loans and other financial instruments

In the framework of the IDEA project, AULEDA, through its external expertise, produced a study entitled "Developing hybrid social finance instruments & models". This work represented the output of DELIVERABLE 3.1.2, which envisaged to conduct a research on the State of Arts of financial instruments established in Albania in order to develop hybrid social finance instruments & models for social enterprises. Therefore, its specific objective was to lay the foundations to create hybrid financing tools characterized by transparency, low administrative costs and reliability and which could be applied at local level.

In the abovementioned research, various hybrid financial mechanisms were examined, such as loans, guarantee fund, venture capital funds, crowdfunding and so on. The Guarantee Fund, has already been analyzed in our 10th Newsletter (July 2019). In the present article, loans and other financial instruments will be presented in details.

Loans:

First of all, there are different types of loans such as small non-banking loans, regional loan funds and microloans. In Albania there are 16 commercial banks and 31 non-bank financial institutions that operate in various financial fields such as microcredit, credit, factoring, leasing, etc. Banks and non-bank financial institutions have established and developed almost in the entire territory of Albania. Along with banks with foreign capital, Albanian-owned banks are also showing an increase in their business activity in corporate lending. Nevertheless, in Albania there is no clear reference to social enterprises as recipients of tailored loan solutions.

As regards micro-loans, in general, they are aimed at small businesses that are unable to raise sufficient (or any) finance from traditional commercial sources. Such loans are available for commercial enterprises as well as for enterprises operating in the so-called social economy sector. However, micro-loans in Albania are aimed at small businesses that are unable to raise sufficient (or any) finance from traditional commercial sources.

Such loans are available only for commercial enterprises. AULEDA interviewed and examined loan proposals offered by a number of Albanian financial and non-financial bank institutions. At the end of this analysis, it emerged that, in Albania, there are no financial institutions (bank and non-bank) which specifically address the needs of social enterprises. Even if there are loans available to small and medium enterprises which operate in specific sectors, such as agribusiness, ecotourism, energy efficiency etc. which can be also applied by social enterprises of the abovementioned sectors, there is a lack of financial instruments tailored for the benefit of social businesses. For this reason, with the study, AULEDA addresses financial institutions to adequate the offer of financial tools with the demand of social enterprises.

Other funding sources:

As previously mentioned, other funding sources which might be made available for the establishment or development of social enterprises in the Albanian context were taken into consideration in the paper, such as crowdfunding, equity investments, social venture capital, business angels, seed capital funds, corporate venturing, mezzanine funding, and university and research center venture capital funds.

Crowdfunding is the use of online communities to raise money from individuals to fund a project or an initiative. The investors/donors are typically not professional financiers. Crowdfunding platforms are infrastructures for people wishing to see that their money goes into well-defined entrepreneurial projects. It is a rapidly expanding financing method that leverages connectivity, community and collaboration via the web. There are myriad crowdfunding sites that offer various forms of compensation to investors, from products and perks to shareholding and real financial return, and that cater to different sectors, interests and purposes. For social-cause entrepreneurs, crowdfunding can represent an excellent platform to provide financing and resources to their initiatives and projects.



Crowdfunding has an enormous potential to be a valuable tool for social good organizations such as social enterprises, non-profits, benefit corporations, ethical fashion designers and other fair trade organizations in building meaningful and productive engagement, spreading word about their initiatives, expanding their donor, impact investor, and supporter bases, and increasing their overall funding and impact. In fact, it takes away the intricacy of the customary process of searching for and presenting to potential investors. It heavily leverages the power of online connectivity and community facilitated by myriad dedicated crowdfunding sites have started operating.

As regards the Western Balkans, the crowdfunding sector in the region is still in its early stages. Besides Croatia and Serbia, other Western Balkan countries lack crowdfunding-related infrastructure; thus, so far crowdfunding needs to be encouraged in Albania.

Equity investment is the money an investor puts into the business in return for an ownership interest. Equity investors can be active or passive. Passive investors are those who are willing to take little part in the management of the company. Whereas, active investors expect to play a hands-on role in the running of the business. Investors put their money into a business because they expect it to do well, however if there is no profit the shareholders do not make any money. While loan capital requires interest payments regardless of the profitability of the business, equity capital does not. For this reason, conventional businesses raise a significant part of their capital needs in the form of equity rather than through debt. The same reasoning applies to social enterprise.

Social Venture Capital is a form of investment funding that is usually funded by a group of social venture capitalists or an impact investor to provide seed-funding investment, usually in a for-profit social enterprise, in return to achieve a reasonable gain in financial return while delivering social impact to the world. It deviates from the traditional venture capital model, which focuses on simple risk and reward.

Therefore, social venture capital aims at investing in a socially responsible manner in companies, which are looking to provide real social change.

It often focuses on companies that want to solve environmental and social issues, such as alleviating poverty. It is a highly philanthropic form of investing, as the focus is on finding companies with a strong social conscience. Despite the pivot being on socially responsible companies, social venture capital investing still emphasizes returns. It isn't simply a form of charity work or provision of donations, social venture capitalists select investment opportunities with a healthy return on investment in mind.



Business Angels are an example of venture capital funds. For small businesses, or for up-and-coming businesses in emerging industries, venture capital is generally provided by high net worth individuals (HNWIs) – also often known as ‘angel investors’ – and venture capital firms. Angel investors are typically a diverse group of individuals who have amassed their wealth through a variety of sources. However, they tend to be entrepreneurs themselves, or executives recently retired from the business empires they've built. The majority look to invest in companies that are well-managed, have a fully-developed business plan and are poised for substantial growth. These investors are also likely to offer to fund ventures that are involved in the same or similar industries or business sectors with which they are familiar.

Seed Capital Funds: This segment of the venture capital industry focuses on the provision of funding to businesses during the process of incorporation.

The Seed Capital is the initial money required to start a new business. Capital made available in this form is used to fund research and development and possibly field trials of prototypes, i.e. all activities that relate to pre-market stages of the product or service. Finding seed capital for a start-up social enterprise is often not an easy process and the supply of this form of capital in Albania is still as yet underdeveloped.

Mezzanine Fundings is a hybrid product combining equity and loans that gives the lender the right to convert to an equity interest in the company in case of default, generally, after venture capital companies and other senior lenders are paid. Mezzanine financing bridges the gap between debt and equity financing and is one of the highest-risk forms of debt. Companies commonly seek mezzanine financing to support specific growth projects or acquisitions. The benefits for a company in obtaining mezzanine financing include the fact that the providers of mezzanine capital are often long-term investors in the company. This makes it easier to obtain other types of financing since traditional creditors generally view a company with long-term investors in a more favorable light and are therefore more likely to extend credit and favorable terms to that company.

Finally, the last tool analyzed by AULEDA are University And Research Centre Venture Capital Funds. Universities across the world have developed entre-pre-neur-ship programs in recent years aimed at encouraging students and faculty to turn promising business ideas into actual companies. Now, an increasing number of them also are giving money to help those businesses get started. In Albania this kind of funds needs to be further developed.

SOCIAL ENTERPRISES IN ALBANIA

This is a brief review from the findings of Supply and Demand study made by Auleda.

THE STATUS OF SOCIAL ENTERPRISES

In Albania its not yet established a social enterprise sector, but it's mostly based in the activities of various non-profit organizations. There are a lot of social initiatives successfully undertaken by civil society organizations. The term is quite new for the enterprise environment in Albania.



LEGAL FRAMEWORK

The law Nr. 65/2016 "For Enterprise in the Republic of Albania" passed in 2016. It is evaluated that the new law needs further improvements in order to offer a broader support for the social enterprise environment in Albania.



FINANCIAL ENVIRONMENT

It has been estimated from the Study that the sector is facing various barriers. There is a lack of financial facilities and grants from the government. Difficulties to fund access.



OTHER RESOURCES

There is a lack in human resources and high circulation of staff. Also lack of know-how regarding making a business plan, reports to the government, marketing etc.



Third training visit of the project

The third training visit of IDEA Project, took place in Arta, on 19-20 September 2019, with the aim to enrich the analysis with lessons learned from the good practices that are available around this territory.

According to the agenda, visits were made at the Municipality of Arta, then moved at "Agricultural Poultry Cooperative of Artas" and finished with a visit to the "Chamber of Arta".

Following the first day, visits were made at "ETANAM A.E", "Karalis SA- Milk Industry of Epirus", "A.S.E.A Agricultural Cooperation of Kiwi Exploitation", "Trade Association" and "Federation of Professional Industry Traders". This was the third training visit of the project, and the last one is predicted to take place in Vlora, which it's organized in the framework of IDEA- Project, INTERREG IPA CBC Programme "Greece- Albania 2014-2020". The overall objective of the project is to improve cross border capacity to support entrepreneurship, business survival and competitiveness.

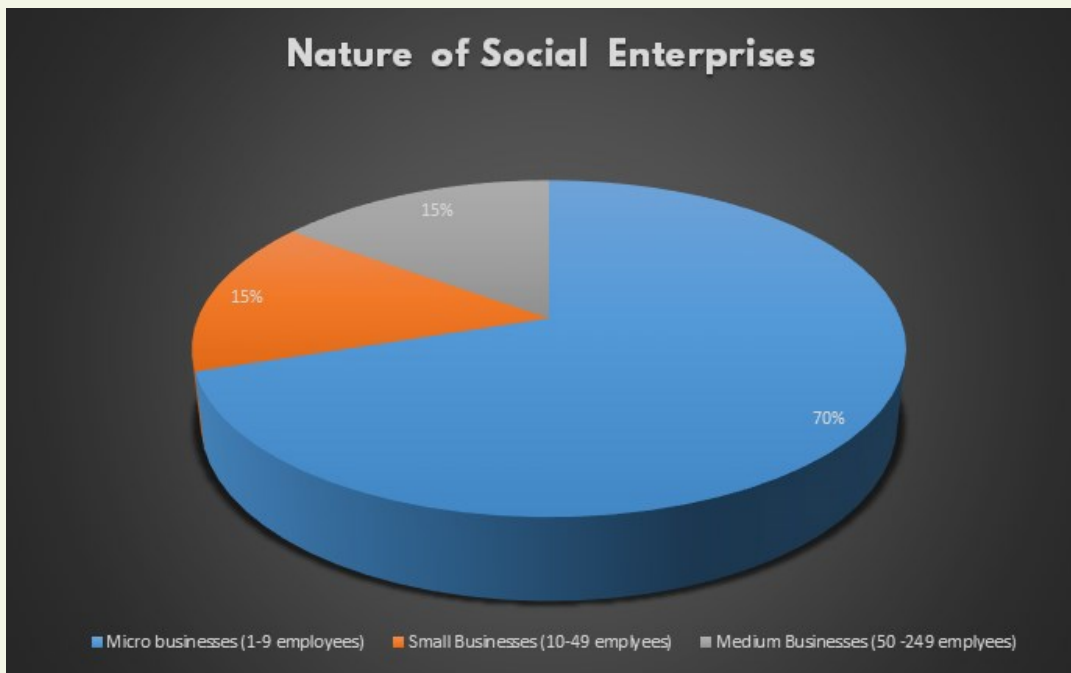


The project is co funded by the European Union and National funds of Greece and Albania via the Interreg IPA CBC Programme "Greece - Albania 2014-2020"



This are some other results from the Supply and Demand Study for SE-s (Social Enterprises).

By analyzing the information gathered from interviews and research, comes out interesting facts about the entrepreneurial ecosystem in Albania and various factors that affect the start ups .



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“The views expressed in this newsletter do not necessarily reflect the views of the European Union, the participating countries and the Managing Authority”.

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