Report on the feasibility and opportunities of using various instruments for capitalising social innovators

Deliverable 4.3 of the project: "The theoretical, empirical and policy foundations for building social innovation in Europe" (TEPSIE), European Commission – 7th Framework Programme

27 September 2013
Suggested citation

Acknowledgements
We would like to thank our partners within the EU-sponsored project “TEPSIE – The Theoretical, Empirical and Policy Foundations for Building Social Innovation in Europe” for their extensive support in preparing this report: The Young Foundation for the UK, Universidade Católica Portuguesa – Faculdade de Economia e Gestão (UCP) for Portugal, Wroclaw Research Centre EIT+ (WRC) for Poland, Atlantis Consulting S.A. for Greece, and the Danish Technological Institute (DTI) for Denmark. We are especially grateful for the support in the statistical analysis by Marta Ribeiro, Liliana Fernandes and Marisa Tavares at Universidade Católica Portuguesa – Faculdade de Economia e Gestão (UCP) as well as for the generous support and editing help of Julie Simon and Anna Davies at the Young Foundation.

TEPSIE
TEPSIE is a research project funded under the European Commission’s 7th Framework Programme and is an acronym for “The Theoretical, Empirical and Policy Foundations for Building Social Innovation in Europe”. The project is a research collaboration between six European institutions led by The Danish Technological Institute and the Young Foundation and runs from 2012-2015.

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TEPSIE deliverable no: 4.3
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1. Executive summary

This report investigates the feasibility and potential of various instruments for capitalising social innovators and builds on and extends previous work from the TEPSIE project, particularly the investigation of "Social Finance Investment Instruments, Markets and Cultures in the EU" which mapped the field of social innovation from a resource point of view. The report is based on research concentrated on the social economy and social economy organizations in the six TEPSIE partner countries, but not limited to them. This research included a thorough and continuous review of the literature on related topics, a series of 59 interviews with innovators, investors and intermediaries in all TEPSIE countries, and an online survey disseminated primarily but not only in these countries.

Based on findings of the first phase of work package 4, the guiding research question of the second half and of this report was: How can characteristics and needs of social innovators and their (potential) investors/funders be matched to fit together (better)? To answer this question, we first assessed these characteristics and needs, as well as barriers against their matching. Based on that, we developed a matching model to summarise our findings and suggest approaches to overcome barriers.

Field characteristics

- The field of social innovation in Europe is highly diverse and indeed a cross sector issue. However, the results of the survey imply that most social innovation tends to take place in the social economy, or within the ambit of the state or in the numerous intersections between the two.
- Social innovators tend to be most active in Social services, culture and recreation, health, local communities, education and research, work integration, and youth services. According to the innovativeness index we developed for our online survey, respondents showed an exceptionally high degree of social innovativeness in the latter three fields (marked in bold). Concerning organizational characteristics, we found that smaller and younger organizations tend to be slightly more innovative than large and more established ones.
- The vast majority of the social innovators surveyed have plans for growth. However, this is not necessarily connected to the acquisition of external growth capital. Instead, many social innovators prefer to grow organically and finance innovation from income earned through regular services.
- According to the innovativeness index we developed for our online survey, respondents are very innovative, with particular innovativeness apparently being concentrated in the field of education and research, work integration, and youth services. However, the index is still to be treated with caution, as well as to be refined and validated as a sound scientific tool to actually assess organizations' social innovativeness.

Income models

- The respondents of our survey tend to generate large portions of their income from grants and donations: 48.4% of survey respondents cover more than 50% of their costs from such sources, and 33.3% even more than 75%. Meanwhile, 40.9% cover 50% or less of their costs from grants and donations, 23.5% up to 25%.
- A look at market income gives us the opposite picture with 45.6% covering up to 50% of costs from market income, and another 34.4% up to 25%. The share of organizations covering more than 50% of their costs from market income is 25.9% of respondents. Only 16.4% cover more than 75% of their costs from market income.
• In principle income situations tend to be precarious and often not entirely adequate for financing growth and/or innovation to the degree desired by the social innovators.
• The public sector and public bodies appear to play particularly important roles as income providers, e.g., by means of service contracts. However, payment by results and procurement policies were identified as problematic by survey respondents. While respondents did not provide a fundamental critique of the underlying principle, they did suggest that the extensive reporting requirements were often challenging.

Financing instruments
• The use of repayable financing instruments was rather limited among our sample: Only 24.8% of respondents state that they have used external financing at all.
• ‘Traditional’ financing instruments play a key role. Secured and un-secured loans are the most prevalent forms of repayable finance.
• Equity and mezzanine in contrast play a rather minor role. New approaches like crowdfunding and other web-based models are becoming more important, but are still rarely used.
• Among the repayable instruments, low-cost capital (e.g., interest-free loans) is the preferred mode of financing. And, risk capital in particular is seen as important for financing growth.
• In terms of ‘investment readiness’ 19.5% of organizations state that they could not repay any investment, while 42.2% could repay some sort of ‘social investment’ (i.e. lower levels of financial return), and 8.1% state that they are able to take on investments at regular market rates of return.

Sources of investment and funding
• Social innovators tend to have several sources of funding: 35.9% of survey respondents have at least five different funding sources; 47.2% have four; and 49.1% have three. As such, financing from government/public sources is clearly the most important in terms of total amounts.
• The most important sources of finance to 17.3% of respondents are local/regional public bodies and national state agencies for 13% of respondents; foundations are the most important finance provider to 16.5% of respondents; family and friends to 12%, and businesses only to 9.9%.
• Commercial investors seem to play a rather marginal role, with the standard source of commercial finance, namely banks, only playing a major role for 6.7% of survey respondents.
• However, we have to be careful with these findings, for it is hard to discriminate between funding day-to-day activities and investment in growth.

Social impact measurement, risk, networks and partnerships
• Customers (providers of market income), funders (grant income), and investors (investment finance) are all very interested in impact measurement, and are increasingly using it to base their decisions.
• Funders (providers of capital with low financial return expectations) tend to value impact measurement the most, customers second, and investors third. This may be cautiously explained by the hypothesis that customers are directly affected by impact, funders get nothing or little in return but impact, while investors have other parameters to look at besides impact, particularly financial returns.
• Risk is an important factor for social innovation, as frequently argued. However, risks tend to be perceived as a more severe burden by innovators than by investors. A better spread of risk is very likely to give social innovation a push.

• Indeed, a better way of sharing risk, together with the need for other forms of non-financial support such as peer-to-peer advice, volunteer support or mentoring, networks and partnerships are repeatedly voiced as key enablers of social innovation.

Summarizing social innovators’ capital requirements

Summarizing these findings, these are the central requirements articulated by social innovators:

- **Low costs of capital**: Social innovators usually need capital with very low or no return expectations, because their income situations often do not allow for generating profits.

- **High variation in capital amounts**: Capital requirements vary widely and depend on the nature of the innovation and the size and type of organization behind it.

- **Long duration**: Social innovation takes time to develop, often more time than technological/business innovations. Therefore, capital with long time horizons is needed. It also often occurs that innovators are in need of continuous flows of finance rather than large investments disbursed in one go.

- **Autonomy**: Finance instruments have an influence on social innovators’ degree of autonomy and flexibility in decision-making. As social innovation is a highly complex process with the danger of getting more complicated when new decision-makers come ‘on board’, social innovators usually strive for less investor involvement and a high level of autonomy. There are also normative factors involved that lead innovators to strive for autonomy from external influence (e.g., the fear of mission drift). This results in a preference for debt capital that usually does not involve ownership.

- **Non-financial support**: The desire for autonomy partly conflicts with the need for non-financial support, which is very high. As long as it does not impede on the autonomy of the organization, social innovators seek several types of support – in particular, access to people and networks, business and legal advice as well as mentoring.

As all of these requirements are cost factors to investors, we can say that regardless of the amount but depending on risk, the longer the term and the higher the level of autonomy and of non-financial support, the higher the capital costs are. However, low capital costs are still possible if various actors bundle their capacities and resources to further develop and promote instruments such as loan guarantees, interest-subsidies, ‘financial recycling’ in the form of interest-free loans, and pro bono support.

Besides this, for social innovation to develop further towards a mature field and also to facilitate the establishment of a more diverse financing scene, the income models of innovators also need to get more stable and sustainable. Of particular importance here are public bodies and their procurement and grant-making policies, as well as customers who are becoming increasingly important providers of earned-income to social innovators, i.e. the most relevant stakeholder group when it comes to the establishment for markets for social innovations.

The findings of the interviews and the survey have been used to create scenarios on the nexus between social innovation and social finance and to thereupon recommend to policy makers how the match between both investors and innovators could develop and how a good coverage of the entire social innovation landscape could be realized. The following aspects are key to this: (1) the promotion of a financing mix rather than targeted support for single instruments; (2) a focus on outcomes in the promotion of social innovation rather than on organizational characteristics; (3) targeting the full innovator spectrum across sector boundaries and stimulating collaboration rather than competition; (4) the provision of non-financial means of support that affect the element of risk.
2. Introduction

This investigation into the feasibility and potential of various instruments for capitalising social innovators builds on and extends previous work from the TEPSIE project. The investigation of Social "Finance Investment Instruments, Markets and Cultures in the EU" mapped the field of social innovation from a resource point of view. The research performed and presented here is to be understood as a step extending the former analysis. Therefore both reports have to be read in close relation in order to get a comprehensive picture of the field of social finance and its relation to social innovation. The intention and contribution of the previous report was to assess the status quo of finance instruments, investors and the resourcing of social innovators on a rather broad scale for each of the six TEPSIE partner countries. The research upon which this report is based is concentrated on the social economy and social economy organizations. This is because social innovations predominantly emanate from these sources (this is a hypothetical assumption based on conceptual work on the nature of social innovation). The previous report has drawn several preliminary conclusions and identified a number of trends that shall be picked up and addressed here. For example, within the social economy:

- Earned-income strategies are becoming more important.
- Finance instruments and instrument mixes are becoming more diverse.
- Professionalization, business skills and financial literacy of social economy organizations are increasing.
- The governance links between investors and investees are becoming closer.
- Effectively linking risk, financial return, impact in different investment instruments is increasingly becoming a crucial challenge.
- Commercial investment managers and intermediaries are becoming aware of and active in social investment.

Based on these major and other trends, our previous work concluded with some further research questions as well as some hypotheses. This work will focus on and assess the following questions:

- What are the main funding schemes for the social economy?
- What are the pros and cons of different forms of funding?
- How does funding influence the strategy and organisational development of social economy organisations?
- What kind of returns do investors expect and how can non-monetary returns be shown?

The first question has already been answered to a certain extent by the D4.1 and 4.2 reports which provide an overview of the social finance and social investment fields in the TEPSIE partner countries. However, further research was needed to confirm and enhance these findings and to answer the remaining questions. The following hypotheses were developed for these tasks:

• Hypothesis 1: Social innovation flourishes in spaces protected from financial market pressures.
• Hypothesis 2: In the process of an invention becoming a social innovation, social finance and public support can be regarded as indicators.
• Hypothesis 3: Social innovation is not generally limited to certain types of organisations financed in specific ways.
• Hypothesis 4: Further institutionalisation of the social finance field will increase commercial investors’ engagement and the diversification of instruments.
• Hypothesis 5: More giving potential in rich societies can be unlocked.

These hypotheses and research questions guided the design and compilation of the empirical research at hand. The research process was conducted in two phases: First, a series of interviews were carried out to further assess the field in all six TEPSIE partner countries, particularly from investors’ and funders’ points of view; and second, an online survey, to assess as much of the broad field of social innovation as possible. This was disseminated within but not limited to all six TEPSIE countries.

With social innovation and its capitalization being fairly young fields of investigation, our research was highly explorative and dynamic. That is, we entered into this second part of the work package with these hypotheses and research question derived from the first part, yet we remained open to appropriate changes of focus. Therefore, during the course of the research some of the key hypotheses and research questions changed slightly as a result of the new findings we were uncovering. This affected both the design of the online survey and the design of the interview questions. The interviews, as they were conducted, have furthermore lead to changes or refinements. The research process thus was highly dynamic, mirroring the dynamic development of the object of investigation. This report provides an overview of the research process, its development and the adaptations made, of central findings and what can be learned from them, and finally of a number of potential future scenarios and strategies on how to optimally influence all potential developments.

The report starts with an outline of what has been done methodologically (section 3 on Methodology). Then comes the central part of the report, which is the Empirical findings section. There first an overview of the central quantitative data from our online survey among social innovators will be provided, followed by an analysis of innovator and investors needs fed both from the survey and from the interviews. The latter section is guided by the question: How can innovator and investor/funder needs be matched to fit together? This central empirical part concludes with a summary analysis of the barriers and potential opportunities in the interrelationships between social innovators and resource providers.

The last section of the report provides future Scenarios on the social innovation – social finance nexus. It outlines how the matches discussed in section 4 could unfold. More precisely it illustrates how social innovation as a field could transform in the future and how social finance could affect certain types and fields of social innovation. The scenarios thereby take a two step approach from the general to the specific. The general is expressed by the development of social innovation as a phenomenon of practical relevance, which is determined by the two parameters of institutionalization and organizational manifestation. In terms of the ‘specific’ we examine how particular how particular finance instruments might affect social innovation fields and types. This is again determined by two parameters: finance instruments and their connected return expectations and organizational income models. These culminate in recommendations for policy makers on fundamental pillars of a future strategy on the regulation of social finance and social innovation.

The report concludes with an integrated Summary of its findings and implications for Future Research.
3. Methodology

The methodology of this report comprises three interrelated pillars: First, it builds on a review of the literature on social finance and the resourcing of innovative social ventures submitted as part of deliverables 4.1 and 4.2. Continuing this review informed the second pillar, the qualitative interviews and third, the online survey, which in turn was also informed by the results of the interviews that had been conducted beforehand. Thus, we applied an approach comprised of the interrelated sequences: We started with the literature and all partners’ individual knowledge of the field to set up the first report submitted in September 2012; we then drafted interview questionnaires and selected interview candidates based on what had been learned at that point of the process; and finally we set up our online questionnaire again based on prior knowledge and experience of the sector, but also on what we had learned from all partners’ interviews. The rationale of this three-step methodology is that based on our experience there are numerous social innovators in the field compared to relatively few investors and intermediaries. Thus, we could cover investors in depth by means of structured interviews, while better understanding the broad and diverse field of social innovators within Europe would require different means. As we could not conduct enough interviews to cover that field, we aimed at doing so by means of an online survey. While we had already conducted interviews with innovators in all TEPSIE partner countries, the aim was to deepen and verify/falsify what these interviews had revealed on the one hand and to do that on a broad empirical basis on the other. As a result, we have both qualitative in-depth information about the situation and needs of social innovators and investors as well as quantitative data on the broader context.

3.1. Interviews

According to varying levels of resources assigned to this task, all TEPSIE partners conducted interviews with innovators, investors and intermediaries. Interview partners were selected based on the TEPSIE definition of social innovation and the association of actors in the field with the process of social innovation and its capitalization. Particular emphasis was given to selecting (representatives of) the most important investors in each country. Concerning methodology, the interviews were highly explorative in nature, given that the field of social innovation is still largely new ground to research. Thus, interviews took a semi-structured form based on a guideline (please see Appendices 1 and 2 for the core set of questions with investors/intermediaries and innovators respectively). The interviews were analysed and summarised by each partner along the lines of the core sets of questions as stated in the interview guidelines. In addition, each partner provided report on remarkable finding not covered by this core set.

Table 3-1 – Number of interviews per TEPSIE partner country

<table>
<thead>
<tr>
<th>Partner</th>
<th>Number of interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>UHEI</td>
<td>15</td>
</tr>
<tr>
<td>YF</td>
<td>10</td>
</tr>
<tr>
<td>DTI</td>
<td>7</td>
</tr>
<tr>
<td>UCP</td>
<td>10</td>
</tr>
<tr>
<td>EIT</td>
<td>9</td>
</tr>
<tr>
<td>ATL</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>59</strong></td>
</tr>
</tbody>
</table>

3.2. Online Survey

The online survey was sent to a wide range of potential European social innovators. The TEPSIE partners tapped into their contact data bases and those of other players in the field (such as SIX for instance). As such, there was only a rough pre-selection of innovators. Refinement in this regard has been necessary, which was the reason for compiling an index (see below). The index furthermore provided the opportunity to operationalize most of the issues and hypotheses that had been identified in prior work.

The survey was open for 6 weeks. It was set up and managed by the Centre for Social Investment of the University of Heidelberg with support from all TEPSIE partners. The complete survey was available in the six TEPSIE partner languages.

3.2.1. Structure and content

The online survey was set up in English and sent to the partners for translation into TEPSIE partners’ national languages. Thus, we conducted 6 separate surveys in English, German, Danish, Polish, Greek and Portuguese. The survey consisted of 60 questions grouped into seven categories:

- General information: Structural variables such as field of operation, size, age, growth plans, etc. (10 questions)
- Social innovativeness: The degree to which the respondent can be regarded as socially innovative (1 question with 10 sub-questions)
- Income models: Present and future financing strategies (15 questions)
- Financing instruments: Use, availability and suitability of different instruments (10 questions)
- Investors: Assessment of and potential fit with certain types of investors (10 questions)
- Social impact measurement: The relationship between measurement and financing (6 questions)
- Risk: Assessment of risks and their impact on social innovation (5 questions)
- Networks and partnerships: Habits, preferences and needs for partnerships (3 questions)

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6 Based on the 12 ICNPO categories to which we added 4 fields of activity categories: Youth services, local communities, education and research, and work integration. After our experience in the social innovation field and based on the interviews conducted, that additional potential for differentiation appeared important to us which was evidenced by the fact that respondents made use of these categories quite extensively.
<table>
<thead>
<tr>
<th>Research questions</th>
<th>Item(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General</strong>&lt;br&gt;Structural data and control variables: Who are our respondents? Do they want to grow and how?</td>
<td>Field(s) and countries of activity? Legal form(s) of the organization? Age? Number of FTE? Of Beneficiaries? Height of Expenditures? Plans for growth: FTE? Beneficiaries? Expenditures?</td>
</tr>
<tr>
<td><strong>Social Innovation</strong>&lt;br&gt;In which respects are they social innovators? How can we capture the landscape of social innovators?</td>
<td>Please indicate how far you agree with the following statements about your organisation (including aspects such as the development of new products, services or processes; the fostering of partnerships; the priority of impact etc.).</td>
</tr>
<tr>
<td><strong>Impact</strong>&lt;br&gt;How common is impact measurement among social innovators?&lt;br&gt;How important is impact measurement actually for funders (investors, donators/grant providers, customers)?&lt;br&gt;And how hampering are (too extensive) reporting requirements?</td>
<td>Importance of impact measurement to investors?&lt;br&gt;To funders? To customers? (Influence of impact measurement on whether or not innovator receives funds? On terms and conditions? Importance relative to financial performance? How demanding are measurement requirements? Would improvements attract more funds?)</td>
</tr>
<tr>
<td><strong>Partners</strong>&lt;br&gt;What are the main ‘matching’ problems from innovators’ perspectives?&lt;br&gt;What role do forms of non-monetary support play for innovators?&lt;br&gt;And which partners are suitable?</td>
<td>Importance of partner values or characteristics (integrity, competence, creativity, financial strength, etc.)? Importance of types of non-financial support (access to people/networks, physical space, consulting, mentoring, volunteer support, etc.)?</td>
</tr>
<tr>
<td><strong>Risk</strong>&lt;br&gt;Which risk factors dominate from innovators’ perspective? Who carries which risk factors?</td>
<td>Extent of risks inhibiting the ability to innovate (financial, legal, personal, failure to achieve social impact, etc.)?</td>
</tr>
<tr>
<td><strong>Income</strong>&lt;br&gt;Which income sources do social innovators have?&lt;br&gt;What is the revenue mix? Which developments are innovators striving towards in this respect? How sustainable are revenue mixes – particularly with respect to financing growth? How many innovators are “investment-ready”?</td>
<td>Income mix? Sources of grants/donations? Of market income? Percentage of payments by results? Future income mix? Maximum interest rate payable?</td>
</tr>
<tr>
<td><strong>Instruments</strong>&lt;br&gt;How many innovators are “investment-ready”?&lt;br&gt;What is external financing used for by innovators?&lt;br&gt;Which instruments are predominant?&lt;br&gt;Which instruments would be more needed?&lt;br&gt;How known and used are newer instruments – are they planned for the future?</td>
<td>Track record and present use of repayable forms of finance? Use of social finance instruments (low-interest debt, recoverable grant, etc.)? Use of new finance instruments (crowd-funding, challenge prizes etc.)? Purpose(s) of acquiring external financing? Instrument suitability (debt, equity, grants/donations, etc.) for financing growth?</td>
</tr>
<tr>
<td><strong>Investors</strong>&lt;br&gt;Which relevance do (social) investors have in reality?&lt;br&gt;Are they needed/called for?&lt;br&gt;How can investors improve in order to better adapt to the needs of innovators? How can co-operations with (types of) investors be improved?</td>
<td>(Up to) five most important types of financiers? Extent of fit of certain types of investors concerning strategy? Concerning fit with desired level of autonomy? Concerning expectations of creating social impact? Concerning non-financial support requirements?</td>
</tr>
</tbody>
</table>

Table 3-2 – Core online survey research questions

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7 For a detailed compilation of the sub-items included please see section 3.2.3 on Analysis.
Generally, this set up reflects our rationale to proceed in two steps: First, we aim to assess the status quo of what innovators do to resource their operations, what they aim to do in the future, and which funding sourcing and financing instruments they deem appropriate for their plans (sets of questions about income, instruments, investors). This first part of the analysis [status quo and desired status] and the second part of the analysis is more of an explanatory/interpretative approach [why? E.g. “we can demonstrate impact, that’s why we seek low-cost capital” or “we would be willing to pay a little bit more for capital, but then we would also want some additional support alongside it”]

3.2.2. Sample

All TEPSIE partners provided databases with social innovators and some social investors in their countries. The consortium agreed that the partners would not set up their databases by preselecting social innovators on a subjective and non-transparent basis. Instead, the agreed approach was to disseminate invitations to our survey on a rather broad scale and include an item battery in the survey which would allow us to assess whether or not every single respondent can be regarded as a social innovator or not for three reasons: First and foremost, this approach is based on criteria which are transparent and objective – they may be challenged and criticised, but that is sound scientific conduct. Second, this approach allows us to compare our sub-samples concerning degrees and types of social innovativeness which would not have been possible if we hadn’t included these items.

Despite this principally more open approach, of course we did have to do a certain pre-selection based on the TEPSIE definition of social innovation. However, this definition was not applied in a strict sense for assembling databases. Instead, every partner provided databases that had already been pulled together and were made up of organisations known to be involved in social problem-solving.

The following table provides an overview of the databases and response rates:

<table>
<thead>
<tr>
<th>Partner</th>
<th>Database Volume8</th>
<th>Respondents</th>
<th>Response Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>UHEI</td>
<td>~1.400</td>
<td>152</td>
<td>~ 11</td>
</tr>
<tr>
<td>YF</td>
<td>~850</td>
<td>116</td>
<td>~ 14</td>
</tr>
<tr>
<td>DTI</td>
<td>~100</td>
<td>13</td>
<td>~ 13</td>
</tr>
<tr>
<td>UCP</td>
<td>~2.300</td>
<td>72</td>
<td>~ 3</td>
</tr>
<tr>
<td>EIT</td>
<td>~200</td>
<td>18</td>
<td>~ 9</td>
</tr>
<tr>
<td>ATL</td>
<td>~420</td>
<td>73</td>
<td>~ 17</td>
</tr>
<tr>
<td>Total</td>
<td>~ 5270</td>
<td>444</td>
<td>~ 8</td>
</tr>
</tbody>
</table>

8 The survey was disseminated by email and ‘mail delivery failures’ have been subtracted from the original database size. Indirect contacts may have been established through newsletters and other forms of communication
So the total response rate for the survey was 444, i.e. we have 444 surveys entered into our analysis. In order to extract as much information from the survey results as possible, we decided to include all responses we have received, i.e. not to include only answers from completed questionnaires.

**Figure 3-1 – Empirical base (number of interviews and survey respondents)**

- **Denmark:** 7 interviews, 13 survey respondents
- **UK:** 10 interviews, 116 survey respondents
- **Poland:** 9 interviews, 18 survey respondents
- **Germany:** 15 interviews, 152 survey respondents
- **Greece:** 8 interviews, 73 survey respondents

### 3.2.3. Analysis

The online survey was answered and filled out by a total of 444 respondents. As a measure of how respondents are distributed across the six TEPSIE countries (we did not ask them for the country they are located in, but for the country/countries their organisation is active in) we can draw upon the number of surveys answered in each of the six TEPSIE partner languages.

Overall, the response rate is relatively low. This may be attributable to the complexity of the topic and perhaps also to the fact that people are not overly keen to provide information and details about their finances in online surveys. And the response rate varied highly between questions, because not all respondents answered all questions. That was also intended, because the survey was quite extensive and took time to fill out. Therefore, filter questions were used to let respondents skip questions that were irrelevant or too sensitive for them to answer. Nevertheless, the absolute number of respondents allows us to draw fairly well-grounded conclusions.

The analysis of the survey was conducted in close collaboration with colleagues from the Universidade Católica Portuguesa – Faculdade de Economia e Gestão (UCP). They were responsible for the data-clear up and coding, the statistical check of the proposed social innovativeness index below and the initial application of standard statistical methods, mainly descriptive statistics.

Please note that with regard to the interpretation of the global results (for all countries), we recommend caution for two reasons: First, the number of total observations is quite low to be considered representative. Second, since there is an overrepresentation of Germany and the UK and an underrepresentation of Denmark, the results cannot be generalized. We still believe however that the analysis provides valuable input for the analysis of capitalizing social innovations in the future. In order to increase the explanatory potential of the data we did not analyse complete surveys only. Thus, we have varying response rates for each question.
One of the first steps of the actual data analysis – after all the preparatory steps had been taken and the data cleaned up – consisted in identifying our core research sample, i.e. those respondents which can be regarded as social innovators. We scored answers for innovativeness and for a social orientation and summed both up to come up with a social innovativeness index. We then grouped our respondents into four categories based on respondents’ performance as social innovators:

- Outperformer
- High performer
- Performer
- Non-performer

Each individual response in the survey to the questions outlined below was given a minimum value of 1 for “strongly disagree” and a maximum value of 4 for “strongly agree”. To compile the index the individual items were weighted, so that the eventual score for each of the aspects “innovativeness” and “social mission orientation” ranged from 1-4. This holds also for the combined index that was derived by a 50-50% weighting of the two separate indexes. The thresholds for the categories from “outperformer” to “non-performer” have been set upon an initial screening of the data that has informed the formation of coherent groups with supposed explanatory potential. These categories have been approved through the subsequent analysis.

Table 3-4 – Social innovativeness index

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>%</th>
<th>Explanatory notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Innovativeness</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We put strong emphasis on the development of new products or services</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>15</td>
<td>“Social innovations are new solutions (products, services, models, markets, processes etc.) (…)”</td>
</tr>
<tr>
<td>We put emphasis on the development of new organizational processes</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>20</td>
<td>“Social innovations are new solutions (products, services, models, processes etc.) (…)”</td>
</tr>
<tr>
<td>We improve products and services frequently</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>10</td>
<td>These two items take a closer look at the mode of innovating. While most organisations do improve products/services more or less regularly, they may do so without being very systematic, planned, or intentional in their approach. Radical, disruptive improvements are more of an indicator for innovation. This is reflected in the higher weighting allocated to these innovations.</td>
</tr>
<tr>
<td>We improve products and services rather radically and disruptively</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>15</td>
<td>“Social innovations (…) meet a social need (more effectively than existing solutions) and lead to new or improved capabilities and relationships and better use of assets and resources.” It is assumed here that first movers do actually lead to and/or imply more effective, new, improved and/or better solutions.</td>
</tr>
<tr>
<td>We believe that our organisation is a first mover in the field (often being the first to introduce new products, services or processes)</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>20</td>
<td>“Social innovations (…) meet a social need (more effectively than existing solutions) and lead to new or improved capabilities and relationships and better use of assets and resources.” It is assumed here that first movers do actually lead to and/or imply more effective, new, improved and/or better solutions.</td>
</tr>
<tr>
<td>We often behave in ways that are unconventional or contrary to existing</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>20</td>
<td>“Social innovations (…) meet a social need (more effectively than existing solutions) and lead to new or improved capabilities and relationships and better use of assets and resources.” It is assumed here that first movers do actually lead to and/or imply more effective, new, improved and/or better solutions.</td>
</tr>
</tbody>
</table>

Differences in weighting are due to varying importance of the criteria. The unsmooth weighting on the second part of the index is due to rescaling efforts that were necessary out of statistical reasons.
practices and norms in the field and better use of assets and resources.” It is assumed here that “non-conformers” actually tend to develop more effective, new, improved and/or better solutions.

**Orientation towards social mission and collaboration**

<table>
<thead>
<tr>
<th>Sub-total</th>
<th>Max: 4</th>
<th>Min: 1</th>
<th>100%</th>
</tr>
</thead>
</table>

For us, creating social impact has priority over creating profit 4 3 2 1 ~ 29 “Social innovations (...) are both good for society and enhance society’s capacity to act.”

We find it difficult to reconcile our social mission with commercial pressures 4 3 2 1 ~ 13 This is an indicator for social mission orientation, even though it may be argued that social mission accomplishment may go hand in hand with commercial success.

We put strong emphasis on new partnerships 4 3 2 1 ~ 29 “Social innovations (...) lead to new or improved capabilities and relationships and better use of assets and resources.”

We always reinvest all surplus into our organisation to fulfil our social mission 4 3 2 1 ~ 29 Re-investing surpluses is another measure of social mission orientation, because it demonstrates that social mission is the prime objective of an organization.

**Table 3-5 – Innovativeness categories based on index**

<table>
<thead>
<tr>
<th>Innovativeness</th>
<th>Outperformer</th>
<th>High performer</th>
<th>Regular performer</th>
<th>Non-performer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovativeness</td>
<td>4-3.5</td>
<td>3.5-3</td>
<td>3-2.5</td>
<td>&lt; 2.5</td>
</tr>
<tr>
<td>Social mission</td>
<td>4-3</td>
<td>3-2.5</td>
<td>2.5-2</td>
<td>&lt; 2</td>
</tr>
<tr>
<td>Social innovativeness</td>
<td>4-3.5</td>
<td>3.5-3</td>
<td>3-2.5</td>
<td>&lt;2.5</td>
</tr>
</tbody>
</table>

In order to check which questions from the survey should be kept in the final index, which had otherwise only been chosen based on the theoretical reasoning provided in the explanatory notes, it was important to account for the internal consistency of the data. This was done by checking the correlation for each item with the total score minus the score for the item in question. We retained those with high correlations in this test, as this makes the case that the individual items are not measuring the same thing.

The data consistency test with regard to the correlation of individual items resulted in the exclusion of only one item, namely the “focus on existing partnerships” as a presumed counter-indicator for social mission orientation. We hypothesized that organizations that stay within their familiar realm will be less socially oriented than those that enter new partnerships (with reference to the inclusion of multiple stakeholders as one dominant prerequisite for social innovation). However, it turned out that existing partnerships had a positive rather than a negative effect on enabling new partnerships. Put more simply, the organizations that have strong existing partnerships seem more likely to enter new partnerships and both can be interpreted as a sign of having a social mission.

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Although the statistical significance was low, all other calculated correlations between the items and each of the indexes were statistically significant. They were thus utilized in the analysis. It can be assumed that the fact that the vast majority of the sample is at least a “Performer” is based on partners’ selection of organisations on the database. Only 3.9% of respondents were assessed as “Non-performers”. However, it should be noted that of our overall 444 responses, only 258 provided answers sufficient to classify them according to their social innovation performance.

The index itself is not meant to be a reliable indicator of either innovativeness or of social mission orientation. We do not therefore propose to use it as such in future research projects. Instead, it should be seen as a construct that helped to structure the respondents to the international survey into groups for more nuanced testing of the present and future state of the social finance – social innovation nexus. This grouping was beneficial to the analysis in several ways.

First, the organizations which were invited to participate in the survey (although roughly pre-selected) were not handpicked with regard to their social innovativeness and other descriptive statistics (such as age, size or scope of activities). The main reason for this is a lack of a common understanding of the concept of social innovativeness as such and the missing explanatory links that would clearly indicate it, in available data on organizations operating in the social sphere (compare to the critique of data gaps in the previous report on social innovation measurement\(^\text{11}\)). Another reason is that the survey was meant to cover the field of social innovators in all its breadth and to contrast more innovative and/or socially oriented organizations from those that were less so. This could be realized by applying the index after completion of the survey. The categories as shown below were pre-designed but then adapted to build evenly distributed groups.

The second issue with the index(es) is that the questions that feed into it build on the self-description of the organization rather than a pre-defined clustering done by the researchers. This is again a necessity that stems from the vagueness and ambiguity that surrounds the subject under investigation. Simultaneously, it is increasingly common practice in research to use self-descriptions as they represent a fundamental part of an organization’s self-identity. That in turn is key to funders or promoting organizations that identify and support social innovators. This is e.g., the case for organizations like Ashoka or Schwab, which are ever more frequently subjects of study when it comes to social innovation.\(^\text{12}\) In order to build a broad base of organizations so as not to restrict our analysis to this specific group of organizations, we have deliberately included a much larger population of organizations. At the same time the research presented here applies a similar logic in grouping organizations for the purpose of more nuanced analysis and the clear focus on the connection between finance, social and simultaneously innovative organizations.

Thus, the proposed index should not be overrated with regard to its explanatory potential. We do nonetheless believe that it represents a fruitful way to structure and analyse data. Indirectly it can thereby help to refine our understanding of social innovativeness and its determinants after all.


4. Empirical findings

In this section, we will present our empirical findings in a condensed form. The aim is not to reflect on every piece of data we have collected but to process our findings in a pragmatic and goal-oriented manner. Therefore, we will first present a summary of the main results of our online survey; then we will present the overall status quo in the field using data from the survey as well as from interviews and other sources. The goal is to provide a comprehensive collection of current strengths, opportunities, threats, and barriers when it comes to generating capital flows for resourcing social innovators.

4.1. Summary of online survey results

4.1.1. General information and social innovativeness

The first major aim of the survey was to assess some structural variables of socially innovative organizations in the countries surveyed and thus of the social innovation landscape in Europe. The structural variables assessed include: Field of activity, legal form, age, country/countries of activity, and size (in terms of full-time equivalent employees, expenditures, and number of beneficiaries). We also assessed whether or not our respondents have plans for growth for the next five years and in which way(s): In terms of personnel, turnover, social mission expenditures, and/or number of beneficiaries.

Field of activity
Concerning the fields of activity of our social innovators we found that the most important fields for them to work in are social services (with 22.8% of our respondent sample naming this field as their primary field of activity, and 12.8% as their second-most field of activity), education and research (17.2% and 13.9%), and culture and recreation (10.7% and 5.0%); also of major importance are the fields of health (8.8% and 9.7%), local communities (7.9% and 13.9%) and youth services (6.7% and 11.1%).

Figure 4.1 – Fields of respondents’ primary activity
**Size**
We have assessed respondents’ sizes along three measures: Expenditure, numbers of full-time equivalent employees (FTE), and numbers of beneficiaries. In terms of expenditure, we see the largest group being the one with an expenditure of between €100,000 and €250,000; cumulative 60.5% have expenditures of up to €250,000, and cumulative 29.3% have expenditures of up to €25,000. Thus, within our sample there is a majority of small and medium-sized organizations. Nevertheless, organizations with more than €250,000 make up for cumulated 35.1%, and 6.3% even have expenditures exceeding €5,000,000.

In FTE terms, we get a similar picture: We have many small and medium sized organizations, with the group of organizations with 2-5 full-time employee equivalents being the largest group (25.8%), and cumulated 70.1% with up to 20 employees. Very large organizations are the exception: 1.4% have between 500 and 1,000 employees, and 1.2% have more than 1,000. A similar picture is mirrored in the figures on the number of beneficiaries.

**Age**
We see that there are many fairly young organisations active in the field: 21% are younger than 5 years; 27.7 are between 5 and 9 years old; 68% younger than 20 years. However, slightly more than 15% are 30 years or older.

**Legal forms**
With regard to legal forms a considerable re-coding effort had to be made in the face of the multiplicity of relevant legal forms across the EU. In view of this multitude several legal forms have been grouped according to the following list:

1. Non-profit (included labels: charity, charitable association, association, not-for-profit organization, NPO, NGO, union, club, local community organization, registered society, self-governing, self governing institution)
2. Social Enterprise (included labels: CIC, gGmbH)
3. No separate legal entity (included labels: unregistered, partnership, no formal legal form)
4. For-profit form (included labels: limited liability company, company with limited responsibility, company limited by guarantee, company limited by shares)
5. Foundation, fund, trust
6. Cooperatives
7. University/Research institute or organization
8. (Quasi-) Public Institutions/organizations regulated by public law

Based on this classification, almost two thirds (66.1%) of the sample have non-profit legal forms. The second-largest group are for-profit legal forms with 11.7%, followed by social enterprises with 8%, foundations (4.4%), quasi-public or public organizations regulated by public law (2.7%), cooperatives (2.7%), universities, research institutes or organizations (1.2%); 2.9% of respondents operate in organizational or non-organizational settings without any legal entity.

**Geographic distribution**
Concerning geographic distribution, we can say that although the survey targeted primarily the six TEPSIE countries, it may also be regarded as a study on the entire European social innovation
landscape: First, the survey was distributed via the SIX network which is global; and second, the organizations surveyed may be based primarily in TEPSEI countries, but many of them are active beyond their national borders. The classification scheme applied looks as follows; the numbers in brackets specify the number of respondents that are active in the respective countries/regions):

- Denmark (12 respondents)
- Greece (62)
- Germany (123)
- Poland (14)
- Portugal (67)
- UK (103)
- International (Europe) (10)
- International (non-Europe) (6)
- Worldwide (17).

Social innovativeness
Concerning innovativeness overall, we have 12.6% non-performers, 32.5% regular performers, 36.8% high performers, and 18.1% outperformers across the entire sample. When we look at and differentiate between fields of activity, we see that generally, three of our largest fields appear to be among the most innovative ones: Education and research (37.7% of respondents primarily active in this field are high performers and 24.5% are outperformers), work integration (38.9% high and 22.2% outperformers), and youth services (39.1% and 21.7%) have the highest shares of high and outperformers; also very innovative fields are international (55.6% and 22.2%) and business and professional associations (40% and 40%), but here we have to be careful with the figures, because we speak of rather low absolute numbers of organisations in these fields (9 and 5 respectively). Of our more prominent fields, respondents active in social services (28.8% and 10.6%) and culture and recreation (44.0 and 8.0) tend to be relatively less likely to be innovative high or outperformers.

When looking at whether small or large organizations are more innovative, we can say that it tends to be the former: Small (up to €2,000 budget) and medium-sized organizations (€10,000–€500,000 budget) are most likely to be innovative high or outperformers; particularly very small (up to €500) are likely to outperform.

This is in line with organizations’ age: Younger organizations seem to be more likely to be high or outperformers, with 46% of the group of organizations younger than 5 years being high performers and 19% outperformers; the group of organizations at the age of 5–9 are also rather innovative (35.1% high and 29.7% outperformers); organizations at the ages of 30–49 (36.4% and 4.5%) and 50 years or older (30.4% and 8.7%) are still innovative but less so than younger ones.

When we look at particular legal forms, social enterprise legal forms (33.3% outperformers, 25% high performers), foundations, trusts and funds (also 33.3% outperformers and 25% high performers) and for-profit forms (29.4% and 38.2%) appear to be particularly innovative. Cooperatives are also rather innovative with 62.5% being high performers. Non-profit forms are somewhere in the middle with 14% outperformers, 38% high performers and 34.6% regular performers. However, we have to see that the absolute number of non-profits is substantially higher than all other categories. As a result, we find that 24.6% (68 organizations) of all valid high performers and 9% (25 organizations) of all valid outperformers are non-profits, while the respective shares of the total sample are substantially lower for all other categories: 3.6% (10 organizations) of the total valid sample are for-profit form outperformers and 4.7% (13 organizations) are for-profit form high performers, 2.9% (8) are social enterprise outperformers
and 2.2% (6) outperformers. Obviously, non-profit legal forms do matter substantially as social innovators.

Growth plans
The overwhelming majority of the sample has growth plans: 80.7% aim to grow, while only 9.4% do not. As this is not overly informative, we need to look at how strongly respondents aim to grow and in which organizational parameters; to do that, we asked for growth plans until the year 2018 in four categories:

- Growth in turnover: 44.4% aim at strong growth in turnover, 41% at some growth, and 4.5% do not want to grow their turnover until 2018.
- Growth in social mission expenditures: 43% target strong growth, 44.8% some growth, and 3.7% no growth.
- Growth in number of beneficiaries: Here we see the most ambitious growth plans, with 56.3% planning to grow strongly, 35% aiming at some growth, and only 3.7% not planning to grow.
- Growth in personnel: 26.1% plan strong growth, 59.2% some and 9.9% no growth.

While the first three categories are closely interlinked, since they measure related organizational parameters, they are not very informative about respondents’ long-term investment strategy and capital needs. Growth in personnel, in contrast, usually means a long-term commitment and lasting capacity building. Thus, growth plans concerning personnel are particularly interesting concerning questions of generating capital flows. As we can see, the combined figures for personnel growth plans (85.3% plan to grow somehow) are more or less at the same level as the other three growth plan categories, while strong plans are significantly less dominant concerning personnel. This may be interpreted in two ways: First, respondents do want to grow their structures and capacities, but they do not want to do that aggressively; instead, they want to grow in a ‘healthy’, organic way. This interpretation is in line with what we have learned from innovators in interviews and with other items of this online survey (please see sections 4.1.1 on Instruments). But the relatively ‘low’ number of strong personnel growth plans may also be interpreted as respondents wanting to become more cost-effective and channel more resources to their beneficiaries rather than to their own organizational structures. Lastly, the mismatch between growth and personnel might point to the importance of cooperation to the field of social innovation. For instance some of the examples in the INNOSERV project (a parallel EU funded project on innovation in social services) show that socially innovative organizations do not necessarily want to scale their organisations or diffuse their key concepts alone. Instead, they actively seek to collaborate with well-established organisations in the field (see for instance the summaries on ELTERN-AG or Nueva). This results in the fact that growth in all other parameters does not necessarily have to cause growth in personnel.

4.1.2. Income models
There is a tendency amongst our sample to generate a large portion of its income from grants and donations. The straightforward question on the sources of income for covering costs yielded 306 valid answers. Out of these 306 respondents, we have 148 (48.4%) who covered more than 50% of their costs from grants and donations in the past fiscal year; due to the relative importance of this particular source of income to these respondents, we will call them grants and donations type (GD type). What is more, we see that of these 148 respondents 102 (33.3% of the total) generate more

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than 75% from grants and donations. On the other hand, 125 respondents (40.9%) cover 50% or less of their costs from grants and donations, and 72 (23.5%) up to 25%.

When we look at market income, we get a reversed picture: 140 (45.6%) cover up to 50% of their costs from market income, and 105 (34.4%) up to 25%. The share of the **market income type**, organizations covering more than 50% of their costs from market income, is 25.9% of our 306 respondents, or 79 organizations; only 50 respondents (16.4%) cover more than 75% of their costs from market income.

When looking at innovativeness in relation to these two types, we find that the market type tends to be slightly more likely than the GD type to be an outperformer: 20.7% of the market type respondents are outperformers compared to 15.5% of the GD type. However, among the GD type there are more high performers than in the market type subsample: 40.1% compared to 32.6%. So on aggregate level of combining the high and outperformer categories, we see that GD types and market types appear to be equally innovative.

Since interviews have revealed that income from public sources plays a particularly important role for social innovators and that at the same time there are severe difficulties with that form of funding, the survey contained an item to assess both. It turns out that public financing is indeed very much used (34.6% of respondents state that funding from local/regional, national or EU level government/public funding is their most important source of finance, to 34% one of these sources is the second-most and to 26.2% the third-most important source) and that problems with this kind of funding are relatively widespread. The most common problems with (the acquisition of) funding from public bodies are summarised in the following figure:

**Figure 4-2 – Percentages of respondents stating to have experienced problems with public bodies as insurmountable of major challenges**

![Bar chart showing percentages of respondents experiencing problems with public bodies](image)

Concerning future plans, we can say that respondents aim to increase the share of market income in their financing mixes: While in the past fiscal year 25.9% have covered more than 50% of their expenses from this source and 16.3% more than 75%, 38.2% of respondents plan to cover more than 50% and 20.8% plan to cover more than 75% of their expenses from market income by 2018. Conversely, the share of grants and donations in the income mixes is planned to fall: in the last
fiscal year, 48.4% covered more than 50% and 33.3% more than 75% from grants and donations; and only 31.5% and 18% plan to do so by 2018.

Figure 4-3 – Status quo and planned income (percentages of valid responses)

4.1.3. Financing instruments

Status quo

The use of repayable financing instruments is rather limited among our sample: Only 24.8% of respondents (76 out of 306 valid answers) state that they have used such external financing. Thus, we have a very limited sub-sample to look at for analysing the use of certain types of instruments.

Among this relatively small sub-sample, we see that secured and un-secured loans are the most prevalent forms of repayable finance: 33 out of 76 organizations using such financing instruments (or 43.4%) have a secured loan on their balance sheet and 22 (28.9%) use un-secured loans, and interest-free loans are used by 15.8%. Secured loans make up for more than 80% of the external financing of 21 organizations; for 16 out of them, this instrument makes up for 100% of their external financing. In other words, of 76 organizations employing external financing, 27.6% have 80% or more in the form of secured debt and 21% even 100%. Un-secured loans are by far the most important form of financial instrument to 10 organizations (13.2%) for which it makes up for more than 90% of the repayable finance they used.

Equity is not a very important instrument: 15 organizations have equity investments from their founders, and 8 organizations have acquired an equity investment from external investors. Founders’ equity makes up for 100% of financing for 7 organizations, and 80% of one organization. In contrast, investors’ equity makes up for 100% of financing only to one organisation, 90% of another one, and the remaining six organisations have quotas of 70%, 35%, 20%, 14%, and 5% of their external financing in the form of investors’ equity.

Mezzanine finance plays an even less important role. This is also the case for social finance instruments which we defined for survey respondents as ‘repayable capital at significantly reduced capital costs which are provided by social investors to support organisations’ mission to solve social problems.’ Among these instruments, the only one with a relative significance appears to be debt: 26 organizations state that they use loans as a social finance instrument, 16 out of which have 75% or more of their repayable capital in this form, and 5 with 50% or more. Twelve organizations state to employ equity as a social finance instrument: For one of them, equity makes up for up to 10% of
total repayables, for two of them it is up to 25%, for four of them up to 50%, and five organizations have 75% or more of repayables in the form of ‘social equity’. It is reasonable to assume that this corresponds to the relatively high usage of equity from founders outlined above and that founders who have invested in equity regard this investment as some form of social finance. Other forms of social finance play subordinated roles: Six organizations use interest-free loans (only one of them with 75% or more of its total repayables); six use recoverable grants (three of them with 75% or more of their total repayables); and four organizations use forgiveable debt (two of them with 75% or more of their total repayables).

Concerning relatively new or alternative forms of fundraising, current usage is also rather limited: The most prevalent form of alternative fundraising seems to be challenge funds and prizes, which are used extensively by 21 organizations (7.5% of valid responses) and moderately by 76 (27.2%). However, there seems to be a trend towards web-based approaches: While only 12 (4.3%) respondents consider using challenge funds/prizes in the future, 32 (11.8%) organizations are considering ‘other web-based approaches’ for the future (presumably fundraising by Email, Google Adwords, Facebook, etc.). At the moment, 8 respondents (2.9%) are using this instruments extensively and 53 (19.5%) are using it moderately. Even more remarkable is the trend towards web-based crowdfunding which 46 organizations (16.5%) are considering for the future (current usage is still rather limited, with 7 or 2.5% using it and 35 or 12.5% using it extensively). Other forms of fundraising such as charitable bonds, peer-to-peer lending, new/alternative currencies and lotteries are not that common and are unlikely to be used to any significant extent in the future.

Instrument suitability and investment readiness
Potentially more interesting than the status quo of investment instruments in use and fundraising instruments considered for future use is how suitable instruments appear to innovators for financing organizational growth. Rather unsurprisingly, we see a highly remarkable and clear preference for non-repayable capital here: More than 60% of valid responses view grants and donations as very suitable for financing organizational growth, and more than another 20% still assess this form of financing as suitable. While this result does not yield that much new information, it is interesting to see that grants/donations from private individuals are not viewed as suitable (25.2%) or very suitable (61%) as grants/donations from public sources (22.6% suitable and 64.8 very suitable) or even foundations (23.3% suitable and 65.6% very suitable). So there is a preference for grants (from least to most) in this order: From private individuals, businesses, public sources, foundations.

When we look at repayables which are generally seen as far less suitable for financing growth, we see that either low-cost capital is preferred or risk capital. Low-cost capital in the form of interest-free loans is viewed as very suitable by 14% and as suitable by 16.4%. Risk capital in the form of investor equity is viewed as very suitable by 10.7% and as suitable by 28.5%. Forms of debt are not deemed very suitable: Only 5.1% view secured debt as very suitable and 16.9% as suitable; for unsecured debt these figures are even lower (4.9% and 10.2%), indicating that respondents would prefer the lower capital costs of secured debt.

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14 Recoverable grants are a type of grant where an investor lends out money on the hope that the investee will be successful. If the investee is not successful on pre-defined terms, s/he does not have to pay anything back.

15 A forgiveable loan is a form of loan in which it in its entirety or a portion of it can be forgiven or deferred for a period of time by the lender.
Another (both more abstract and to a certain extent also more precise) indicator of which financing model would fit for social innovators is to ask what maximum interest (or equivalent) they could pay. This we may call ‘investment readiness’, for which we can construct three categories of organizations: Those not capable of repaying any investment at all (‘no investment’ group); those capable of repaying and potentially of paying a modest return of up to 4% (‘social investment’ group) and those which would qualify for commercial investment with 6-12% interest (‘commercial investment’ group). Overall, only 19.5% of organizations state they could not repay any money, while combined 42.2% are in the ‘social finance’ group (of which, however, 25.3% could not pay interest) and 8.1% in the ‘commercial finance’ group (of which the majority, 5.2%, state that they could only pay up to 6% interest). Thus, while the majority does not see repayable capital as suitable for financing growth, more than 50% state that they would be able to repay an investment. So respondents’ ability to use repayable capital (as gauged by their stated ability to repay an investment) is at odds with respondents’ accounts of the usability and suitability of repayable capital. It may well be possible to promote social innovation in some instances if these two opposing sides could be balanced better, especially if we take into account that particularly innovative organizations obviously tend to be more investment-ready and that certain fields may be suitable for best practice examples.
When we look at certain sub-samples, we can make more precise statements about instrument suitability and investment readiness:

We see that of our well represented fields, readiness for commercial finance appears to be more likely in local communities (12% of this field’s organizations state to be able to pay 6% interest or more), youth services (11.8%) and work integration (10%) than in social services (4.3%), culture and recreation (6.1%) and health (6.5%). In addition, work integration and youth services also seem to be quite capable of managing social finance investments with 60% and 52.9% of the organizations in these fields stating that they are able to repay an investment, potentially with modest interest rates. The organizations in culture and recreation and social services not qualifying for commercial finance also appear to be quite capable of handling social finance investments with 48.5% and 44.9% respectively; also, 52.9% of youth services organizations are in the ‘social finance’ group.

It also appears that innovative organizations tend to be more investment-ready than others: 61% of outperformers state that they are investment-ready (with 24% even in the ‘commercial finance’ group, and only 12.2% in the ‘zero-interest’ group). 48.8% of high performers are in the ‘social finance’ group and 8.1 in the ‘commercial finance’ group, while only 37.5% of non-performers are ready for ‘social finance’ and 4.2% of them for ‘commercial finance’. What is more, we see that highly innovative organizations of the outperformer group are even more likely to view repayable low-cost and/or risk capital instruments as suitable or very suitable for financing their growth: While 39.3% of the total sample regard investor equity as suitable/very suitable, 44.4% of the innovative outperformer subsample do; this difference is even more remarkable in the case of interest-free loans which are viewed as suitable/very suitable by 30.4% of the total sample, but by 46.3% of the outperformers; there is also a significant difference for mezzanine (17.7% of the total vs. 27.8% of the outperformers). For debt, there is no remarkable difference, while for all forms of grants and donations, the difference is reversed, i.e. these instruments are seen as slightly less suitable by outperformers than by the total sample.

We may also look at instrument suitability from a different angle: If we make the simple assumption that the lower the cost of capital the higher the rate of social return expected by the funder, then we might say: Receivers of low-cost growth finance need to demonstrate impact much more comprehensibly than receivers of social investment capital, while market-price capital does not require impact measurement at all, since the realization of a financial return serves as the

16 In the underlying cross-table, we have 7 fields with 15 or more cases.
indicator of “success” in this case. As a result, those who see grants and donations as the most suitable instrument for financing growth should also be well-positioned to demonstrate impact and not experience funders’ impact measurement requirements as being too demanding (see section 4.1.1 on Social impact measurement); but the same holds of course for those who deem low-cost repayable capital suitable for financing growth.

When compared with their assessment of investors’ impact measurement requirements, respondents who deem loans, equity or mezzanine suitable for growth are split into two groups: Not very surprisingly, those who would favour loans for their growth do not deem investors as being very demanding (40% of those who would favour secured loans (strongly) agree investors are very demanding, while 50% (strongly) disagree; in the case of unsecured loans, even fewer agree or strongly agree (25%), while more disagree or disagree strongly (75%). What is even more remarkable is that impact measurement requirements of equity/mezzanine investors are very demanding (of those who favour equity 48.1% (strongly) agree that investor requirements are very demanding while 44.4% (strongly) disagree; and in the case of mezzanine, the figures are even clearer: 53.2% vs. 46.8%).

4.1.4. Investors and funders

It might be useful here to recall the difference between funders and investors. When investigating social finance we have to carefully distinguish between financial resources that are utilized on the one hand and sources of income on the other hand. This is often not obvious, since for instance grants and donations (GDs) can either be interpreted as a financial resource or as income. The first mainly applies when donations are given in an un-conditional way to an organization and thus not in return for a specific performance or to support a particular project. When these result from a particular fundraising campaign or from a successful application to a call for tenders they might be seen as sources of income. That is why the survey discriminated between „sources of income“ or „ways to cover expenses“ respectively on the one hand and „instruments to finance growth“ on the other. To put it more succinctly, we have drawn a distinction between „income“ and „instruments“. As this distinction may not be maintained in the discussion throughout (and often is not in the discussion beyond this report), which makes certain ambiguities arise, it is important to bear this difference in mind.

Sources of investment and funding
When it comes to investors and funders, there is one very remarkable result: We see that respondents usually have several sources of finance: 102 respondents (23% of the total sample, or 35.9% of those who answered this question) state five different funding sources; 134 (30.2%/47.2%) have four; and 218 (49.1%/76.7%) have three. Overall, financing from government/public sources is clearly the most important: 34.6% of respondents state that funding either from EU, national or regional/local levels is their most important source of finance.

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17 It needs to be noted in this respect that the questions of the block on Social impact measurement relate to status quo situations, whereas questions 6.7 (Investment-readiness) and 7.6 (Instruments suitable for growth) relate to future situations. Nevertheless, we assume that respondents who provide an answer to questions 6.7 or 7.6 (instead of choosing to opt out or not answering at all) do have some experience on which to base their assessment, even if they do not have past experience with certain types of funders.

18 In terms of total amount innovators receive from various types of investors.
to 34% one of these three sources is the second-most important, while to 26.2% one of these is the third-most important.

Concerning the single most important source of finance, we can say that out of the 34.6% of respondents stating government/public sources as their primary source of capital, 17.3% name local/regional public sources and 13% national ones. Foundations are the most important source to 16.5% of respondents, the ‘3 f’s’ (families, friends, and fools) to 12%, and businesses to 9.9%. Commercial investors seem to play a rather marginal role, with the traditional source of finance, commercial banks, still being the most important financier to 6.7%, while angel investors (2.5%) and venture capital (0.7%) are not yet that important. However, we also need to see that providers of ‘social finance’ are not that relevant yet either: Only 2.5% state that social banks are their most important financier, and to 1.4% impact investors/funds are.

When we look at the second-most important source of finance, we see a rather similar picture, except that businesses are more important as a second source than as a first source: 15.4% state them as their second-most important source. Individual private donors are also quite important as a second source: While only 7.7% state them to be their most important source, to 14.3% they are the second-most important (and to 19.3% the third-most important).

**Match between social innovators and types of investors and funders**

Innovators view the match with certain types of investors and funders very diversely. There appears to be a certain aversion against commercial investors in terms of match between innovators’ strategy and investor characteristics. 33.5% of innovators state that their strategy does not fit with commercial banks while 42% even state that it fits ‘not at all’. Commercial investment funds and individual investors are viewed even more critically: 31.9% of innovators state that their strategy does not fit with them and 45.8% state that is does not fit at all. We get the reverse when looking at foundations (37.2% state that their strategy fits reasonably well with foundations as financiers, and 46% even state ‘very well’) and from government/public/quasi-public sources (38.5 ‘reasonably well’ and 43.5% ‘very well’). It is interesting to see that businesses are also viewed as quite attractive financial partners: Only 10.1% state that their strategy does not fit at all with businesses, while 40.4% think it fits ‘reasonably well’ and 28.2% ‘very well’.

Despite this very clear preference for public funds, concerning the acquisition of funds from public sources, the survey confirmed what we had already learned from our interviews with innovators: They often experience severe difficulties when acquiring funds from public/quasi-public sources – which is not really breaking news. However, we have broken down the problems and identified the most common and the most severe ones: Having asked respondents to categorise problems as an ‘insurmountable challenge’, ‘major challenge’, ‘minor challenge’, and ‘not a challenge’, we may come up with the most common challenge(s) by adding the two answer categories ‘insurmountable’ and ‘major challenge’, and we may derive the most severe challenge(s) by looking at which one has triggered the most ‘insurmountable’ answers. The most common barriers are: Excessive documentation requirements (for application) which a total of 73.3% have stated to be either an insurmountable (19%) or major challenge (54.3%); transaction costs (bureaucracy, administration costs, application costs) which a total of 65.6% experienced as an insurmountable (12.4%) or major challenge (53.2%); excessive reporting requirements (61.5%) and problems concerning the fit between commissioning and procurements procedures and socially innovative organisations (61%). The most severe barriers are also somewhere along these lines: Commissioning and procurements procedures are clearly the most severe problems stated with 24.1% of respondents experiencing them as insurmountable; excessive documentation is the second-most severe challenge (19%) and the fact that the amount available from public sources is
too small the third-most severe (12.6%). Thus, the costs for applying for money and the procedures of public authorities of commissioning and procuring are clearly challenges – much more often than not insurmountable ones – for many social innovators.

4.1.5. Social impact measurement

Concerning questions of financing and support, social impact measurement has relevance primarily in relation to three sources: Customers, funders, and investors. And it is relevant in at least three major aspects: Whether or not it is important to these stakeholders; whether or not it has an influence on the amount of finance the innovator receives from them; and in which way this influence manifests itself. Overall, it can be said that impact measurement plays a very important role, particularly to funders; it does have an influence on the amount of income, funds, and investment, while this differs significantly; and the influence various stakeholders have on impact measurement also differs.

Customers
Customers are very interested in impact measurement: 75% of respondents state that it is of major importance to customers (34.4% agree to this statement, and 40.7% strongly agree). The majority of customers also seem to make their buying decision dependent on impact measurement: 38.9% of survey respondents agree and 26.4% strongly agree that this is the case (while only 21.3 disagree and 5.1% strongly disagree); and the vast majority of respondents are convinced that improved impact measurement would attract more customers: 34.1% would strongly agree and 40.2% would agree to that.

Funders
Of the three stakeholder groups, funders are most interested in impact measurement: 43.4% of respondents strongly agree that it is of major importance to funders, and 44.8% agree. In relation to the other two groups impact measurement also has the clearest impact on respondents’ financial situation: 41.7% of them agree that it ‘has a significant influence on whether or not we get funded’ and 39.9% strongly agree - a combined 81.6%. But it is not only important as to whether or not innovators get funded, but also as to how: 28.8% of them strongly agree that impact measurement ‘has an influence on the terms and conditions we get from funders’, and another 45.5% agree to that as well. However, the majority (56%) agree (33.6%) or strongly agree (22.4%) that the requirements from funders concerning impact measurement ‘are very demanding’.

Investors
In contrast, although it is still important to them, investors do not seem to be as demanding as funders: Only 21.4% of respondents strongly agree that investors’ impact measurement requirements are very demanding, and 19.6% agree. But still investors are very interested in impact measurement and do make their decisions at least partly dependent on it: 37.3% of respondents strongly agree that it has a significant influence on investment decisions while 39% agree to that, 29.8% strongly agree that improvements would attract more investors and another

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19 This does not suggest that respondents have more dealings with funders than investors. There was a filter question before each of the three questions on impact measurement (impact measurement for funders; for investors; and for customers). So only those respondents who actually have funders/investors/customers had to answer this question. So the percentages here are shares of the respondents who have investors (and above those who have funders) – not of the entire sample (see Appendix 3).
29.8% agree to that, and the terms and conditions of investments are influenced by impact measurement according to 27.1% who strongly agree and 35.5% who agree. It needs to be noted, however, that these figures are slightly lower than those for funders outlined above. Accordingly, in relation to funders, investors seem to be more interested in financial performance. The statement ‘impact measurement is not as important to investors as financial performance’ was agreed to by 32.7% (8.6% of which agreed strongly), while the equivalent statement for funders was agreed to by only 24.5% (7.2% of which agreed strongly).

Figure 4-6 – Percentages of respondents agreeing that impact measurement is important to attract funds from funders/investors/customers.

These results are rather unsurprising in comparison to the other two groups, because funders are the group who only receive impact “in return” for their money, while investors receive financial returns and customers receive goods and services. Nevertheless, the overall figures for all three groups do send a clear message: They re-emphasise how important impact measurement is in numerous ways and directions (also see section on Financing instruments).

4.1.6. Risk

It is frequently argued that investing in socially innovative organizations is risky, or more broadly that being innovative is generally risky. As a result, we may conclude that risk is an inherent characteristic of social innovation, but also that certain kinds of risks may hamper social innovation. To learn more about the particularities behind this, we asked respondents which kind of risks inhibit their ability to be innovative, and in which ways.

First, we have to state that the variance between all the kinds of risks we asked about is not very big, i.e. all kinds of risk are seen to hamper social innovation more or less to the same degree, with two exceptions: The first is that being innovative may put respondents’ personal careers at risk; only 9.7% say that this is the case ‘a great deal’, while another 32.9% say ‘to some extent’. On the
other hand, what clearly exceeds all other forms of risk perceived as inhibiting innovation is the financial risk the organization faces when innovating: 49.8% say that innovation risks their financial situation ‘a great deal’, and 38.3% think this is the case ‘to some extent’, so almost 90% in combination. The second-most severe risk appears to be that innovation may trigger overall operational failure (26.3% say this inhibits innovativeness ‘a great deal’ and 47.4% ‘to some extent’), followed by risk of failure to achieve social impact (24.2% and 50.2%) and legal risks (24.3%/44.8%).

Figure 4-7 – Major risks inhibiting social innovators’ ability to innovate (percentages of respondents stating that risks inhibit “to some extent” or “a great deal”)

It appears that risks are perceived by innovators to affect their own organization much more than investors. 51.2% strongly agree that their organization could be much more innovative if financial risks to the organization as a whole were lower, and another 30.6% agree to that too, while only 10% disagree and 3.8% strongly disagree. In comparison, ‘only’ 22.9% strongly agree that risks to investors hinder the organization from being innovative, with 36.2% agreeing to that, while 21.4% disagree and 5.2% strongly disagree. So, while it is rather clear that financial risk is relevant both to the organization and to the investor, it seems to have a greater effect on the innovator, which may be interpreted as an indicator that risks are not adequately spread for fostering social innovation through investment. It is also remarkable that 33.8% of respondents strongly agree and 37.1% of them agree that investors would be more willing to invest if they understood innovators’ business and social mission better. This is interesting when we look at the total picture, particularly at what kinds of non-financial supports innovators value most and what they expect from partnerships (see next section).

4.1.7. Networks and partnerships

Networks and partnerships are important for at least two major reasons. First, when generating capital flows, social innovators have to interact with their environment. This is why we have asked respondents what is important for them when selecting those parts of their environment they are
willing to interact with: It is a basic need for social innovators to find the right partners. Thus, we need to find out what ‘right’ means to them, i.e. we want to learn about valued partner characteristics. And second, we need to know what social innovators need besides financial resources. As the work package is entitled ‘generating capital flows’ we do not take the narrow view and look at financial capital only. Rather we also asked respondents which non-financial resources they value and need.

Partner characteristics
We can see that numerous partner characteristics are highly valued by social innovators. The most remarkable result is that integrity and honesty are valued most: A combined 97.7% find these values either very important (83.2%) or important (14.5%). Almost as highly valued are partners’ competence and quality (71.1% very important and 26.2% important). The general orientation towards a social mission is also underscored by respondents’ assessment of potential partners’ commitment to social values: 64% find this very important and 31.3% find it important. Other items with combined values for ‘very important’ and ‘important’ exceeding 75% of respondents are: Openness and transparency (67.7% very important and 27.6% important), loyalty and teamwork (56.3%/35.9%), willingness to actively engage with us (46.5%/42.7%), creativity and innovativeness (46.9%/41.4%), flexibility (37.1%/48.8%), focus on results and performance (34.2%/48.8%).

The question was not designed to assess which partner characteristics are unimportant to respondents, but in relation to what is really highly valued, we can say that some partner characteristics are not of that much importance to our sample: First, relatively few respondents find a long-term focus on financial results very important (12.6%) or important (35.5%); the second least valued partner characteristic is financial strengths (15%/46.8%), so that combining these two results we may conclude that partners’ financial strengths do not matter very much to our respondents.

The level of non-financial support offered is valued by 19.8% as very important and by 49.4% as important. The qualitative content of what is valued was assessed next.

Non-financial resources
Although most of the non-financial resources asked for are highly valued by our respondents, clearly the most-valued one is access to people. Better identifying what people access is needed, we find that people from the non-profit sector are wanted most: 45.6% of our respondents find access to people and networks with experiences or affiliations with the non-profit sector very important and 41.1% find it important. Yet the business sector seems to be almost equally important (41.1%/42.9%), and the public sector as well (38.5/45.6%). So in combination these three items clearly top the list of the most important forms of non-financial support. The next set of items may be subsumed under a heading such as ‘consulting and skills development’ of which legal advice is the most relevant with 28.8% finding it very important and 40.3% important; also very highly valued are support in PR, branding and marketing (24.5%/45.7%), general capacity building and skills development support (21.1%/46.7%), training and coaching in business skills (23.7%/39.6%). Interestingly, however, financial consulting ranks lowest in relative terms, i.e. ‘only’ 19.3% find it very important and 35.2% important. The latter two results, the relatively low importance of financial consulting and business skills development, are remarkable, because in the literature and our interviews, the proposition that social innovators need to develop better business skills and in particular their financial literacy is frequently put forward. Innovators themselves, however, do not seem to value this to the same degree. What is instead also highly valued is a set of items that may be seen as ‘quasi-financial’ resources or substitutes for finance which are often not so much in the focus of attention: Volunteer support is found important by
31.5% and very important by 44.4%; the provision of physical space is valued as being very important by 33.5% and important by 32.3%; and 66.3% see technical support as very important (23.1%) or important (43.2%). An additional remarkable result is that more than ¾ of social innovators appear to be sort of isolated and lacking ‘someone to talk to’: 30.7% value support in the form of acting as a critical friend as being very important, and another 45.4% say this is important.

Figure 4-8 – Major non-financial support needs (percentages of respondents stating that these types of support are important or very important)

Overall, the results illustrate that non-financial support is very important, particularly access to peers, like-minded people, and ‘door-openers’. It appears that exchange and discussion among innovators is highly needed, and that the people innovators want to act with should be trustworthy, open, and like-minded concerning the commitment to social objectives. What is also remarkable is that physical and technical support is valued so highly.

4.2. Matching Model

In this section, we will tie our findings together and develop a matching model. The model will serve the following functions: First, it will provide and serve as an overview of the various categories outlined in the previous sections; and second, it will serve as an input for scenario analysis, where we will raise questions such as: How are types of innovations fostered/hampered in different scenarios, or how are different scenarios made more likely if certain types of innovators and/or investors are promoted?

The model is based on actors’ needs. The rationale behind this is derived from the overall agenda of the work package, which is to generate capital flows for social innovation. In order to promote this, we need to know the needs of those who deliver social innovation concerning capital flows; then we need to know the needs of those delivering the capital flows; and finally, we need to know how the two sides fit together. So the next step after compiling all needs from both sides is to see whether and how they fit. It is also important to acknowledge that different types of social
innovation have different needs, if we want to promote certain particular kinds of innovation. This may be seen in a variety of different terms: We see that different income models of social innovators have different capital needs, and the types of investors ready and in the position to fund these needs have particular needs and requirements in relation to income models; we may also see that highly innovative organizations have special capital needs; and also fields of activity may influence both the kinds of innovators’ capital needs and investors’ ability and/or willingness to meet this demand.

4.2.1. Innovator needs (Characteristics of demand)

In our research we have seen that the field of social innovation has a number of capital needs. In the following section, we will outline these needs. Of course, first of all there are various financial needs which will be discussed individually. But besides that, our research has also confirmed what had been written in the literature (please see literature review in the deliverable 4.1 and 4.2 report): There are still vast unmet needs for non-financial support, networking and co-operation. That is, the needs to acquire or activate social capital will also be outlined here. And what is more, we will also shed light on the relationship and the dynamics between forms of financial and non-financial forms of capital and potential strategies to foster progress in the social innovation field based on this enhanced understanding. We will start with a number of financial capital needs which in some cases are not mutually exclusive; then we will outline the most pressing non-financial needs.

**Income**

As we have seen, the acquisition of external repayable capital is not overly popular as an option to finance growth. Instead, social innovators prefer to use their ‘regular’ income streams, i.e. they have a preference for organic and continuous growth and innovation, not least because income facilitates independence from investor influence and thus allows for the degree of flexibility in the use of funds which may be necessary for innovation. Thus, revenue streams are among the most popular and suitable capital flows for social innovation. Of course, this is rather straightforward and obvious, but it nevertheless needs to be emphasized, since in the field there seems to be a tendency to focus on external financing instruments while obvious and practicable ways of financing social innovation are overlooked. The results of interviews and our online survey showed that this ‘investment bias’ has to be overcome for many areas in which social innovation takes place but cannot generate enough returns to pay off an investment and even a surplus.

As we have seen above (section 4.1.1), innovators’ future plans have a clear tendency to generate more income from market sources. 38.2% of respondents plan to cover more than 50% and 20.8% plan to cover more than 75% of their expenses from market income by 2018 (as compared to 5.8% who have covered more than 50% of their expenses from this source and 16.3% more than 75% in the past fiscal year). Therefore, it is particularly important that markets are established and/or developed where income from social innovations can be generated. Therefore, a particularly urgent need is for better access to income from public procurement contracts. As we have also seen, access to public grant income is hampered by a number of difficulties and barriers; the same holds for market income from public sources via procurement processes of public agencies which could provide much more income to social innovators than at the moment, and it would even be a win-win situation in which public agencies receive goods and services directly in return.

**Capital from grants and donations**

As we have also seen, one of the most remarkable findings is that almost half (48.4%) of our sample (and interviews suggested this, too) is what we labelled the ‘grants and donations type’, i.e.
organizations covering more than 50% of their costs from grants and donations. And the vast majority of social innovators are not in a position to afford capital at market costs, and still a substantial share are not even positioned to pay back investments (see section 4.1.1 on Financing instruments). Correspondingly, repayable or even interest-bearing financing instruments are not in widespread use. And they are often not deemed appropriate and suitable to finance the growth plans that the majority of innovators have. Thus, we can say relatively clearly that grant finance does and will continue to play an important role for social innovation in general. However, we can say that, the need for grants and donations seems to be particularly prevalent in the youth services field where 68.8% cover more than 50% of their costs from grants and donations, in work integration (64.8%), health (63.3%) and in social services (60%).

We cannot say that there is a significant correlation between innovativeness and the need for grants and donations. Of our ‘outperformer’ subsample, 17.6% covered more than 90% of their costs from grants and donations, while for the entire sample it is 19%, and while 48.4% of all respondents covered more than 50% of their costs from this source, 50% of the outperformers did.

**Low-cost (patient) capital**

We have seen that lots of our respondents are not entirely dependent on grants. Instead, compared to the strictly grant-dependent (‘not investment-ready’) group and the group which self-assesses its financial strength to be in a position for commercial investment, the ‘social investment’ group is the largest one in our sample. This provides the field of social innovation with the opportunity to attract capital from investors who are not willing to give their money away. Instead, these investors can be seen along a spectrum: Investors with zero-interest but repayment expectations on one end, investors who are willing to ‘sacrifice’ a minimal share of their financial return for social impact on the other end, and those in between (see section 4.3.3 on Types of resource providers). So it is promising to see that there is a potential supply for the needs of the ‘social investment’ group, ‘potential’ meaning that it is still a long way to go before the quality and quantity of supply and demand correspond exactly. Particularly for innovative outperformers low-cost capital seems to be an attractive option (see section 4.1.1 on Financing instruments). Low-cost capital generally takes the form of low- or zero-interest loans (as opposed to ‘supportive capital’ which comes in (quasi-)equity forms).

**Risk capital**

Innovation in general is risky, and social innovation may be seen as even more risky, because it tends to be even more complex than technological innovation. Thus, if social innovation is to be financed by acquiring external capital, there tends to be a higher risk premium on that capital. So, this category may overlap with most other forms of capital outlined here. However, if we talk about “traditional” risk capital, we refer to venture capital, i.e. capital usually in the form of equity or mezzanine and with relatively high rates of return between 8% and 25%. Besides these return rates to account for the risk involved in the investment, the investor usually has extensive co-decision rights – which is often very welcome by investees, since the investor may provide valuable advice and network access.

As we have seen, a small group of our survey sample may afford to acquire risk capital, and a substantial number of these respondents view equity and/or mezzanine as suitable instruments to finance their growth plans.

It may be reasonable to assume that the availability of risk capital may be improved, if efforts are successful to lower risk premiums. This may be done by spreading risks among more shoulders, so
that the investor does not end up with the risk for which the investee pays high premiums. Or it may be done by the means of default guarantees given by third parties, such as foundations.

‘Supportive’ capital
This category overlaps with some others, especially with the previous one. While many innovators seek autonomy and independence from external influences, others tend to seek more involvement of externals to provide help and support in developing their organization. So this is what venture capital investors usually provide. Now supportive capital in contrast may be distinguished from risk capital in that the risk involved may not be as extensive, or it may not play such an important role to the investor. Overall, risk does not play such a prominent role in this type of capital need, and neither do risk premiums. So, we may mention venture philanthropy as the most obvious example of filling this need, i.e. strategies for combining the benefits of venture capital (extensive organizational development support) and philanthropy (capital at very low or no cost).

Of course, this beneficial combination of no/low-cost capital and investor support is favoured by extensive shares of the innovator landscape. Two indicators are very straightforward: First, we see that the most favoured instruments deemed suitable for financing growth are those with no or low capital costs: Grants and donations from various sources as well as interest-free loans (see section 4.1.1). And second, we have also seen that there is extensive demand for non-financial support in business skills, capacity building and access to people and networks (see section 4.1.1). The core ‘target group’ of those in need of supportive capital may be seen as those organizations where both of these indicators are present simultaneously. Supportive capital may come in the form of low- or zero-interest debt, but tends to take the form of (quasi-)equity, because this extends the possibilities for investor engagement.

Flexible capital
Another need frequently voiced by innovators is for more flexibility and autonomy. That is, they have capital needs but do not want to have extensive co-decision or demanding reporting requirements tied to their financial plans. There are several options. The most obvious one is to generate enough income from sources that allow flexibility, such as market income. The second is to take a loan. The best indicator for assessing the size of the group in need of flexible capital is derived from identifying those who deem loans suitable and would be able to repay them.

Long-term capital
Interviews revealed and the online survey confirmed that a substantial share of those social innovators who seek repayable funds need long-term capital. To a certain extent, the relative preference by online survey respondents for equity and interest-free loans confirms what has been voiced in many interviews: Business models of social innovators often take more time to develop and mature than those of ‘regular’ business entrepreneurs. Paying off investment capital appears difficult or impossible to a substantial share of innovators, while nevertheless they can imagine making use of patient capital instruments. This of course overlaps with other kinds of social innovator capital needs. Long-term capital may take a variety of forms. The instrument used determines who carries the risk and how extensively the investor gets involved in decision-making.

Varying amounts of capital
Large amounts versus small amounts: We have seen that the amounts required vary widely. Growth capital to build and extend organizational capacities requires amounts of finance of €100,000 and above, and there seems to be shortage of low-cost capital of that amount. Another gap for some social innovators appears to be the area of €25,000-50,000. Some innovators state that in comparison it is relatively easy to secure funds below these amounts. Some of them are
therefore thinking about and testing ways to combine various sources of these smaller amounts in order to achieve sort of interrelated leverage effects. This emphasises and reinforces the need for increased collaboration between various types and groups of investors and fund providers as well as the need for more intermediaries and a better field overview.

Non-financial support
Non-financial support is of particular importance, which has – once more – been clearly confirmed by both interviews and online survey results. The types of support needed are highly diverse, however, and our work has shed some light on potential differences. Most of the sample appear to want to share experiences with peers. This may be attributable to the fact that innovation triggers insecurities, doubts and the need to learn as much as possible from others. This may also be the reason why access to networks is among the most prominent non-financial support needs. The calls for investment readiness voiced by investors (see section 4.2.2 on Investor needs) may also trigger the need for more pro bono support to help innovators become investment-ready (quite often, the costs to investors in getting or keeping innovators investment-ready are emphasized, while the substantial costs innovators themselves incur during this process are overlooked). A third category of important non-financial support is the demand for physical space and technical support.

Field overview
The need to get a better overview of actors, networks, opportunities, etc. in the field was raised as a critical issue in many interviews. Many innovators do not know where to go with their capital needs. The demand for central national platforms to get information from and possibly also exchange experiences with peers was raised.

Networking and co-operation
Both access to networks and access to peers are urgently needed forms of non-financial support. This includes softer forms of support such as the need to exchange experiences and learn from one another, as well as opportunities to co-operate in investment issues. It is becoming increasingly clear that the latter, enhanced co-operation between different investors, intermediaries and other types of supporters, is needed to combine advantages of various financing logics and instruments as well as to balance off their disadvantages. Good examples are loan guarantees or interest subsidy schemes, both being very common instruments in the business sector, but rarely used for and by socially innovative organizations.

Risk reduction
As we have seen, several kinds of risk hamper social innovators from being innovative (see section 4.1.1 on Risk) which was also a prominent theme in both investor and innovator interviews. Thus, risk reduction, particularly reduction of financial risks, is among the most pressing needs for innovators (and investors as well). A crucial aspect is that investors need to understand social innovation better to increase their investment risk sharing willingness. But it also needs to be emphasized that not only are financial risks seen as a problem, but also the risk of loosing operational autonomy, legal risks (which could be lowered through more political support) and – what may be particularly interesting for social innovation research – the risk of not achieving social impact. The latter is often seen in debates about impact and other forms of social investment where financial risks are often overemphasized while the risk of not achieving social impact does not play any role since the achievement of social impact appears to be taken for granted.

Valuing environmental/social impact
Interviews with innovators as well as with investors revealed that the social/environmental value created by social innovators is often not adequately accounted for when investment or funding is
to be acquired. This claim was particularly raised by innovators as a severe barrier to achieving more impact or a certain long-term organizational stability and sustainability.

This issue was not assessed directly in the survey. But we find an indicator for it when we look at what was asked about the relevance of impact measurement (see section 4.1.1). It appears that impact measurement is of major importance both to investors and to funders. However, it seems to influence whether or not social innovators receive investments/funds significantly more than the terms and conditions of the investment. So the dynamics, the process, content, quality or development of impacts seem to be less important than the state of impact assessment before the investment/funding. In total, 25.4% of respondents say that impact measurement has no influence on terms and conditions from investors and 18.3% say it has no influence on the terms and conditions they receive from funders. It is fair to conclude that this is an indicator for the claim that social value creation as expressed in positive development of impact assessment indicators could be better valued by investors and funders. This is particularly the case where no/low-cost capital is needed (see above), because in these cases the investor is supposed to waive (part of) his/her financial return ‘in exchange’ for social impact. So the availability of this form of finance depends crucially in how much the investor/funder actually values social impact and its measurement.

Reasonable reporting and accounting duties
Whereas business ventures may access various forms of finance based on a relatively limited amount of information to be provided to investors, the nature of social innovation is too complex to attract investors that easily. Thus, mission-oriented organisations in general and social innovators in particular often face challenges in meeting documentation requirements, both in advance of an innovative endeavour (application) and after the activity (reporting). The content and extent of this problem vary depending on investor/funder characteristics: As we have seen, the acquisition of funds from (quasi-)public sources is a significant and widespread challenge, because it either costs too much to apply for or the commissioning and procurements procedures of public buyers do not fit with socially innovative organisations. The practice of payment by results which is becoming increasingly popular among public funders appears to put a reporting burden on social innovators.

Political support
The need for more political support is very diverse: Support could be given by granting tax deductibility for investment in social ventures. Adequate legal forms for social innovators do not exist in all countries surveyed and/or are not entirely suitable yet, so that improvements should be made. Then the state could step in as an intermediary and/or support intermediaries, e.g. for setting up urgently needed networks, platforms, and exchange hubs. It has also become clear that legal risks are one of the more severe forms of risk innovators face. So more political support is also needed to improve the overall legal environment and to reduce legal risks.

4.2.2. Investor needs (Characteristics of supply)
Before looking at investor needs, we should first recapitulate what our notion of investors\(^20\) in social innovation comprises. As laid out in Deliverables 4.1 and 4.2\(^21\), we assume that investing in

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\(^20\) When we talk about investors, we may need to differentiate between individuals or institutions providing capital (such as bank depositors, foundations, high net worth individuals, angel investors, etc.) and individuals or institutions allocating capital (banks, investment funds, etc.). They may often overlap (as in the case of foundations), but frequently they do not, and the allocators are
Social innovation is predominantly done by means of what is termed as ‘social investment’. Here, three notions should be distinguished: (1) Financing social economy organisations and the related development of adequate capital market institutions and instruments;22 (2) the use of money to achieve both social and financial goals23; and (3) a broader concept of social investment, i.e. an integrative concept for third sector research with the aim of capturing multiple forms of common welfare-oriented practices in various sectors, with the primary implication that neither investment inputs nor returns are conceptualized in monetary terms only.24 Regarding these different interpretations, we adopt the second usage of the term and take ‘social investment’ to mean the use of money to achieve both social and financial returns, i.e. the process of resourcing organisations, projects, or individuals committed to meeting social needs with monetary capital.25

Therefore, when we look at investor needs, we see that they primarily can have two components: Financial return and social return (social impact). It is often assumed that there is always or at least very often a trade-off involved in (social) investment between financial and social returns (which is then not only the case in investing but in any economic activity).26 However, that does not

therefore sometimes referred to as intermediaries. To simplify language, this differentiation will not be made in this document. Instead, the term investor herein refers to allocators of capital, whether or not they actually own the funds, unless stated otherwise.


25 As the work package is intentionally entitled “Generating capital flows” (and not, for instance, “Generating finance flows”), we also have to keep the third notion of social investment outlined above in mind, which means that besides funding other forms of capital have to be noted and accounted for as well (as clearly shown in the Innovator needs section). However, since these non-financial needs have been assessed in the course of the work package primarily from innovators’ perspectives and in terms of innovator needs, the providers of non-financial resources (volunteers, pro-bono service providers, etc.) will not be covered explicitly concerning their needs, as long as they do not fall under one of the actual investor categories.


necessarily have to be the case; instead, social and financial returns can and quite frequently do go hand in hand in a positive correlation. Nevertheless, we can categorize investors on the basis of their orientation towards returns and their principle preference for either financial or social returns – or a blend of both. Although the latter is becoming increasingly popular, traditionally we could distinguish between conventional investors on the one hand and grant providers and donors on the other. Under the premise of conceptualizing social investment to mean the use of money to achieve both financial and social returns, both conventional investors and grant-givers/donors are excluded conceptually from the notion of social investment: The only ‘need’ of conventional investors are financial returns, while the only ‘need’ of the latter grant-givers/donors are social returns. However, to simplify language, we will include the entire spectrum of investors in this section, refer to actors along the entire spectrum as investors, and make the relevant differences clear where appropriate. Thus, the spectrum of investors covered in this section can be arranged along a continuum of return expectations:

Table 4-1 – Spectrum of investors and funders

<table>
<thead>
<tr>
<th>Commercial investors (Full market return)</th>
<th>Impact investors (Blended returns)</th>
<th>Grant providers, sponsors, donors (Social/ecological return)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conventional investors</td>
<td>SRI investors</td>
<td>Finance first</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Impact first</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Philanthropy (primarily Foundations)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>State/Public support agencies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Corporate sponsors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Private individuals</td>
</tr>
</tbody>
</table>

For a detailed description of these types of investors, please see section 4.2.2 of Deliverable 4.1/4.2. In order to present ways for advancing the social innovation field, we need to analyse these types of investors concerning their needs. This is a prerequisite for matching these needs with innovators needs with the final objective of generating capital flows for social innovation.

As the needs of investors in social innovation were not part of the online survey (please see Methodology section, 3.), they were compiled based on each TEPISIE partner’s interviews. At first sight, they are relatively straightforward and primarily consist of different combinations of social and/or financial returns. The categories of investors built on that basis are not really clear-cut, but instead are intended to represent a heuristic construct for the purpose of describing their rationales and resulting needs in resourcing social innovation. In the following sections, investor needs will be compiled, discussed and associated with the three major investor groups commercial investors, impact investors, and grant providers, sponsors, donors, etc.

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Financial returns
On the left-hand side of the figure, we have purely commercial investors who are (within certain legal boundaries) only interested in financial returns. That does not exclude them from investing in social innovation – to the contrary: As we have seen, ‘normal’ bank loans are relatively common among social innovators. However, social innovation is not what these investors aim at. Then we have some types of investors subsumed under the socially responsible investing (SRI) heading. They overlap to a substantial degree with ‘finance first’ impact investors: Both types aim at generating financial returns and make a positive difference for society and/or the environment; but SRI investors differ in their approach and requirements/needs:

- Financially, SRI investors ‘need’ market rates of return. They usually invest in mature industries of the regular business sector, to a very large degree in shares of traded companies;

- Their social return expectations are very often primarily environmental ones. A substantial share of SRI aims simply at avoiding negative social/environmental impact of their investments (‘negative screening’); however, there is also a substantial share that is more proactive in positively screening those investments that are ‘best in class’. Overall, the social impact tends to be very much subordinated to the financial return objective. Also, in terms of social impact, SRI investors do not screen for the most innovative approaches. So overall, social innovation is not among their primary interests, which is also mirrored in our interview sample.

Nevertheless, as social innovation is becoming an increasingly interesting topic for businesses to invest in (as part of their corporate social responsibility programs), it may – via this indirect route – become also more important for SRI investors in the future. Here, further research is needed to assess whether SRI investors are potentially in the position to play (more) important roles in resourcing social innovation.

So, overall the relationship between commercial investors and social innovation is rather indirect. As a result, the ‘needs’ commercial investors have concerning social innovation are fairly straightforward: the innovation needs to generate market-rate financial returns at reasonable risk. If it does, then the investor may take the social return as a welcome additional value. This is where commercial investment overlaps with or becomes SRI. In return, this type of capital provides the investee with very high degrees of flexibility concerning its use and application which is why it is – among repayable instruments – quite commonly used by social innovators.

Besides financial returns, investors have varying numbers and degrees of alternative or additional needs regarding social innovators and also to other actors in the field as a whole. Various types of actors have these needs to varying degrees. It rarely happens that any single type of investment actor does not have a specific need at all. For instance, even commercial investors do have the need for investment readiness of their investees, the need for government support, and sometimes the need for intermediaries. But nevertheless, some investment actors have more profound and diverse needs. It is fair to say that blended value investors have the broadest set of needs, and as a group, they also have the most diverse needs regarding social innovators, because the relative shares of financial and social returns in their targeted return mix may vary so widely within this group. The most apparent needs are financial returns and impact demonstrated by accepted measurement tools. But they also need investment readiness, legitimacy, willingness to co-operate, the right scales of investment, the right risk-and-return ratio, efficiency in valuation schemes, intermediaries, network access, and political support.

Social/environmental impact
The need to demonstrate, to measure and to evidence social/environmental impact is most frequently voiced by investors. Yet there are numerous and often severe difficulties with impact measurement. In interviews and in the scholarly debate on social impact measurement, there is
general consensus that whereas outputs can be measured, it is notoriously difficult to do that for
one of the most severe barriers in the entire social sector, because impact investors as well as grant
providers, donors, sponsors, and grant providers are increasingly interested in seeing that their
funds actually make a difference.

The extent and content of the need for impact measurement or at least demonstration varies
substantially depending on different types of investors. First of all, there is a widespread need for
quantitative impact assessment. This is relevant at least in two instances and for two central
applications: First, the milestone logics used by impact investors as part of the terms and
conditions of their investment contract; and second, the payment by results logics of public funders
which increasingly tie the (continuation of) payments to the achievement of goals defined in
quantitative terms. And besides these two logics impact measurement must serve, a possible third
instance in which quantitative data may be better than qualitative data is when investment
intermediaries want to acquire (new/additional) capital from institutions or individuals (mostly
“High Net Worth Individuals”, HNWI), since figures may be more persuasive to some of them than
text or other forms of impact demonstration. Then the need for impact measurement may also
take the form that the impact does not necessarily have to be quantitative, but demonstrable,
comprehensible, and to a certain extent standardized. This holds particularly for funders in
institutional settings, such as foundations, business sponsors or public agencies, where decision
structures are set up around standardized reporting and accountability systems. These systems are
also needed for internal decision-making and accountability reporting, but also as bases for
legitimization of these institutions towards their own respective stakeholders.

And finally, investors – predominantly the very important group of private/individual donors – may
have the ‘need’ for impact which they can see and understand, potentially even associate with
emotionally (e.g. pictures of the devastation of Haiti in the wake of the earthquake led to lots of
individuals giving money). This need may not be so well satisfied with quantitative data, but rather
with pictures or even films or other media. While the debate on impact measurement tends to
focus on the first two categories, this latter need should not be underestimated, particularly if we
look at the importance that donations from private individuals still have (see section 4.1.1).

Regardless of the form it is required in, it is fair to say that impact measurement is becoming
increasingly important for investors as financial return expectations decrease. That is, where there
are few financial returns, impact measurement will be critical. Impact then is a sort of ‘substitute’
for financial returns – or in the case of blended value investors it is a complement, the importance
of which is partly dependent on the level of financial returns expected.

Due to the continuous importance of low-cost capital to social innovators as well as the increasing
importance of blended value forms of investment, impact measurement is among the most critical
of needs for the social economy in general and for social innovation in particular. It is particularly
important to demonstrate that social innovation is effective in solving social problems which is
necessary to attract additional income from the public, from HNWI, from private individuals, and from other sources willing to provide capital for low or no returns.

**Investment readiness**
Concerning financial returns from investments in social innovation, we have to emphasize that investors often face problems concerning investment readiness of social innovators. That is, innovators do not have the business model capable of generating enough income and costs low enough to repay an investment plus returns. As a result, investors need to step in actively, sometimes before the investment is taken, but usually after it has been taken, to consult innovators concerning their business model to make it is sustainable and will generate the necessary return from whatever sources. This is quite normal practice in the venture capital industry from where many finance first impact investors are rooted and to whom they still have links. However, this is not only a cost-intensive process which cannot start at nothing, so a certain minimum degree of investment readiness must be in place, but it is also a highly difficult, complex and sensitive task.

**Social innovator co-operation**
As a result, the willingness of the innovator to co-operate extensively based on his/her perception that this form of investment is legitimate is absolutely crucial. However, as we have seen (section 4.1.1 on Investors and funders) this is not at all a very widespread attitude. Therefore, besides investment readiness the willingness to receive investment and abide by its terms and conditions is still a fairly substantial barrier in Europe’s young impact investment field.

**Investment data**
And even in cases where this general willingness and readiness exists there may still quite often be problems with the data available to facilitate an investment which is often less than what would be needed. Investors would normally need a track record, proof of experience, and three years’ balance sheets and accounts. Of course, for investments primarily financial data is imperative, but also data on the social mission is of major importance. Yet in the fields where social innovators are active, both kinds of data may be difficult to gather in satisfactory ways. In addition, innovation and even more so social innovation are notoriously hard to quantify. Thus, it is almost impossible to express the entire investment in quantitative data terms.

**Adequate risk-and-return ratio**
As a result, we may end up with high perceptions of risk: It is extremely difficult to see where a socially innovative venture will go and how it will develop. Therefore, we have high degrees of risk, both financial and social risk (for more information on the innovators’ perspective, which may serve as a complementary indicator for investors’ needs concerning risk, please see section 4.1.1 on Risk) – although the latter is often not really taken much care of in impact investing. But based on interviews, we can also say that experienced impact investors do not necessarily see higher risks in social innovation investments. Instead, they see social innovators as having relatively more reliability, endurance, and integrity based on higher ethical-moral standards than ‘regular’ business entrepreneurs have. Nevertheless, they have less attractive risk-and-return ratios, since their return prospects are usually lower. So taking that into account, risk-and-return ratios in social innovation investment are a commonly known barrier – even if risk is equal to or even a bit lower than ‘regular’ investments – and attractive ratios of risk and return are among the most visible investor needs. This is a particularly sensitive issue, since we have seen (please see the section on Risk reduction in 4.3.1. Innovator needs) that social innovators perceive their situation and ability to innovate as being negatively affected by various kinds of risk, and that they strive for lower risks and/or a better spread of risk between actors involved and beneficiaries.
Lower transaction costs
Another closely related issue is transaction costs, because they have profound influences on the net returns of an investor’s overall portfolio. To compile an investment portfolio, investors encounter substantial costs (transaction costs) before and after investments are actually made: Prior to investments, they have to screen the market, analyse investment applications, conduct the due diligence, etc.; all of that is very hard or impossible to standardize, i.e. standardized investment procedures are hardly applicable in social investment. After the investment, as outlined above, the investor frequently has to co-operate closely with the investee to make the investment work and generate returns. That is, the overall investment process produces costs that are not directly creating value. Actors in the field frequently voice the urgent need to lower these transaction costs. To keep them low, the investor has to have efficient screening and valuation schemes, and again, s/he needs the relevant information from the prospective investee and/or from intermediaries. And what is more, s/he needs scales of investments that allow for covering transaction costs. In the case of finance first impact investing which usually takes the form of (and produces costs like) venture capital, the appropriate minimum amount of investment to adequately cover transaction costs is about €200,000 as stated in the investor interviews. This is an amount that many social innovators are not ready and/or willing to take and assume the risks attached to it (given that many of them are young and fairly small; please see section 4.1.1). But the logics of impact investing in social innovation require a certain minimum amount, since below that the costs of that logic cannot be covered sustainably in the current social innovation environment.

Intermediaries
Besides the needs investors for blended value have towards social innovators, there are a number of needs that they have towards the wider field. The most urgent one is the need for more intermediaries in order to lower transaction costs for both investors and investees. To do that, intermediaries will have to perform some of the activities currently undertaken by these two parties: Screen the field for potential investments and investors, respectively, collect, process and store necessary data to set up a sort of ‘investment pipeline’, increase overall transparency in the field, and provide access to people and networks.

The latter is gaining importance since the obstacles and complexities involved in investing in social innovation, particularly but not restricted to blended value investing, raise the need for increased collaboration between different types of actors. For instance, to balance off risks, to bear part of the capital costs (e.g. by means of interest rate subsidies) or to leverage resources (e.g. through matching fund models), it is becoming increasingly clear that the strength of different actors must be combined more effectively in order to make better use of existing capital and to mobilize additional capital (see 4.3.4). But collaboration requires coordination, and that is best established by intermediaries with the necessary network access and facilitation skills.

Political support
Political support is one of the most urgent needs of investors (as well as of investees). There are two kinds of support that played fairly prominent roles in interviews: First, calls for tax incentives for social investment are becoming increasingly voiced in interviews and in the social investment

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Second, political support is indirectly needed by investors, because it is required to increase or stabilize income streams of social innovators which are required to pay back investments (see section 4.3.1 on Innovator needs), i.e. bureaucracy in grant provision and procurement procedures have to be improved.

4.2.3. Matching innovator and investor needs

Based on previous sections we can combine innovator capital demands with some central characteristics of supply, i.e. investment logics certain types of investors commonly use and how they shape the relationship with the investee. These modes of operation exclude some forms of investment and funding. For instance, conventional investors do not provide grant finance, and foundations generally do not invest in venture capital logics. Thus, the following combinations of innovator capital needs with funder/investor types are possible:

Table 4-2 – Match between innovator capital needs and investor/funder spectrum

<table>
<thead>
<tr>
<th>Types of investors</th>
<th>Conventional</th>
<th>Impact (Finance first)</th>
<th>Impact (Impact first)</th>
<th>Venture Philanthropy</th>
<th>Public support agencies</th>
<th>Corporate sponsors</th>
<th>Foundations</th>
<th>Private individuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant capital</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Donations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low-cost capital</td>
<td></td>
<td>✔</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk capital</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supportive capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flexible capital (loan)</td>
<td>✔</td>
<td>✔</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flexible capital (income)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term capital</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✔</td>
</tr>
</tbody>
</table>

In principle, more combinations than these are possible. For instance, public support may come in more forms, and corporate sponsors could also provide different kinds of support. But what is displayed here are more of the widespread instrument practices. To generate capital flows, these investor-investee relationships need to be established, stabilized and/or improved. It has turned out that four dimensions are recurring themes of high relevance in literature, investor and innovator interviews, and our online survey: Financial returns, non-financial returns (impact and its measurement), risk (in relation to the achievement of the intended returns), and non-financial

support. Therefore, investee-investor relationships are structured around these four dimensions and along the following lines:

- **Financial returns:** Cost of capital to investee
  - High: Market rate plus high premium (LIBOR + X)
  - Moderate: Market rate plus regular premium
  - Low: Market rate minus discount
  - None: Repayment without returns
  - Goods and services (as equivalents to financial returns in procurement or sponsorship relationships)
- **Non-financial returns (impact measurement):**
  - Quantitative dimension (extensive, moderate, limited, none)
  - Qualitative dimension (standardized, bespoke, visible)
- **Non-financial support:**
  - What types of support are offered (consulting (business/organizational), access (to people, networks))
  - How much (Extensive, moderate, none)
- **Financial risk:**
  - Level (high, moderate, low)
  - Main risk taker (investor, investee, shared)

### Commercial investors

<table>
<thead>
<tr>
<th>Innovator needs</th>
<th>Relational dimension</th>
<th>Financial returns</th>
<th>Social returns (Impact measurement)</th>
<th>Non-financial involvement</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk capital (VC logic)</td>
<td>High</td>
<td>None</td>
<td>Consulting and access; moderate</td>
<td>High; shared</td>
<td></td>
</tr>
<tr>
<td>Flexible capital (loan)</td>
<td>Moderate</td>
<td>None</td>
<td>None</td>
<td>Moderate; investee</td>
<td></td>
</tr>
<tr>
<td>Long-term capital</td>
<td>Moderate-high</td>
<td>None</td>
<td>None</td>
<td>Moderate; investee</td>
<td></td>
</tr>
</tbody>
</table>

Innovators are still very much using capital from commercial investors because of the relative ease of acquiring it, moderate cost, and the flexibility in its use with no reporting requirements tied to it. Low-cost and supportive capital is rarely offered by commercial investors. Risk capital is available only if the innovator meets regular VC requirements and comes at high costs. Its high capital costs may be reduced if the risk could be spread better (e.g. through a default guarantee) or interest subsidies provided by a third party.

**Impact investors (finance first)**

<table>
<thead>
<tr>
<th>Relational</th>
<th>Financial returns</th>
<th>Social returns</th>
<th>Non-financial</th>
<th>Risk</th>
</tr>
</thead>
</table>

35 Other important kinds of non-financial support (physical space, technical or volunteer support, etc.) are usually not offered by investors.
Financial return expectations would normally not allow low-cost capital to be provided by finance first impact investors, because their investment logics require at least moderate returns. Such moderate capital costs would be possible if third parties subsidize returns and if the investment is not subordinated (low risk to investor).

As impact investors are characterized by the intention to actively engage with investees, forms of flexible capital are not among their offerings. Their social return expectations are high, but in case of conflicting objectives (situations of trade-offs between financial and social returns), they are generally moderated and subordinated to financial returns. Impact investors usually have a certain investment time horizon, which is not very long-term-oriented. If long-term capital is provided, it will take the form of (quasi-)equity to ensure that the investor can actively participate in decision-making.

**Impact investors (impact first)**
Impact first differs from finance first in that the investor is more interested in achieving impact by accepting some potential disadvantages, such as higher risk and/or lower financial returns which is why they can principally offer low-cost capital. In turn, social return expectations are extensive and leave little room for moderation: In case of conflicting objectives, financial returns are generally subordinated to impact. In terms of non-financial support, it does not differ from the finance first approach. Thus overall, impact first is a more attractive approach from innovators’ perspective. Impact first investors have an investment time horizon which is a little longer that finance first investors. But also here, if long-term capital is provided, it will take the form of (quasi-)equity to facilitate co-decision rights.

(Visit) Philanthropy

<table>
<thead>
<tr>
<th>Relational dimension</th>
<th>Financial returns</th>
<th>Social returns (Impact measurement)</th>
<th>Non-financial involvement</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovator needs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant capital</td>
<td>None</td>
<td>extensive individual and bespoke; limited visible</td>
<td>Moderate access support; limited consulting</td>
<td>Moderate; investor</td>
</tr>
<tr>
<td>Low-cost capital</td>
<td>None</td>
<td>Individual, bespoke; extensive</td>
<td>Moderate access support; limited consulting</td>
<td>Moderate; investee</td>
</tr>
<tr>
<td>‘Supportive’ capital</td>
<td>None</td>
<td>extensive individual and bespoke; limited visible</td>
<td>Extensive access and consulting support</td>
<td>Moderate; shared</td>
</tr>
<tr>
<td>Long-term capital</td>
<td>None</td>
<td>extensive individual and bespoke; limited visible</td>
<td>Consulting and access; moderate</td>
<td>Moderate; investor</td>
</tr>
</tbody>
</table>

Grant capital may be provided either with or without additional non-financial support. The latter is provided by venture philanthropists and operational foundations while the first is the traditional approach of non-operational foundations (see below). Venture philanthropy is among the most attractive financing approaches for social innovators, because it combines all advantages of low cost capital and non-financial support. As philanthropy principally excludes financial returns and normally even repayments, all forms of repayable capital are not within its range. However, interest-free loans (low-cost and supportive capital) do have important roles in venture philanthropy, depending on whether or not the legal form of the philanthropist allows them.

Public support agencies

<table>
<thead>
<tr>
<th>Relational</th>
<th>Financial</th>
<th>Social returns</th>
<th>Non-financial</th>
<th>Risk</th>
</tr>
</thead>
</table>

Public agencies normally do not provide repayable instruments directly. They may do so via intermediaries such as the German KfW Bank, a quasi-public bank supporting the German economy and public as well as foreign aid programs. It normally provides low-cost capital. Recently it has started a program to support social entrepreneurs match funding with other co-investors. Although this approach may be subsumed under finance or impact first impact investing approaches, we see that risk is more evenly spread when the KfW takes on part of the overall risk. Thus, we see that from a risk point of view, the triangular matching constellation is more attractive to the investee and the impact investor. However, the lead investor has to cover the same expenses (transaction costs) with only half of the financial returns, which lowers the incentives for him/her to engage in this kind of investment.

**Corporate sponsors**

<table>
<thead>
<tr>
<th>Innovator needs</th>
<th>Financial returns</th>
<th>Social returns (Impact measurement)</th>
<th>Non-financial involvement</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant capital</td>
<td>None</td>
<td>Bespoke; moderate</td>
<td>Consulting and access; limited</td>
<td>Moderate, investor</td>
</tr>
<tr>
<td>Donations</td>
<td>None</td>
<td>Bespoke; limited</td>
<td>Consulting and access; limited</td>
<td>Low; investor</td>
</tr>
<tr>
<td>Flexible capital (income)</td>
<td>Goods and services</td>
<td>Bespoke; limited-moderate</td>
<td>Consulting and access; limited</td>
<td>Low; shared</td>
</tr>
</tbody>
</table>

Corporate sponsors may provide charitable donations without or with very limited requirements. Or they may act as sponsors in which case they receive the service that their logo and/or brands are displayed in social innovators’ corporate design. It may also be negotiated that the innovator uses the sponsor’s products. This form of funding is very much appreciated by many innovators, because it facilitates rights and responsibilities of both partners in a fairly straightforward way and tends to be less burdened with impact measurement requirements.

**Foundations**

<table>
<thead>
<tr>
<th>Innovator dimension</th>
<th>Financial returns</th>
<th>Social returns (Impact measurement)</th>
<th>Non-financial involvement</th>
<th>Risk</th>
</tr>
</thead>
</table>

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Grants from foundations are one of the most popular instruments for social innovators. The low cost and risk of the capital to the investee as well as its relatively high flexibility seems to balance off rather extensive impact measurement requirements.

As part of the growing mission-related investment (MRI) trend, foundations are increasingly investing their endowment where the investment can make a positive difference related to the foundation’s mission. However, MRI excludes both low-cost capital (the foundation must earn a certain return which is in most cases too high for low-cost capital) and risk capital (the fiduciary responsibility principle requires foundations by law to choose low-risk investments).

**Private individuals**

<table>
<thead>
<tr>
<th>Innovator needs</th>
<th>Relational dimension</th>
<th>Financial returns</th>
<th>Social returns (Impact measurement)</th>
<th>Non-financial involvement</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donations</td>
<td>None</td>
<td>Bespoke; moderate-none</td>
<td>None</td>
<td>Low; investor</td>
<td></td>
</tr>
<tr>
<td>Flexible capital (income)</td>
<td>Goods and services</td>
<td>Bespoke; moderate-none</td>
<td>None</td>
<td>Low; shared</td>
<td></td>
</tr>
<tr>
<td>Risk capital (VC logic)</td>
<td>High-moderate</td>
<td>Bespoke; extensive-none</td>
<td>Consulting and access; extensive</td>
<td>High; investor</td>
<td></td>
</tr>
<tr>
<td>‘Supportive’ capital</td>
<td>Moderate-low</td>
<td>Bespoke; extensive-none</td>
<td>Consulting and access; extensive</td>
<td>Moderate; shared</td>
<td></td>
</tr>
<tr>
<td>Low-cost capital</td>
<td>Low</td>
<td>Bespoke; extensive-none</td>
<td>Consulting and access; extensive</td>
<td>Moderate; investee</td>
<td></td>
</tr>
<tr>
<td>Flexible capital (loan)</td>
<td>Moderate</td>
<td>None</td>
<td>Consulting and access; limited</td>
<td>Moderate-high; investee</td>
<td></td>
</tr>
<tr>
<td>Long-term capital</td>
<td>Moderate</td>
<td>Bespoke; extensive-none</td>
<td>Consulting and access; limited</td>
<td>Moderate-high; investee or shared</td>
<td></td>
</tr>
</tbody>
</table>

Principally, private individuals can provide all forms of capital. In practice, however, the range is rather limited. Although angel investors may offer a wide array of different capital instruments (long-term capital both in debt and in (quasi-)equity forms), the vast majority of financing activity
by private individuals takes the form of donations. It is important to note that private individuals have the highest degree of flexibility concerning the terms and conditions they offer innovators in any form of investment, since they invest their own private money and are thus not accountable towards any third party. In practice, the potential of different financing forms is far from being tapped: Private individuals’ engagement with social innovators is largely limited to providing donations and to market relationships. If they provide income, they do so in exchange for goods and services; a very good example is the fair-trade approach. There is enormous potential in this source of capital for social innovators which is why the establishment and development of markets for social innovations is so often and emphatically stressed in the debate.

4.3. Conclusion: Barriers and Opportunities

As our research has confirmed, the social innovation sector is still far from operating in established markets. The more severe the social problems solved by social innovators, the less likely it is that they produce enough income from their innovations to sustain themselves, let alone finance investments in growth and further innovation. If they do operate successfully in regular markets, then their financing and investments in growth are not such a problem. However, the majority of social innovators we came across in the research process have identified problems and limitations in accessing regular finance. Therefore, a systematic assessment of these problems as well as of potential solutions is required.

The financing of social innovation, either through scaling innovative approaches or through developing and testing new ones, requires capital with varying qualities: The innovator may need high degrees of autonomy and flexibility – or s/he may need extensive support and mentoring; the innovation may require a high amount of capital on a long-term basis – or continuous flows of rather small amounts may be needed; the innovation may produce economic values allowing for repayment of the capital – or it may produce extensive social value but not financial value so that the capital cannot be paid back. In any case, the generation of income is very much favourable, either for financing innovation ‘directly’ or for repaying capital instruments. However, if social innovation generated enough income to finance itself, there would be no need to problematize this.

As we have seen, in many instances it does not. Its limited capacity for income generation is determined by its very nature and by the nature of the problems it aims to address. Neither ‘the’ environment nor the marginalized groups of people affected by the most severe social problems are in the position to pay for social innovations. In principle, we can say that the larger the social problem to be solved, the larger the potential impact; but then, we need to acknowledge that however in many fields we see that the larger the social problem, the lower the potential to generate income. If the people affected by the social problems had the resources to pay for their solution, the problems would most likely not exist. Therefore, we can conclude that many of the social problems to be solved by means of social innovation do not yield the potential to generate income for social innovators directly, that is, through payments from beneficiaries within regular market logics.

That brings about two central results: First, the amount of income available for organic growth – as we have seen the preferred mode of financing growth and innovation – is limited. And second, the investment logic of commercial or impact investing is applicable within this field on a rather limited basis. Therefore, we need to explore ways of increasing income streams and removing barriers, and we need to analyse ways to exploit investment models through more effective mechanisms of reducing investment capital costs – which are the main barrier for this form of financing.
Financing innovation and growth from income does not cause any capital costs or the financial risks that acquiring external growth capital brings. This is why social innovators tend to favour it very much. However, as we have seen there are usually no markets for social innovators, since often beneficiaries cannot afford or pay for the services directly. Thus, many innovators depend heavily on grants and donations. On the one hand, innovators assess them to be excellent instruments for financing growth; yet on the other hand, large parts of the innovator landscape seek to reduce their dependence on grants and donations as sources of income and to foster earned income strategies instead. Overall, however, the finance preference for donations and grants will not be subject to much change, and this classical way of funding will most likely prevail. This makes it important to promote (further) tax deductions for grants and donations to social innovators or other forms of subsidies to support social innovation.

However, as social innovators express their willingness to generate larger shares of their income in markets, we also need to enhance opportunities here. Government procurement strategies and public quasi-markets need to be improved and better adapted to social innovators’ specific needs. Concerning the latter, it needs to be pointed out that the fees paid to social innovators through quasi-market mechanisms are increasingly calculated within highly narrow limits that will not allow any surpluses. As a result, more market income does not mean more resources available for social innovation when the logics of the (quasi-)market innovators operate in do not facilitate them. Therefore, the income generated through this channel may not suffice to finance innovation or to pay off investments.

The main problem of investment logics as we have seen are capital costs. Therefore, forms of low-cost capital are needed, and again, there are two principle paths to follow here: Either the capital comes directly at low or no cost in the form of a grant, a recoverable grant, or a low- or zero-interest loan; or the capital comes at regular market costs and (part of) these costs are covered by a third party within some contract arrangement in favour of the social innovator. Concerning the first option, we need to stress the importance of attracting more capital to the sector on these terms – and the potential for it: Interviews and literature showed that both ‘normal’ private individuals as well as HNWI are increasingly willing to provide money on soft terms: The ‘financial recycling’ model (instead of donating money, it is provided as a zero-interest loan or equivalent in order to re-use it for social purposes after repayment) has already gained some popularity. However, the potential of this model is still far from being tapped into for all groups of potential investors, particularly HNWIs. It is becoming increasingly clear that conventional thinking – either donations or full-market rates return investment – must be overcome to enhance capital flows for social innovation. As we have seen, private individuals can principally provide all forms of capital – this potential needs to be exploited better. More and better intermediaries, opinion leaders and best-practice examples are needed to challenge prevailing patterns of thought here. More potential capital providers need to understand and be convinced of the logics of social investment: High levels of social impact often go hand in hand with low financial returns, and there may be even a negative correlation between the two.

Thus, we need better visible valuation schemes for social impact. However, comparability issues and the potential to link measurement with investment objectives and terms are central problems associated with that: The heterogeneity of social problems and solution strategies as well as the conceptual difficulties of the notion of impact may particularly make impact measurement continue to be a – if not the single-most severe – challenge for SE with a demand for capital and thus for the field as a whole. Where financial returns cannot serve as the simple measure of
organizational success, more nuanced ways of capturing impact are needed. However, the heterogeneity of social problems and solution strategies as well as the conceptual difficulties of the notion of impact may make impact measurement continue to be one of the most (if not the single-most) severe challenges for investment in social innovation with a demand for capital and thus for the field as a whole. In this respect, newer instruments such as social impact bonds may be utilized for the future finance of social innovation. Social impact bonds\textsuperscript{36} – in addition to very simple forms of subsidization and tax cuts – might be a viable route in terms of the logic they follow with regard to their focus on the realization of pre-defined social criteria as the basis for financial compensation.

However, social innovators do not seem overly aware of social impact bonds and, given that they are a new instrument currently still in its prototype phase, they still require proof of concept. Now that these instruments are being designed and tested, it would be worthwhile to engage primary stakeholders more deeply. What such instruments have in common is that they seem to necessitate a revision of our understanding of what is worth supporting and the criteria connected to them. In particular in terms of finance with low or no financial return expectations we need to define and capture impact as a central part of social innovation, which could in many cases require a rethink of charity law regulations in favour of promoting worthy outcomes rather than particular legal forms as argued elsewhere.\textsuperscript{37}

Besides increasing the ‘direct’ provision of low-cost capital, better co-operation between various investment actors and intermediaries is also needed as a way of lowering the costs to innovators. This can be done either directly by third parties covering some of the capital costs, e.g. through interest-subsidy models, or through lowering the costs to the investor: As investors frequently incur high transaction costs, a promising approach is to lower this kind of cost to him/her by having intermediaries assist in investment activities such as screening the field, conducting due diligence, increasing investment-readiness, etc. To set up more intermediary institutions is both among the most pressing needs voiced within the field and among the most cost-effective ones: Instead of financing social innovation, it is a way of attracting more capital to the field from other sources. Another way of reducing the costs of investment is to lower the risk premiums: As social innovations are still regarded as rather risky investments, risk premiums tend to be quite high. If a third party would cover (part of) the risk by underwriting a guarantee, that could be a highly effective way of reducing capital costs by lowering the risk premium.

In addition, there are also other, more direct forms of non-financial support both urgently needed in the field as well as relatively cost-effective to provide. Here also we have very low-threshold opportunities to vastly improve social innovators’ situations. One of the most pressing needs, peer-to-peer exchange of experiences, is relatively easy to establish, e.g. through online platforms, hubs, etc. But not only ‘pure’ intermediaries could provide more non-financial support, but also businesses. There are highly effective co-operations of social innovators with businesses, particularly in the software industry. The potential of new technologies which businesses have been researching and marketing for decades is enormous for social innovation. And many of the


types of non-financial support are interrelated: Access to networks is likely to facilitate access to peers, to pro bono support, which may in turn let the innovator get to know about physical space opportunities and vice versa. Some social innovators have already begun to exploit these interrelationships systematically, but there is still a vast potential to be realized here, which could also be fostered through online technology.\textsuperscript{38}

The matching model (see section 4.2) shows that there are many different possible combinations between types of investors and types of capital needed by innovators. And in principle, even more combinations are possible which yields enormous but yet untapped potential. Each of these combinations comes with a specific bundle of (potential) advantages and disadvantages to both parties, and if a third party gets involved this relationship changes again which may be one of the most promising levers to employ to increase the effectiveness of funding social innovation. Again, more and better intermediaries are needed to set up the most suitable arrangements for a given social innovation to be financed professionally and effectively.

This points to the initial theme of this report: Existing and potential instruments. The research carried out for this report has supported the hypothesis that existing instruments can satisfy innovators’ capital demands (both financial and non-financial). What we need instead of new instruments is more effective use of the instruments available. As we have seen, very much depends on the respective actors involved in a given financing endeavour. The right combination of innovators, investors and intermediaries provides a solid ground for successfully capitalizing social innovation with instruments that already exist. New instruments such as social impact bonds may be tested in order to link social impact more effectively with impact investors and to attract actors with purely financial or blended return expectations. But it will take some time for such instruments to fully develop their potential. And also as such instruments will prove their potential, investment is unlikely to become the silver bullet for the entire field of social innovation. Thus, it is a fairly solid conclusion to postulate that current instruments are sufficient if we succeed to make better use of them through increased cooperation between and bundling the individual strengths of different types of actors.

5. Scenarios on the social innovation – social finance nexus

In this section, we will condense our empirical findings into analyses feeding into potential future strategies and policy making on social innovation.

As expressed initially, our analysis is embedded in a framework that has undergone considerable changes and is subject to powerful dynamics. These include on-going legal reforms, e. g., with regard to the tax deductibility of social investments in the UK. These efforts are reflected by increasing awareness and promotion programmes for social entrepreneurship and innovation at the EU level, for instance expressed by the Regulation Proposed for European Social Entrepreneurship Funds. The latter aims to “[...] create a legislative framework tailored to the needs of social undertakings, investors seeking to fund such undertakings, and the specialised investment funds that seek to mediate between the two”. 39

In addition to these legislative moves, we currently witness the development of new or newly adapted financing instruments. On the debt side we see the emergence of social impact bonds. 40 These try to attract private investment in social ventures and promise financial compensation for these investors by the state in case pre-defined success criteria are met by the investee. They do thereby not only tap into new funding sources, but represent an instrument of risk spreading. On the other side of the spectrum there are attempts to establish “social stock exchanges” that provide opportunities for equity investment of interested individuals or organizations in social ventures. 41

Despite the high degree of attention that these developments receive in current policy and research debates, they have played a negligible role in both the conducted survey and the interviews. This might be due to a lack of awareness from social innovators as the most important stakeholders for these instruments or the rather high degree of uncertainty with regard to their usefulness and future development. Since the instruments are obviously nonetheless of (potential) practical relevance, we decided to include them in the following analysis. We do so in particular with regard to their underlying logic and the hypothetic fit or misfit with the needs articulated by social innovators, depending on their organizational model or their field of activity.

The absence of a clear trend towards either of these instruments and the pronunciation of rather traditional funding streams in the interviews and the survey as presented in this report, let us suspect that the future state of the funder and investor landscape for social innovation might lie somewhere in between rather than at the extreme ends of debt capital on the one hand side and equity capital on the other. In any case it has also become evident that it is necessary to distinguish between different types of investees and specific activity fields when it comes to assessing the suitability of certain instruments, the likelihood of their application and the consequences that come with it.

40 See http://www.nextbillion.net/blog/2011/03/21/social-impact-bonds-innovative-financing
41 See http://www.socialstockexchange.com/ from the UK, or http://www.socialstock.eu/home/ from Germany.
What is more, all this would have to be embedded in an assessment of how the social innovation trend might develop in the future. That is why we decided to apply a two-step approach. We first present social innovation scenarios and how these would affect the finance landscape (the mix and design of finance instruments). In a second step we assess the influence of particular funding instruments and logics on the types of social innovations that might or might not be fostered thereby (depending on their finance and income structure of the organizations promoting the social innovation).

5.1. Future scenarios

The institutionalization of finance for social innovation is a complex process. Most importantly, the institutionalization of the finance landscape is dependent on political support just as political support depends on the institutionalization of the field. This means that the relevant, independent variables are not independent from one another in this process. In fact they are not even independent from the dependent variable, for the development, successes and failures of social innovations will invariably have an influence on the institutionalization and political support for social innovation, including financial aspects.

As introduced above the initial setup of scenarios shall be based on the dependent variable of the entire investigation, the potential future development of social innovation as a field of practice. For defining the future course of the phenomenon we propose to make use of two fundamental variables of investigations in the social sciences: institutions and organizations.

5.1.1. Two parameters: ‘Organizational manifestation’ and ‘Institutionalization’

What does this mean exactly in view of social innovation? We propose to use two types of constituents that preceding investigations have usually treated as equally important for the emergence, the viability and transfer of social innovations. The first one described in the following refers to the parameter of ‘organizational manifestation’ the second to the one of ‘institutionalization’.

To begin with, we have the most obvious group affecting social innovation, the innovators themselves. Prior research, also within the TEPSIE project has shown that social innovation is characterized by a number of certain traits when it comes to actors of social innovation, of which three may be of particular importance for the development of the field. First, social innovations often emerge from a cooperation of multiple stakeholders. Second, the actors involved often come from different societal spheres and work together across sector and field boundaries. Third, both aspects just described are shaped by a united orientation towards innovation as well as the pronounciation of a social mission in these organizations.

While processes of innovation can be unintended, it can be expected that social innovativeness will be more developed where social innovation orientation is manifested in the strategy of the organizations. Organizational manifestation of social innovation thus refers to a strategic orientation towards social innovation. This orientation will be manifested at the mission level of the organization as well as in the distinct goals the organization sets. In consequence it will become visible at the level of organizational procedures and practices. Multiple-stakeholder cooperation

across sector boundaries will be one such trait. The organizational manifestation of social innovation within organizations as just described will represent the horizontal axis of the Social Innovation Scenario model displayed below.

The second parameter to be included in the model is the institutional dimension. Institutions refer to the “rules of the game” and represent laws and other formal constraints for organizational activity. They also include less formalized aspects like norms and values, which are essential constituents of public and policy discourse around certain subjects. The institutional dimension thus refers to whether and how social innovation is recognized in such discourse and embodied in concrete regulation affecting it in a favourable way. The institutionalization of social innovation thus refers to its promotion through, e. g., the amendment of charity law or public service contract regulations in favour of social innovation, awareness for social innovation in contemporary societies etc.

These two dimensions are obviously not clear cut categories and they are not meant to delineate the conditions for social innovation precisely. We believe that they are nonetheless valuable for identifying the principal determinants that will shape social innovation in the future. Thereby they will directly affect the social finance landscape, as the latter will primarily depend on the institutionalization of social innovation and the manifestation of a profound and steady strategic orientation of organizations towards social innovation with the consequences described above (cross-sector partnerships, prioritisation on the mission level, organizational structures and practices guided by the aim of social innovativeness etc.). Inversely the creation of a favourable social finance spectrum can hinder or enable the evolution of social innovation. After this general discussion a more nuanced scenario analysis will follow that investigates the effects of particular financial instruments and logics on fields and types of social innovation. It will serve to make recommendations on how to match finance instruments to different sorts of social innovation.

It is to be noted that the two parameters are at close proximity to what we described as entrepreneurial activities (organizational focus) and framework conditions (institutional focus) for social innovation in the Blueprint on social innovation metrics. This underlines that the individual TEPSIE work packages are strongly interlinked, not only on a conceptual basis but also with regard to the guidelines for the empirical investigation.

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In the tradition of scenario analysis we will describe the parameters and the resulting four states to highlight extreme cases that would each have particular implications for the social finance landscape.

The state of the two parameters ‘Organizational manifestation’ and ‘Institutionalization’ will depend on a proof of concept of social innovation and might develop generically over time. The resulting scenarios do explicitly not contain a normative dimension but represent extreme cases of potential future developments as mentioned before. As such they are not to be read as products of intentional actions to create favourable or less favourable conditions for social finance. The individual scenarios do not therefore contain an inherent value in terms of directing policy or organizational management. The aim is rather to describe the different finance scenarios as determined by these two parameters in order to unfold a dominant strategy for policy making and organizational management that would be optimal across all scenarios, i.e. independent of the realization of a particular scenario. According to scenario thinking, the ideal strategy is the one that leads to success under all possible future conditions. The key to scenario thinking is therefore not to select or eliminate any scenarios, but to optimize decisions across all scenarios.

5.1.2. Spread of parameter values

**Institutionalization**
A high parameter value in terms of institutionalization would be marked by the availability of social innovation best practices that serve as guidelines and standards in public service contracts. In addition social innovation will have gained a prominent position in political agendas and in public discourse. In this social innovation could be stylized as an ideal, just as is the case for commercial or technological innovation at the moment. Service-based funding would furthermore be directed by concrete expectations of social impact and tax benefits would be based on the latter rather than on other criteria that define charitable organizations at present.
Where social innovation is poorly institutionalised, social innovation would not play a major role in public awareness or in service contracts or other standards affecting social service provision or the realization of social projects. In this case social innovation might still prevail in the organizational sphere, but would not find a supportive framework in institutional structures, which might be expressed through the abandonment or the revision of currently emerging new legal forms, favourable tax treatment or social innovation labels.

Organizational manifestation
A pronounced focus on social innovation and thus a manifestation at the organizational level would be characterized by cooperation networks that share risks and bundle competencies to realize social innovations. The idea that reducing risks could enable social innovation came out strongly in the interviews and survey. Simultaneously the creation of social innovation would become a dominant organizational strategy of entities across sector boundaries and fields of activity. Apart from cooperative relations in the literal sense, this state would be characterized by an increased number of organizations from all three sectors that are permanently engaged in social innovation. Actors of social innovation would develop specific social innovation expertise and be assured in their ability to produce social innovation in a targeted way.

In the opposed low state there would only be single actors of social innovation. The latter might mainly be based on unintended processes. As such the risk in “producing” social innovation would be high and remain the exception rather than the rule.

5.1.3. Resulting social innovation scenarios
The low and high states of both parameters establish the extreme points of one horizontal and one vertical axis that determine the future development of social innovation. This results in four scenarios that are affected by ‘organizational manifestation’ and ‘institutionalization’ to a varying degree and a distinct combination.

Social Investment scenario
The social investment scenario (social innovation boom) would be characterised by a match between increasing demand and supply of social finance. The social finance landscape would thus be characterized by the full-spectrum of currently available or emerging finance instruments. On the equity side these would include an established social stock exchange that trades investments in socially innovative organizations that create high market and social returns. This would happen in a separate market place that contains particular regulations and valuation of investments along their blended and not only the financial value. On the debt capital side, Social Impact Bonds would have been developed to fund social innovations that are not capable of creating financial returns. For defining and measuring success a refined and precise understanding of how to capture social impact would have emerged. On this basis there would be considerable private investment in the social sphere, which would contribute to risk spreading and allow the state to fund only those interventions that prove successful. Default failure (both in the financial and the social sense) would be borne by the private investors. Alongside this a social innovation clause would be introduced in public procurement legislation that urges providers (also those of standard services) to innovate continuously. Social innovation propositions would therefore become a central decision criterion in bids for service contracts. For completely new interventions, for which pre-defined experience-based criteria are not available, social venture capital would be provided ranging from few financial returns (venture philanthropy) to high levels of financial returns (responsible investment). Venture capital providers would get engaged in the funded organization.
and help to professionalize and bring the social innovation to scale. The entire funding spectrum from unconditional donations to targeted financial instruments would be available.

‘Garage Lab’ Scenario
In the ‘garage lab’ scenario the (potential) supply of social finance would exceed the demand, since social innovation would remain an important issue on the policy agenda, but only scattered promising approaches would be found that emerge from occasional tinkering. For example there would be lots of small pockets of practice (small community based, grassroots, informal groups and associations) but no really investible projects. This circumstance would have prevented the instruments described above to develop. Due to this mismatch between finance and social innovation models, the emerging approaches and ideas would have found it hard to move beyond the occupation of niches. These approaches would be heavily dependent on philanthropic support and new ways to come by it like community based crowd funding. Individual patrons or foundation capital would furthermore play an important role for the realization and operationalization of occasional cases of social innovation.

Commercialisation scenario
Likewise there would be stagnation in the development of a full-scale social finance landscape in the commercialisation scenario. Stagnation in this case would, however look different. Overall there would be more demand for social finance as compared to the garage lab scenario, which would however find a rather restricted degree of supply. This is because the socially innovative element in organizations articulating the demand for social finance would be restricted. Hence, there would be a considerable number of actors in the field, but visible, accepted and scalable models to solve social problems would be missing. This would lead to a scenario where mainly financially profitable projects would find financial support. In consequence, there would mainly be instruments that favour large scale and profitable investment with return expectations. This would for instance be the case for a social stock exchange that has no real social innovation orientation, but rather stresses what is known as “responsible investment”. This bears the threat of mission drift in favour of profit making rather than social impact.

‘Wasteland’ Scenario
In the wasteland scenario all involved constituents would be weakly developed. This comprises actors of social innovation, their cooperation networks as well as surrounding frameworks. As such there would only be a few approaches that could be considered as socially innovative. Thus, there would only be very occasional, random and unstructured financing of single cases. These would be mainly dependent on the benevolence and philanthropic orientation of sponsors and donors. New kinds of instruments would not be needed or accepted as transparency in the entire field would be low and the phenomenon a marginal one.

The current status quo probably lies in between all four scenarios with a tendency towards the upper or lower right corner. Indeed a full-spectrum of social finance is about to develop, but it is still unclear whether the tension between social and financial return expectations will allow for a viable financing mix for all sorts of social innovations (also for those which cannot generate financial returns) or whether financially stable ones will be preferred in the end.

It is clear that all scenarios except for the Social Investment Scenario are characterised by a mismatch between supply of and demand for social finance as well as by distinct focuses on particular finance instruments. They are also different in terms of the ability of the organizational system to allocate existing resources without the inflow of new financial streams. This has
consequences for the directedness of social finance as well as the role of financial providers to create efficient allocation under consideration of these new financial streams.

This background information will be helpful to put into perspective the following assessment of social innovator types, activity fields and respective financing instruments.

5.2. Assessment of social finance against social innovations

The following analysis of finance streams against potential and existing income models of social innovators can be embedded in each of the individual scenarios described above. As such, the options and strategies to be derived in the next step will not only depend on an isolated assessment of current and future instruments to capitalize social innovations. They will also be subject to the broader social innovation trends that might take place and alter its institutionalization on the one hand and its organizational manifestation on the other.

Building on the analysis based on the conducted survey and interviews, we can distinguish two parameters that help assess the suitability of social finance instruments for the promotion of certain types or fields of social innovation. The two parameters are: financial return expectations (from market rates of return to zero repayment) and income models (ranging from grants and donations to earned income on (quasi-)markets).

Note that the following assessment of social finance can be embedded in each of the social innovation scenarios outlined above. As the two parameters applied in the assessment, namely financial return expectations and income models, have been discussed extensively in the section on the empirical results, these do not require the same degree of explanation as the social innovation scenarios. The latter have actually also served to refine (potential) social finance instruments and their underlying logic in the preceding discussion. This allows us to discuss the resulting quadrants as displayed in the figure below right away.

Figure 5-2 – Assessment of the social finance fit
The first quadrant is characterized by investments that combine market income models with the engagement of philanthropic capital providers. It thus represents the field of venture philanthropy with varying degrees of return expectations. It is evident that here the extreme case of philanthropic motives on the one hand and almost financial self-sufficiency on the other will rarely be found. Where organisations can secure income from the market, they will be able to focus on commercial capital providers. The lower right corner of the quadrant is nonetheless relevant to the future shape of the social finance landscape, since especially culture and recreation projects or informal education interventions that complement formal schooling for instance are often dependent on supplementary support, although they might generate some income on their own. This could be done through the selling of (art) products, fees for performances or participation in the intervention. The concept of a social stock exchange is unfit to promote these kinds and fields of social innovation. Although organizations might cover part of the costs of finance by earned income, they won’t be able to produce financial returns – even more so does this logic hold for the second quadrant to be presented below.

The second quadrant is one that will remain largely dependent on favourable tax laws, subsidies or private donations. Although these do not expect high financial returns, they might require considerable proofs of impact. This quadrant represents the most promising field for the introduction of Social Impact Bonds. Where no or only a very modest financial return can be expected, investment in these initiatives could be enhanced through compensation by the state in case of success. The latter would represent a win-win situation, since the private investor would bare the risk of failure and thus serve as a buffer for public budgets as well as a safeguard for the investee, but would be rewarded if pre-defined impact criteria are met. Preventative interventions (e. g., violence prevention programmes), religious initiatives as well as hard to capture interventions such as ones in the field of advocacy, will however largely remain dependent on favourable legislation and tax treatment for instance. They are of course nonetheless relevant fields for social innovation. The innovation aspect would thus have to be addressed in such kinds of regulations in a more targeted way to promote these fields.

The third quadrant comprises fields that combine services or initiatives paid for by the state, which nonetheless have the potential to generate financial returns. As is the case for the upper left corner of quadrant one, there will not be many cases that are supported by the state, which are capable of generating market returns (this is even less likely than earned-income initiatives being supported by private philanthropic capital). Development and housing or environmental protection are nonetheless relevant social innovation fields that play a role in this sphere. Due to the central importance of these fields to societies and the state as a representative of the latter, they might often have to involve the state to a certain degree. This can happen in an operational way, e. g. through public-private partnerships or in terms of funding, whereby it is most likely that the state would choose to engage as an equity holder or to design public subsidies based on the realization of certain social criteria. However, these fields currently show that they bare potential for the engagement of (social) investors. Many of these fields fall in the realm of the ‘responsible investment’ agenda and are for instance assessed by sustainability indicators.

The fourth quadrant is the one most closely associated with the private sphere and the market. In this case the state will only be relevant in its role as a regulator and in terms of standard setting. For instance this would affect a potential legal frame for a social stock exchange. Work integration and care would be fields that could operate on (quasi-)markets based on service contracts with the state that promote socially innovative activities. Fair trade organizations or certain health providers would rather operate on the free market, where income is generated mainly from customers,
clients or patients. The field of renewable energy is one that in principle also generates social innovation in the market, but due to its significant importance to the national state, might be more subject to state regulation and source part of its income from public budgets.

The proceeding assessment clearly shows the suitability of social finance instruments for particular types and fields of social innovations, which can in principle be assessed as independent from the social innovation scenarios. Analysed against the latter, however, the assessment of social finance contains critical implications for the development and regulation of the field.

In the Commercialization Scenario for instance, there would be a complete neglect of the fields of youth services or law, advocacy and politics on social innovation, while the main stress would lie on renewable energy investment (only) selected (and thus) marketable health interventions or fair trade.

In the Garage Lab Scenario instead there would be a preference for classical forms of philanthropic engagement like projects in the field of social services, which might however lack the underlying structures or the societal recognition to be transferable or scalable (which might e. g., be the case in prevention of criminal recidivism or drug rehabilitation). That means that with regard to the social innovation cycle many approaches would not be able to reach the ‘sustaining’ and ‘scaling’ phase and could thus be regarded as inventions that did not make it to a full-fledged innovation. What is more, the inchoate state with regard to organizational structures for social innovation in the scenario might block the emergence of enhanced service standards or a clear impact orientation. This would slowly but steadily reverse the very orientation towards social innovation as a desirable practice.

These two examples underscore that strategies on social innovation should not be naively one-sided, but take the complexity of the field and its interrelations into account when taking actions in terms of tax legislation, new legal forms or the testing and establishment of new financial instruments and not to forget the re-vitalization or reform of established ones. Some key pillars of a successful strategy across all scenarios will be outlined below.

As the main audience of this report is the regulators and shapers of future social finance markets, the recommendations will mainly address policy makers. However, they will of course contain valuable input for social innovators and social investors as well.

5.3. Options and strategies

As the goal of scenario planning is to optimize strategy across all potential scenarios, the following input for a future policy strategy on social finance aims at integrating particularities that are relevant to all possible social innovation and social finance trends as described above and based on the conducted survey and interviews.

Promote financing mix

The preceding discussion has shown that each preference for a single social finance instrument will have adverse effects, since it neglects social innovation in certain types of organizations or whole fields. New instruments that steadily gain attention are indeed not fit to cover the entire landscape of social innovation and since it is unclear how the latter will develop, it seems wise to go for a well-balanced instead of a focused approach.

A social stock exchange might be valuable for promoting more responsible investment, classical non-profit fields however would not fit its logic and therefore get neglected. Social impact bonds might provide a more fruitful ground for the latter, but also these have their limits when it comes to preventative or radically new approaches where success criteria are hard to define – education programmes, where the actual effects become visible only after several years are only one example. What is more, social impact bonds cannot create an overall social innovation orientation across service fields.

Only classical promotional devices can realize this. Although maybe treated as old-fashioned in the wake of new instruments, tax-breaks and subsidies will have to remain the methods of choice for promoting social innovation in a very large part of the social arena. This is underlined by the prevailing preference among social innovators for grants and donations as shown by the results of the survey. It seems that a certain degree of unconditional capital to try out new (risky) approaches or at least a possibility to dedicate one part of financial resources to improve (and in many cases thus innovate on) existing services have enabling functions for social innovation. It is however not only the provision of finance that plays a role, but also the urge for being socially innovative as a central condition for remuneration that can enhance innovation. This includes potential amendments to public procurement or service contracts that might make socially innovative behaviour one central condition for service payments or premiums. This could not only help to promote social innovation as such on a broad basis, but facilitate the standardization and continuation of single beacon projects. The Social Value Act in the UK might be a potential way to pave these grounds. Similar aspects, such as an ‘innovation clause’ have also been proposed in the German context.

Finally, under no circumstances are donations and grants to be dismissed as unfit for promoting social innovation. On the contrary, the majority of social innovators are dependent on some kind of philanthropic support (including new forms of capital such as venture philanthropy with no or very modest financial return expectations or new ways to raise this capital such as crowd-funding). The connected question rather is how a social innovation orientation can be realized, even in cases of unconditional finance. One of the key elements in this seems to be impact measurement. Indeed we find that the lower the possibility for generating financial returns of any kind, the higher will be the urge to define and capture other measures of success – social impact being the most important one. The subject is thus even of more importance to classical non-profit fields than to more market oriented ones, which does not mean that it will not affect the latter.

47 This is one insight the investigation of social innovation mechanisms in the German Free Welfare Associations conducted by CSI has produced. It is thus expected to play a major role for larger non-profit organizations.
Focus on outcomes
It is becoming evident that preferential tax treatment or other forms of financial support, if aimed at the stimulation of social innovation, must take into account the very aspect of innovation or social impact as a criterion complementing existing sets of criteria that define charitable and thus preferentially treated causes. To promote social innovation it would thus be necessary to focus on outcomes rather than on other organizational criteria like limits to profit making (although these profits might be reinvested to stimulate social innovation by new projects) or certain legal forms.

This would also pay tribute to the increasing cross-sector nature of social innovation. If public or private, for-profit organizations contribute heavily to social innovation there might be a point in promoting these instead of less-effective non-profit organizations. At the same time we see that also many non-profits organizations try to enhance earned income and partly even do so to supplement sources of finance. It seems they assume the higher degree of independence that they would gain to have an enabling function for social innovation. Simultaneously though this threatens their charitable character and puts at danger their preferential tax treatment, despite the fact that these organizations might become even more innovative due to this strategy.

Thus, in terms of allocating tax benefits a serious conflict prevails and increases. Tax benefits are currently bound to charitable criteria and largely dismiss earned income. However, earned income or profits as a substitute for finance can have enabling effects on social innovation. It seems thus necessary to focus on the outcomes or the impacts that mission driven organizations produce and their high social innovation potential as a fundamental criterion of whether these should be supported or not. This issue affects for instance the introduction of new legal forms, which in many cases will only serve as a labelling device, if policy makers do not think about reforming charity law as a response to promoting social innovation and the outcomes it might produce.

There should of course be a differentiated rather than a ‘catch all’ approach in this, where fully financially self-sufficient organizations for instance should not be promoted further by means of tax cuts. For the organizations that operate below the level of financial self-sufficiency innovation oriented tax treatment might however be of central importance, independent of the field they operate in, the type of organization or the social innovation scenario. Regulations that promote social innovations by means of tax benefits would harness social innovation when and where it occurs.

Target the full social innovator spectrum
The analysis has shown that highly socially innovative organizations emerge in new fields and with new legal forms as compared to the traditional picture of the social sector. It has, however, also suggested that in terms of absolute numbers, non-profit organizations represent the largest part of high and outperformers (which is also reflected in the dominance of classical non-profit fields in the social finance scenarios). This finding suggests caution when it comes to shaping political discourse and support around social innovation.

On the one hand side it is absolutely legitimate and indeed necessary to acknowledge the merits of newly found social entrepreneurial organizations for instance, or for-profit firms that create valuable social innovations. On the other hand side one should not forget the increasing
importance of social intrapreneurial acting in non-profit or public organizations and the innovative potential that these can bear.\textsuperscript{49}

Against this background we recommend not to focus on the one or the other type of social innovators, but first to consider all actors in their innovative role equally and second to look at the diverse social innovator landscape less in terms of competition and substitution but rather in terms of collaboration. This is in accordance with the recommendations articulated in the largest empirical endeavour of studying the German social entrepreneurship landscape for instance.\textsuperscript{50} In many cases the central question behind how to stimulate as well as spread social innovation is how collaboration can be achieved and not how one approach can substitute the other. This pays tribute to social innovation as an overlapping concept, in which multiple stakeholders are involved. Although competition and connected organizational rise and decline will occur in the field of social innovation, the focus should lie on how the different strengths of actors can be brought together.

The importance of non-financial support articulated by social innovators is only one example that shows how the combination of distinct capacities and competencies of different actors can have beneficial effects. That is, while new and smaller organizations might act more flexibly than established ones, the latter have a much larger resource endowment and experience in operating in social fields. In consequence new approaches might be spread more effectively if new entrants were to collaborate with incumbents instead of competing with them and vice versa.

**Do not focus on financial support only**

As it is usually used as one of the essential, defining elements between different kinds of investors or funders (as also done in this report), it is obvious that the focus on financial returns is going to be pronounced in the discussion of capitalizing social innovations. However, the scenarios as informed by the survey have shown that there are further crucial components that will have to be respected for the future shape of the social finance landscape.

One of them, as just discussed is the aspect of non-financial support which might be coupled to financial investment or come as an addition to it. This underlines the significance of pro-bono services or intermediary support. At the same time it raises issues with regard to potentially new value combinations in the provision of financial support. On the one hand side it has become evident that equity is only preferred by a rather small portion of social innovators, however, equity (just as social venture capital) would usually come with the direct involvement of investors in decisions of the investee. The latter, it seems would be appreciated by social innovators when it comes to elements of coaching and professionalization.

In combination it looks as if debt instruments combined with elements of non-financial support would represent a new attractive option to serve the needs of the large proportion of organizations which are not and may not become investment ready with regard to equity. This would be particularly relevant in the Garage Lab or Wasteland Scenario, if social innovation remains an important although exceptional phenomenon or in the Commercialization Scenario as a compensatory device against complete mission drift. This is important since the largest part of


fields and organizations (quadrant II) in the social finance scenarios would benefit from this combination.

The second vital aspect is the one of social impact measurement as a definition criterion for social venture success. As outlined above it will be necessary to equip the largest part of relevant organizations and thus finance providers (including venture philanthropists, traditional donors or the state, both as grant provider on the finance side and service contract principal on the income side) with tools to measure social innovation success. The subject will also be relevant to inform new instruments like social impact bonds and even the social stock exchange, if a combined or separate index of social impact and financial returns is established that affects the value of stocks.

Finally, the element of risk is to be underscored. Social innovators, often characterized as entrepreneurs, are risk takers in many regards. The very complexity of social innovation that has been underlined in the numerous publications of the TEPSIE project and others, fundamentally entails the element of risk. But although social innovators are risk takers in terms of mobilizing diverse resource streams to realize their new ideas in a potentially hostile environment (see the threat of competition and resistance rather than a focus on cooperation above), most of them advocate for a protection from financial market pressures and thus from financial risk.

The reason does not seem to be the fear of failing with their endeavour, but rather the adverse effects that financial risk and pressure can have on the inherent mission of the organization. Although particularly relevant to the Commercialization scenario any commercial investment contains the risk of producing mission drift. This does not mean that private investment with financial return expectations shall not find its place in the social finance landscape, but rather that clever instruments would have to be implemented where this risk can be controlled. The latter is for instance the case for social impact bonds as financial returns are bound to social criteria. It could however also be incorporated in a social stock exchange through putting a cap on maximum financial returns. More classical instruments like donations, grants or state service contracts usually naturally contain less risk in this regard. The fact that social innovators might not be aware how risk is handled in new instruments may impede their attractiveness for future use.

6. Summary and future research

6.1. Field characteristics

It has been confirmed that the field of social innovation in Europe is highly diverse. Much of it tends to be concentrated in the social economy and in the state sphere as well as the numerous intersections between the two. This is where most genuine social value is created. When it comes to innovative value creation, we found hints that state structures and practices may sometimes hamper innovative approaches. Therefore, while social innovations are developed in all sectors, including the business sector, there are good reasons to assume that much of it takes place in the social economy and its various intersections with other sectors. Future research will have to detect the ‘hot spots’ of social innovation more precisely, for which the ‘Blueprint’ work of TEPSIE’s work package 2 has provided a valuable basis. With the rather relatively coarse pattern of our approach of assessing social innovativeness on the organizational level, we can say that a number of activity fields are particularly interesting to look at, such as social services, education and research, culture and recreation, health, local communities and youth services, as these fields also appear to be among the most innovative ones. Smaller and younger organizations also tend to be a bit more innovative than large and more established ones, which however should be treated with caution as it is based on self-descriptions.
6.2. Field requirements and critical needs

From the perspective of innovators, the income situation is largely precarious, if they do not operate successfully in regular markets. But as we have seen, many social innovations do not take place in such environments. Instead, the more severe the social problems social innovators solve, the less likely it is that their social innovation(s) produce sufficient income. And it is even harder for them to build reserves to finance growth or additional innovation. However, if they do operate successfully in regular markets, then their financing and investments in growth are not such a problem, and they should therefore be regarded as ‘regular’ business entrepreneurs subject to the normal start-up or growth promotion schemes just like any other business. Yet this report and most of the research conducted in the course of work package 4 concentrated more on the core of social problem solving where regular market mechanisms usually do not work. In this area, we have identified numerous problems and limitations in accessing regular finance which are not entirely or exclusively caused by precarious income situations.

Before this background, the central finding is that social innovator capital needs to vary widely, depending on a number of parameters, such as whether innovative approaches require scaling or a new ones are to be developed; whether or not there are sustainable flows of income (regardless of whether they consist of grants or market income); what kind(s) of social/environmental impact will be achieved; the level and structure of risks involved; how much and which non-financial support is needed; and how much autonomy in strategic decision-making is desired by the social innovator. These are the central elements of social innovators’ capital requirements:

- Cost of capital: Usually, social innovators need capital at low or no cost due to the reasons outlined above.
- Large amounts versus small amounts: Low-cost capital is required in very different amounts depending on the innovation to be financed. It may also be that the innovator needs continuous flows of finance rather that a single large investment.
- Duration: Social innovation takes time to develop, often more time than technological/business innovations. Therefore, generally more long-term capital is needed.
- Autonomy: Finance instruments have an influence on social innovators degree of autonomy and flexibility in decision-making. As social innovation is a highly complex process with the danger of getting more complicated the more decision-makers are ‘on board’, social innovators usually strive for a high level of autonomy. And there are also psychological and normative factors involved leading innovators to strive for autonomy from external influence.
- Non-financial support: The desire for autonomy may or may not go in line with the need for non-financial support which some types of investors provide. Access to people, networks, and physical space as well as business and legal advice and mentoring are among the most common non-financial demand.

Of course, all of these requirements are cost factors to investors. We can say that regardless of the amount but depending on the risk, the longer the duration and the higher the level of autonomy and of non-financial support, the higher the capital costs are. However, if we assume that it is true that social innovation takes time and collaboration to unfold impact then we might say in reverse that such long-term, high-autonomy modes of investment are best in place to actually be effective means to promote social innovation. In other words, social impact through innovation is most likely to be achieved through investment schemes that would be cost-intensive in regular capital markets. Therefore, there is the need to appreciate and value the social impact created – possibly by means of reduced capital costs. As the investment logic of commercial or impact investing is
only partially applicable here and as income schemes of investors often do not allow for organic growth, there is the need for increased flows of capital at no and low costs to the field.

In terms of potential future developments, innovator needs are likely to remain like this, due to the economic nature of social innovation. Therefore, the social investment scenario characterized by the full-spectrum of currently available or emerging finance instruments is most likely to become reality if these demands are adequately accounted for and met. That is, there actually has to be this full spectrum of instruments, however with a focus on low-cost capital instruments. If this scenario is the objective, then it is ‘mission-critical’ that various actors need to bundle their strengths to meet their respective needs and achieve leverage effects.

In any case, for social innovation to flourish and also to facilitate the establishment of a more diverse financing spectrum, the income models of innovators also need to be developed further. Due to the numerous intersections and often close cooperation of social innovators with the state, its agencies should increase their efforts to establish more sustainable sources of income for social innovators. And also customers and beneficiaries may be convinced to compensate financially for the social impact created by innovators. For all these developments to become reality, it is crucial that social impact measurement approaches are developed (further). Again, further research is required.

6.3. Outlook and further research requirements

This report has shown that the two most pressing requirements for the field of social innovation to flourish are: Better matching of and collaboration between various actors involved in capitalizing social innovators; and more effective impact measurement tools to allow for the straightforward notion of ‘money for impact’ (instead of ‘money for financial returns’). In both areas, further research is required, but particularly in the latter. We need to find better ways to link investment with impact, but also better ways to attract more capital into the field, especially low-cost capital to be applied in ‘financial recycling’ mechanisms: Instead of donating money, more of HNWI but also of the general public needs to be convinced of providing repayable capital, but with low or no interest expectations – to do that, research is required to show how this works. Online approaches such as crowdfunding may provide best practice case study examples, as they use the web to illustrate impact. But also more effective standardized and quantitative approaches, like the social return on investment method, are required to attract more capital from institutional investors. Here particularly the field of socially responsible investing (SRI) may get more importance, as there are vast sums of capital circulating in that field (as compared to ‘regular’ impact investment).

In this context we also need to see the issue of risk: Investing in social innovation continues to be perceived as relatively risky. However, we found hints that it is not – it is just perceived that way, as it is something new. As the field approaches maturity and provides more case examples, research will have to validate either one perspective or suggest a more nuanced one.

The second urgent need for the field, more and better collaboration, is also a field for further research, as these types of cooperation envisaged here are new ground for all parties involved and for academia as well. As we have shown, multiple combinations of types of innovators, investors, and intermediaries are possible. Here, we could only provide a glimpse at some existing and some potential issues that might come up when these parties interact to capitalize social innovation. However, these need to be researched more thoroughly in order to find out which types of cooperation are particularly effective, which ones work somehow, which do not, and why.

A third area where further research is needed refers to social innovators’ income mixes and the sustainability of their business models. As they continue to be precarious and thus require stabilization, research has to be done on how to achieve that. A central topic here is how to make
procurement practices of public bodies fit better with social innovators’ offers and business models. But also grant-funding practices of public agencies are notoriously difficult, which also complicates the establishment of sustainable business models. Although these problems are known for years or even decades, research has yet to provide ways to overcome them. In the context of income, we also see hints for the tendency for social innovators to use online approaches for fundraising. Again, there is some research needed on the most promising and effective strategies here.

And finally, research needs to be done on better ways of linking investment with the effectiveness of social innovation. Newer approaches, such as social impact bonds or payment by results, have to mature yet. The first approach is more or less still in its pilot phase, and the latter seems to be hampered by overwhelming reporting requirements. Research needs to show whether and how these approaches can be applied to incentivise social innovation. This is connected to questions on how legal frames can incorporate an orientation towards social innovation and support for socially beneficial outcomes rather than for certain legal forms as based on organizational criteria. Social innovation thereby not only represents a fruitful field for organizational studies but also for research on public administration and law.
7. **Appendices**

Appendix 1: Guideline set of core questions for interviews with investors and intermediaries

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<td><strong>Introduction</strong></td>
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<tr>
<td>1. Broadly, how does your organisation work with social ventures? (sector specialism, products/services, approach to support)</td>
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<td>2. What do you see as your function in the social innovation field? What is your segment?</td>
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<td><strong>Type of support</strong></td>
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<td>3. What type of finance is most commonly used at what stage of the innovation process?</td>
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<td>4. Does the typical financing <em>mix</em> change over time? In which way and why?</td>
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<td>5. What type of finance is preferred by investees at each stage? Why?</td>
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<td>6. Why is social finance needed and what is it used for? (e.g. new personnel, new equipment)</td>
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<td>7. Which investment instruments are most suitable for social innovation? Why?</td>
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<td>8. Which instruments are not suitable for social innovation, and do you use or take them into consideration? Why (not)?</td>
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<tr>
<td>9. Which are the factors determining whether a social innovation venture is funded and which financial instrument is used?</td>
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<tr>
<td><strong>Investors</strong></td>
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<td>10. Who are the main financers of social innovation? (e.g. public sector, social banks, foundations, commercial investors)</td>
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<td>11. Who do you think could do more? What is stopping them?</td>
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<tr>
<td><strong>Barriers</strong></td>
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<tr>
<td>12. What do you think are the most frequent and serious barriers for social innovators to access finance?</td>
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<td>13. What are organisations most frequently lacking in order to secure the investment?</td>
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<tr>
<td><strong>Recommendations</strong></td>
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<tr>
<td>14. Which types of support, potentially non-financial, are most crucial for social innovators? And at what stage?</td>
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<td>15. In your view is there a mismatch between what social innovators ask for and what they need?</td>
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<td>16. Are the current financing approaches sufficient, and if not, what developments in the field do you expect?</td>
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**Appendix 2: Guideline set of core questions for interviews with social innovators**

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<th>Innovators</th>
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<tbody>
<tr>
<td><strong>Introduction</strong></td>
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<tr>
<td>1. Broadly, what does your venture do? (sector, beneficiary, legal form, origin of idea)</td>
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<td>2. In which way is your organisation unique in the field? (What is your niche?)</td>
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<td>3. Are you generating enough income in the market to pay off investments plus interest, and if not are planning to do so?</td>
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<tr>
<td><strong>Type of support</strong></td>
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<tr>
<td>4. What type of support, also non-financial, have you received at different stages of development? (type, amount, investor)</td>
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<tr>
<td>5. To what extent has support, also non-financial, received been fit for purpose?</td>
<td></td>
</tr>
<tr>
<td>6. What is your current financing mix?</td>
<td></td>
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<tr>
<td>7. What type of finance would you prefer at each stage? Why?</td>
<td></td>
</tr>
<tr>
<td>8. Do you carry out earned-income strategies? Which ones? How important are they? Which developments do you expect here?</td>
<td></td>
</tr>
<tr>
<td>9. Have you ever engaged the public for financing certain endeavours? Why and how?</td>
<td></td>
</tr>
<tr>
<td>10. Which instruments are not suitable for social innovation, and do you use or take them into consideration? Why (not)?</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Investors</th>
<th></th>
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<tbody>
<tr>
<td>11. Who are the main financers of social innovation? (the state, social banks, foundations, commercial investors)</td>
<td></td>
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<tr>
<td>12. Who do you think could do more? What is stopping them?</td>
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<tr>
<td>13. What type of investor do you prefer to work with? Why?</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Barriers</th>
<th></th>
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<tbody>
<tr>
<td>14. What are the most frequent and serious barriers for you to access finance?</td>
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<table>
<thead>
<tr>
<th>Recommendations</th>
<th></th>
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<tbody>
<tr>
<td>15. Which types of support, also non-financial, are most crucial for social innovators? And at what stage?</td>
<td></td>
</tr>
<tr>
<td>16. Are the current financing approaches sufficient, and if not, what developments in the field do you expect?</td>
<td></td>
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</table>
Appendix 3: Complete online survey set of items and corresponding research questions

<table>
<thead>
<tr>
<th>Research questions</th>
<th>Item(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General</strong></td>
<td></td>
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</tbody>
</table>
| Structural data and control variables: Who are our respondents?                    | 1.1 Please describe as briefly as possible: What are the social issues/challenges that your organisation seeks to address?  
1.2 (Social) Organisations may usually be assigned to one of the categories below. Which category would you assign your organisation to, based on your field(s) of activity?  
1.3 What is/are your legal form/s?  
1.4 What year was your organisation established?  
1.5 In which country do you work?  
1.6 How many FTE does your organisation employ?  
1.7 What was your organisation’s total expenditure for the last fiscal year?  
1.8 How many beneficiaries do you currently have? |
| Do they want to grow? If yes: How?                                                | 1.9 Do you have plans for growth?  
1.10 What are your plans for growth until 2018?                                    |
| **Social Innovation**                                                             |                                                                                                   |
| In which respects are they social innovators? How can we capture the landscape of social innovators? | 2.1 Please indicate how far you agree with the following statements about your organisation:  
“We put strong emphasis on the development of new products or services”  
“We put emphasis on the development of new organizational processes”  
“We improve products and services frequently”  
“We improve products and services rather radically and disruptively”  
“We believe that our organisation is a first mover in the field (often being the first to introduce new products, services or processes)”  
“We often behave in ways that are unconventional or contrary to existing practices and norms in the field”  
“For us, creating social impact has priority over creating profit”  
“We find it difficult to reconcile our social mission with commercial pressures”  
“We put strong emphasis on new partnerships”  
“We always reinvest all surplus into our organisation to fulfil our social mission” |
| **Impact**                                                                        |                                                                                                   |
| How common is impact measurement among social innovators?                         | 3.1 Do you have investors (providers of repayable capital)?                                         
3.2 How important is impact measurement for your investors? Please indicate how far you agree with the following statements. I believe that conducting impact measurement...:  
3.3 Do you have funders (providers of non-repayable capital)?  
3.4 What is your personal assessment concerning the overall role of impact measurement for your funders?  
3.5 Do you have customers (people buying your products and services in the market, either individuals, or institutions)?  
3.6 How important is impact measurement for your customers? Please indicate how far you agree with the following statements. I believe that conducting impact measurement...: |
| **Partners** |  
|---|---|
| **What are the main ‘matching’ problems from innovators’ perspectives?** | **4.1** Usually, partnerships and collaborations are entered into based on several criteria. Which of the following values or characteristics are important to you when interacting with financial partners (investors, co-investors, donors, sponsors, etc.)?  
| |  
| | **4.2** What kind of non-financial support is most important to your organisation?  
| | **6.8** Do you have experience of acquiring funds from public and quasi-public authorities (local, regional, national governments and EU)?  
| | **8.2** To what extent do the following types of organisations fit with your own strategy?  
| | **8.3** To what extent do these organisations fit with your own expectations about creating social impact?  
| | **8.4** To what extent do the following types of organisations fit with your desired level of autonomy?  
| | **8.5** To what extent do the following types of organisations fit with your non-financial support requirements?  
| **What are partnerships important for?** | **4.1** Usually, partnerships and collaborations are entered into based on several criteria. Which of the following values or characteristics are important to you when interacting with financial partners (investors, co-investors, donors, sponsors, etc.)?  
| | **4.2** What kind of non-financial support is most important to your organisation?  
| **What role do forms of non-monetary support play for innovators?** | **4.1** Usually, partnerships and collaborations are entered into based on several criteria. Which of the following values or characteristics are important to you when interacting with financial partners (investors, co-investors, donors, sponsors, etc.)?  
| | **4.2** What kind of non-financial support is most important to your organisation?  
| **And which partners are suitable?** | **8.2** To what extent do the following types of organisations fit with your own strategy?  
| | **8.3** To what extent do these organisations fit with your own expectations about creating social impact?  
| | **8.4** To what extent do the following types of organisations fit with your desired level of autonomy?  
| | **8.5** To what extent do the following types of organisations fit with your non-financial support requirements?  
| **Risk** |  
| **Which risk factors dominate from innovators’ perspective?** | **5.1** Do you think risk (both financial and non-financial risk) is an important factor for your organisation?  
| | **5.2** To what extent do the following types of risk inhibit the ability of your organisation to innovate?  
| | **5.3** How far do you agree with the following statements?  

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**And how hampering are (too extensive) reporting requirements?**

| Who carries which risk factors? | 5.2 To what extent do the following types of risk inhibit the ability of your organisation to innovate?  
5.3 How far do you agree with the following statements? |
|-------------------------------|--------------------------------------------------------------------------------------------------|
| Income                        | 6.1 How did you cover your overall costs in the past fiscal year?  
6.2 We would be very interested to learn more about your income structure. Are you willing to answer a more detailed questions concerning how you cover your costs?  
6.3 Looking at just grants and donations your organisation received in the past fiscal year – what were the sources for these?  
6.3b Please estimate what percentage of the grants you received from public sources were payments by results or outcome-based funding?  
6.4 When you look only at market income (from sales of goods and services, i.e. not including membership fees!) your organisation received in the past fiscal year: Where did you get them from? |
| How sustainable are revenue mixes – particularly with respect to financing growth? Which developments are innovators striving towards in this respect? | 6.1 How did you cover your overall costs in the past fiscal year?  
6.5 Thinking about how you will cover your costs in the future, which of these statements best describes your expectations?  
6.6 Thinking about how you will cover your costs in the future, what mix of financing are you working towards for the fiscal year 2018?  
6.7 What is the maximum interest rate you could repay on an investment? |
| Instruments                    | 6.1 How did you cover your overall costs in the past fiscal year?  
6.5 Thinking about how you will cover your costs in the future, which of these statements best describes your expectations?  
6.6 Thinking about how you will cover your costs in the future, what mix of financing are you working towards for the fiscal year 2018?  
6.7 What is the maximum interest rate you could repay on an investment?  
7.1 Have you ever acquired repayable funds?  
7.6 Concerning your own plans for growth, how suitable are the following instruments for financing organisational growth? |
| How many innovators are “investment-ready”? | 6.1 How did you cover your overall costs in the past fiscal year?  
6.5 Thinking about how you will cover your costs in the future, which of these statements best describes your expectations?  
6.6 Thinking about how you will cover your costs in the future, what mix of financing are you working towards for the fiscal year 2018?  
6.7 What is the maximum interest rate you could repay on an investment?  
7.1 Have you ever acquired repayable funds?  
7.6 Concerning your own plans for growth, how suitable are the following instruments for financing organisational growth? |
| Instruments                    | 7.2 For which purpose(s) have you acquired external financing in the past?  
7.3 At the moment, which instruments for repayable funds do you use?  
7.6 Concerning your own plans for growth, how suitable are the following instruments for financing organisational growth? |
| What is external financing used for by innovators? | 7.3 At the moment, which instruments for repayable funds do you use?  
7.6 Concerning your own plans for growth, how suitable are the following instruments for financing organisational growth? |
| Which instruments are predominant? | 7.3 At the moment, which instruments for repayable funds do you use?  
7.6 Concerning your own plans for growth, how suitable are the following instruments for financing organisational growth? |
| Which instruments would be more needed? | 7.4 For how much of your current repayable financing did you use the following social investment instruments?  
7.5 Which of the following forms of fundraising and financing have you used in your organisation? |
<p>| How known and used are newer instruments – are they planned for the future? |</p>
<table>
<thead>
<tr>
<th>Investors</th>
<th>8.1 Please rank the most important types of institutions and individuals financing your organisation (‘important’ in terms of total EUR amount you receive).</th>
</tr>
</thead>
</table>
| Which relevance do social investors have in reality?                      | 7.6 Concerning your own plans for growth, how suitable are the following instruments for financing organisational growth?  
8.2 To what extent do the following types of organisations fit with your own strategy?  
8.3 To what extent do these organisations fit with your own expectations about creating social impact?  
8.4 To what extent do the following types of organisations fit with your desired level of autonomy?  
8.5 To what extent do the following types of organisations fit with your non-financial support requirements? |
| Are they needed/called for?                                                |                                                                                                                                                                                                 |
| Which kind of investors is actually needed by innovators?                 | 8.2 To what extent do the following types of organisations fit with your own strategy?  
8.3 To what extent do these organisations fit with your own expectations about creating social impact?  
8.4 To what extent do the following types of organisations fit with your desired level of autonomy?  
8.5 To what extent do the following types of organisations fit with your non-financial support requirements? |
| How can investors improve in order to better adapt to the needs of innovators? How can co-operations between (types of) investors be improved? | 4.1 Usually, partnerships and collaborations are entered into based on several criteria. Which of the following values or characteristics are important to you when interacting with financial partners (investors, co-investors, donors, sponsors, etc.)?  
4.2 What kind of non-financial support is most important to your organisation? |
8. References


