Financing Social Entrepreneurs in Europe
How Financial Intermediaries can leverage the Growth of Social Entrepreneurs?

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1 Introduction

In order to address the issue of financing for Social Entrepreneurs in Europe, it is important to understand where the sector of Social Entrepreneurship currently stands.

As figure 1 below shows, Social Entrepreneurs are not yet a homogenous market: They can emerge both from the business and social sector and their income models can range from grants and donations to hybrid income models or 100% earned income. What they all have in common: The primary purpose of their undertaking is to solve a social or ecological problem. Social Businesses – a model strongly promoted by Nobel Prize winner Mohammad Yunus – can be considered a specific form of Social Entrepreneurship, where earned income dominates but profits are not distributed.

2 Hybrid Business Models

Since Social Entrepreneurs have a great variety of income models and organizational structures, their financing market is fragmented and not yet fully developed (see figure 2): While donations and grants are supplied by foundations, citizens and governmental bodies, social businesses with 100% income can be financed by community development or SROI (Social Return on Investment) funds. The market of hybrid business models, where philanthropy and business needs meet, is growing, but financing structures are not yet fully in place. This is where Social Venture Capital comes in: These innovative funds provide grants, loans and equity to Social Entrepreneurs, as well as non-financial support such as consulting and networking contacts. While traditional Venture Capital Funds focus on financial return only, Social Venture Capital Funds place equal or even more emphasis on the Social Impact of an undertaking, i.e. the degree of societal change caused by the social enterprise.
**Figure 1: Range of operational models of Social Entrepreneurs**

![Diagram showing range of operational models of Social Entrepreneurs]

Source: Lawaldt 2008

**Figure 2: Need for Social Venture Capital in fragmented financing market**

![Diagram showing need for Social Venture Capital in fragmented financing market]

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