Innovative financial solutions to scale up social businesses

WSB2 // Microfinance

Moderator

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Speakers

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Executive summary

Synthesis

As social needs grow throughout the world, the pressure on social businesses to respond to the demand increases. Therefore, it is necessary to find the means to scale up social businesses when public funding and charity become clearly insufficient to finance this emerging sector.

The workshop will try to answer three questions:

1. What are the constraints faced by social businesses in scaling up?
2. What are the trends today in the social business industry?
3. What are the solutions for financing social businesses willing to scale up?

Everybody agrees on the fact that social business is business: it is sustainable, but not charity. Social businesses are market solutions to tackle social issues and need capital to develop. They are tools to create change.

Their first constraint is that they offer low returns or even no returns at all for high financial risk. For that reason, raising money is an issue for social business funds.

The second constraint is that few businesses can actually scale-up. Often, the size, the organization and the culture of social enterprises are linked to a specific ecosystem context or business environment? That commands them. In that perspective, scaling up the activities might reveal inappropriate, or imply, a change of mind for numerous actors.

A third challenge is to attract talent and knowledge to build up the industry, although for some speakers like **Mark Campanale** there is neither lack of talent nor lack of opportunities in social business.

Sebastien Lyon made the point that tools to start up a social business exist and are accessible, but that finding funds to develop and scale up is far more difficult. It seems that there is a gap in "the financing offer" between small social business start ups and large, long-standing social businesses.

Furthermore, one can observe that many social entrepreneurs have growing projects while social investors find it difficult to target investment projects with the potential to scale up.. There certainly is room for progress for better business model communication on both sides.

Finally, the speakers agree on the fact that scaling up a business cannot be an end in itself: what needs to be scaled up is the social impact of the activity. The example of the Indian microfinance industry shows that tracking social impact must always come before tracking growth. As the costs of measuring social impact are huge, this priority problem is one of the main constraints faced by social businesses to scale up.

As for the trends underlying the emerging industry of social business, **Mark Campanale** states that "social business is not just fashion". According to him, the search for sustainability by investors, both socially and environmentally, has even become a megatrend and there is no doubt that social businesses will continue to increase. He makes the distinction between two cases: the development of small businesses that will look for capital and the need for social investors from large public structures in healthcare or education for example, who will go private as actors "looking for maximized profit" are inadequate.

In **Luciano Balbo'**s opinion, the philanthropic sector represents only 2% of GDP in the US. Moreover, Western States are over indebted while private wealth has never been so huge and, maybe for the first time in the history of capitalism, there are no secure placements today. We then face both the need and the opportunity to create a new financial industry with different actors to traditional investment banks. This new industry needs to attract talent in order to build up good intermediaries who will face the challenge of attracting capital from pension funds. In doing so, these intermediaries need to answer the question of the expected return of social businesses, alongside more profound questions like the social value of money and the mutual interest between the owners and the community. This mutual interest existed after WWII and allowed the foundation for the Welfare State in Europe, but has crumbled away since the beginning of the 80s.

What are the financing solutions for social businesses to scale up?

Mark Campanale thinks that synergies between Development Finance

Institutions (DFIs) and private impact investment funds have started and need to be reinforced by a more massive allocation of dedicated capital. He also points out that social development funds are almost exclusively private equity funds, and that if we want to change capitalism, we need to take control of the capital, therefore creating a structure of public capital market for social entrepreneurship, allowing direct access to people's savings.

Finally, he says we could find ways to create leverage on the 60 billion US$ of socially responsible investments and to attract the "cautious retired investor".

Nevertheless, **Luciano Balbo** replies that Socially Responsible Investing (SRI) money is efficient money and a matter for asset managers. The funds they place are typically funds that need to be attracted in a second phase of development of the sector. The first phase in the building of the social business industry is, according to him, the responsibility of pioneering foundations and family offices, as some have already started, as they only respond to themselves. But between the first and the second phase, who will be the free agent who is going to accelerate the growth of the industry? Developing social business means developing social money and access to social money.

Emmanuel Marchant, drawing on his experience with **Danone Communities**, reminds everybody that investing in social business is crazy: high risk, no financial return, but tremendous social return. This is something we have to admit and we will need time to overcome. But at the same time, people can really be enthusiastic and subscribe for social business placements, pushing retail banks to create dedicated financial products. It is our responsibility to communicate and to create stories and heroes to convince the community to change.

It is also the responsibility of governments to create the legal framework that will allow social business investments to grow. For example, in France and many other countries, private funds cannot be invested as social businesses are non-profit organizations or cooperative societies, hence the debate on a European statute for social businesses.

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