

DOCUMENT TITLE:

LOCAL ENTREPRENEURSHIP ENDOWMENT FUND STRATEGY AND BUSINESS MODEL

DOCUMENT CONTROL SHEET

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TABLE OF CONTENT

1. Introduction	3
2. Course details and Contents	3
3. Summary of Participants Feedback Received during offline training	3
4. Conclusion and recommendation	3

1. Introduction

This strategy was developed for Co-Impact Foundation, a funding entity, which sits alongside ACT Group and its other activities supporting social and impact enterprises in Croatia. As part of the strategy setting process, analysis was conducted into the Croatian impact investing ecosystem, ACT Group, and Medimurje region in particular - as Medimurje is the pilot region for the social innovation work of ACT Group and also the pilot region for the Co-Impact Foundation.

This document describes the wider social innovation support approach of ACT Group, while showcasing the particular role of the Co-Impact Foundation. It then summarises the context research and characteristics of intended beneficiaries which was used as a basis for strategy development. Finally, it details the intended instrument to be used for funding these nascent social innovations as well as the high level operational model of Co-Impact, along with sustainability considerations and key risks.

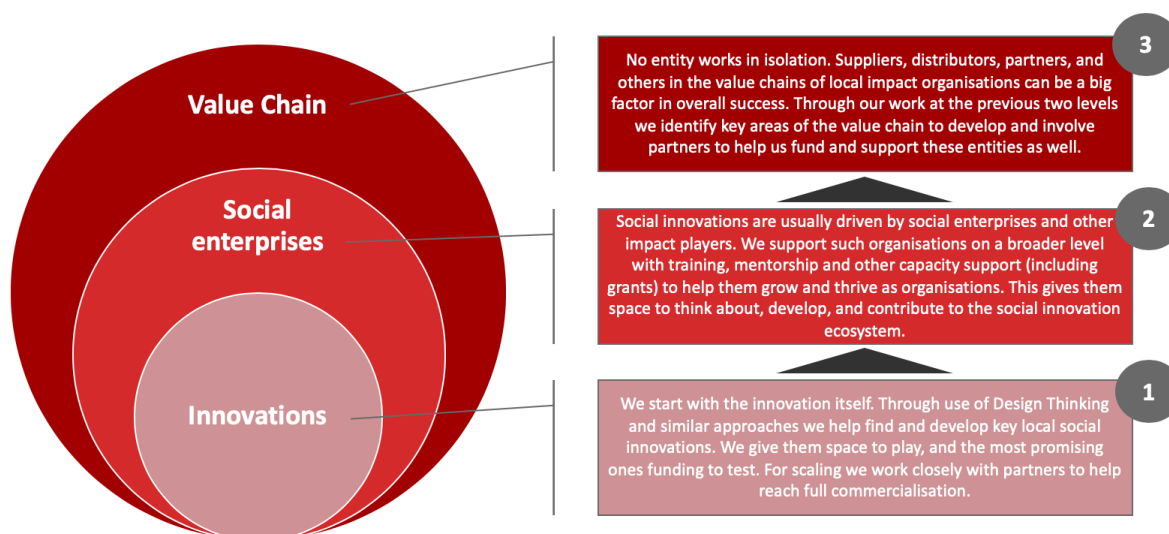
2. Building Innovation Ecosystems

Our why?

Our aim is to build thriving, localised, and connected social innovation ecosystems in Croatian communities.

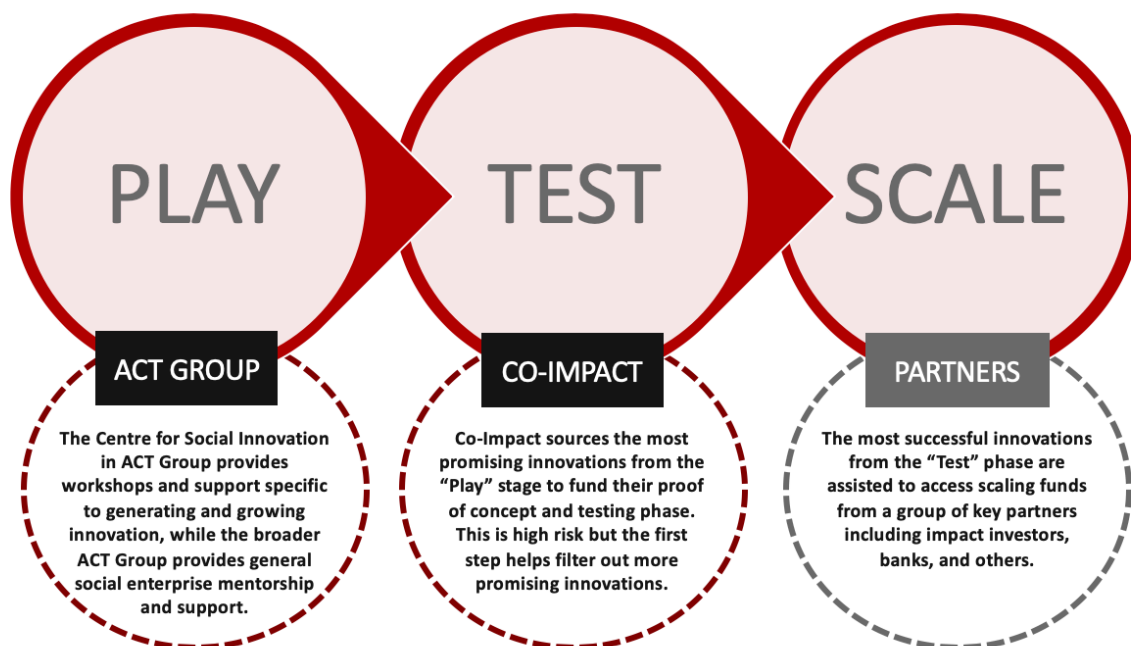
The social innovation ecosystem building model of ACT Group – from the ground up

Even though we focus on the social innovations themselves within Co-Impact, the wider ACT Group supports social enterprises on a broader scale. Since a lot of social innovation takes place within social enterprises or other impact organisations we see this as a nice chain link. In addition, at the outermost level, we understand that all organisations exist within a value chain. Sometimes the barriers for development of a given social enterprise or social innovation are not internal directly to the organisation but may exist at this broader level – such as for example, a lack of certain kinds of key suppliers or raw materials. In these cases, we also work with partners and wider stakeholders to ensure these types of challenges within certain ecosystems and value chains can also be addressed. The diagram below shows our overall approach as the wider ACT Group.



The social innovation ecosystem building model of ACT Group and Co-Impact

Our collective interest is for social innovations to emerge and thrive within Croatia. While the ACT Group helps find and develop these innovations through the Centre for Social Innovation, Co-Impact aims to find direct and indirect ways to fund such innovations. It does so directly through early stage grants, but also indirectly through partnerships with other investors, including those that are more commercial in nature. This allows for the natural scaling of social innovations and helps ensure there are funds available at different stages and risk levels across the spectrum. The diagram below summarises this approach.



3. Context

In order to reach the strategy above, we first had to conduct a context analysis and SWOT.

Beneficiary profiles - Medimurje

Through the work of the CSI we profiled our key beneficiaries in Medimurje region in order to determine their general profile and key challenges and needs. Our findings can be summarised as follows, but please note that they are based on a small sample size of 18-22 impact organisations that ACT Group identified in the region:



Considering ecosystem development

In terms of developing social enterprises (and SMEs), especially in emerging contexts, often investment and support are focused on individual entities. However, the success of an individual entity relies on more than just the efforts of that entity – even if there is a good jockey, a ready market and key aspects of the business model are sound, context specific barriers may make it more difficult to achieve success. If good suppliers are not present in the value chain, for example, it will be difficult for the entity in question to be successful. In this case, therefore, helping support such suppliers will be critical.

Co-Impact can help ensure overcoming systemic barriers by partnering with others who can support and develop the wider ecosystems and value chains. In order for this to work, Co-Impact will need to carry out research in each funding location to understand what the biggest local challenges and barriers to success are in order to help facilitate these being addressed.

SWOT analysis

<p>STRENGTHS</p> <p>Good knowledge of local market Well known and reputable / trustworthy brand Personnel have good experience and knowledge Extensive local supporter network Well-connected in EU and global ecosystems (Euclid, EVPA, GSG, etc.) Good relations with and knowledge of the private sector Access to public sector key actors Biggest impact enterprise portfolio in Croatia Most philanthropy work in Croatia Small and agile / learning oriented Deep knowledge and focus on impact Adaptable and sustainable – still active after 10 years Authentic Strategy not limited by donor funding and the model can be flexible and innovative</p>	<p>WEAKNESSES</p> <p>Human resource capacity Financial resources for experimenting / piloting / innovation Lack of technical skills Lack of digitalization / digital capacity and coordination Lack of focus / streamlining (as are needing to fill the gaps that exist since there are not enough others to fill them)</p>
<p>OPPORTUNITIES</p> <p>Digitalization Global trends – growing market and momentum for II Push from regulators – enabling better legal systems Partnerships / networks (“Invest EU”) and access to wider EU / global best practice Pipeline building Value added services such as IMM support</p>	<p>THREATS</p> <p>Government instability / non-function Impact washing Impact of Covid – conservative direction of investors? Less funds? Lack of investable businesses – lack of pipeline (Croatia is a small market) and linked to this lack of up/downstream related businesses in the value chain Competition as momentum grows</p>

<p>Existing incubation programme list – access potential investees already in network and vetted</p> <p>Intermediary and ecosystem conveyor role – and conversion of traditional investors</p> <p>Need to think outside the box on revenue models for the Foundation – how to fund it?</p> <p>Not just social enterprise building but promoting innovation and scalable, growth impact businesses</p>	<p>Lack of operational funds for Foundation – especially if non-return model pursued</p> <p>Lack of a robust impact ecosystem – necessitating the existing players in taking on too much to ensure success</p>
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Context summary

After also completing the SWOT analysis, it was suggested that the **Co-Impact Foundation focus its funding on social innovation**, with aims for the following **characteristics**:

- **Low to no return** mechanism with as **simple** a structure as possible (to reduce administrative burden and capacity requirements, as well as to ensure targeting of funds to where they are needed most)
- Provide **funding in the “gap”** – where other funders are not funding, but there is a need
- Focus on **value chain and ecosystem building** investment for a given sector rather than just individual entities in isolation on a case by case basis (since in many cases targeting small regions and very specific sectors such as home based care may mean that supporting entities and businesses in the value chain of social services and home care –such as e.g. transport – may also be a significant contributing factor to the overall success of a given entity. In addition, such an approach widens the scope of potential investments for the facility thus also reducing the risks inherent in a localised investment context)
- Create a **governance** and operational structure that will not be overly burdensome but which will nonetheless leverage varied expertise, including from **external** parties, who can also help play a role in business development and which will facilitate and promote trust
- Act as an **intermediary** and convenor and identify the most critical needs of the Croatian impact investing ecosystem, ensuring that Co-Impact contributes to **research, advocacy**, and general knowledge and **best practice** exchange for development of a robust impact investing ecosystem and facilitation of access to capital across the investing spectrum

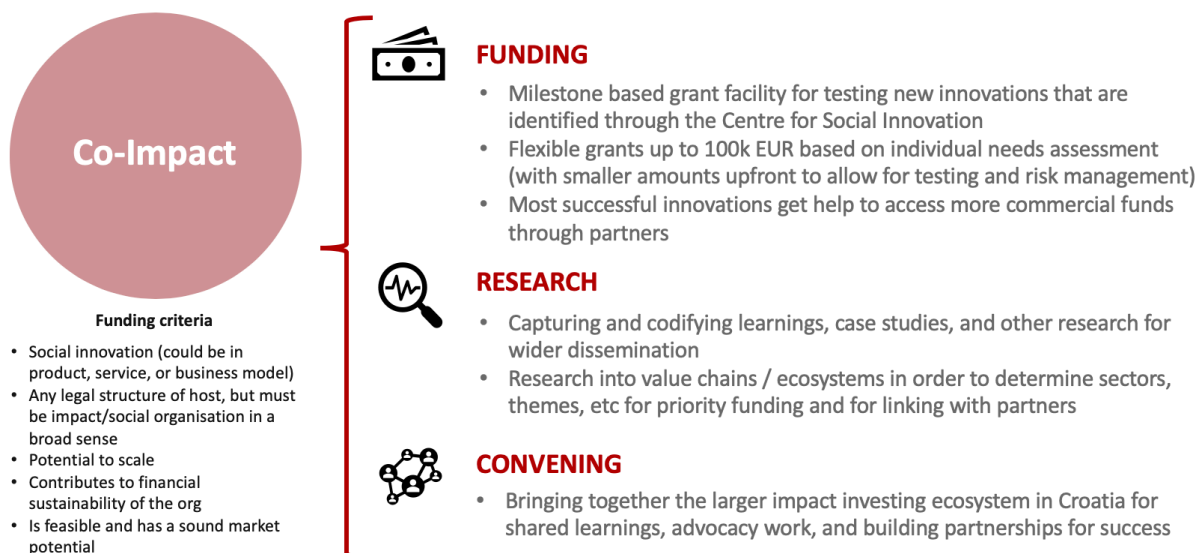
4. The Co-Impact Foundation Vision and Strategy

Co-Impact – Testing Facility

Ultimately within the greater context, we chose a three-pronged strategy for Co-Impact itself. While its primary function will be that of funding, it will also play a research and convening role in order to

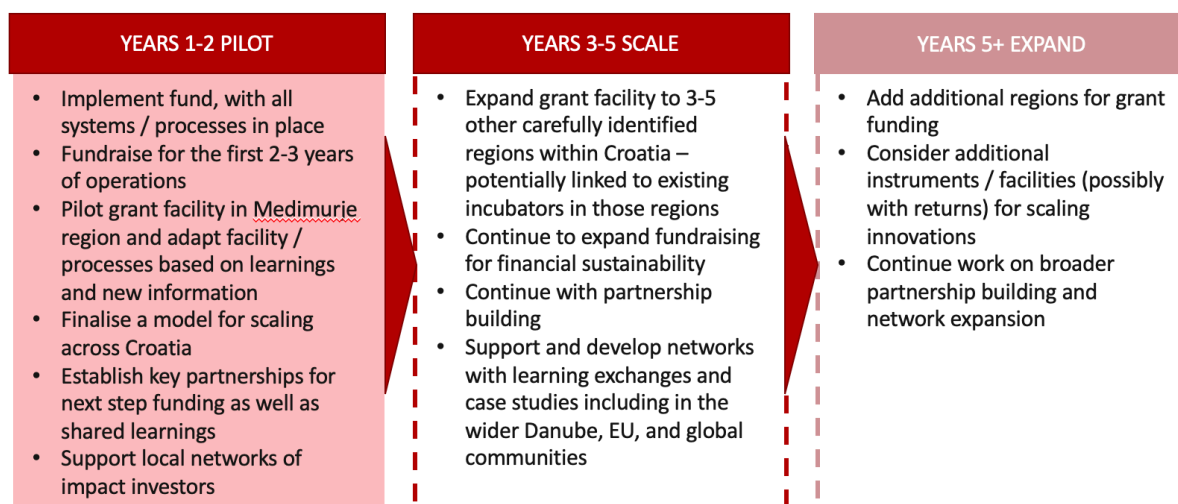
more broadly support the impact investing ecosystem in Croatia and ensure development of robust funding options at all levels.

At the core of Co-Impact will be the provision of flexible grants of up to 100 000 EUR based on assessment of needs as well as suitability against the funding criteria.



Co-Impact – 5 year vision and strategy

The initial years will be for completion of the pilot in Medimurje in order to reach proof of concept. After this we will make necessary modifications based on feedback and scale up to other regions, carefully testing along the way. Lastly, we aim to expand across Croatia and potentially add additional instruments along the way.



Governance Structure

The key elements of the governance of co-impact are based on the values of:

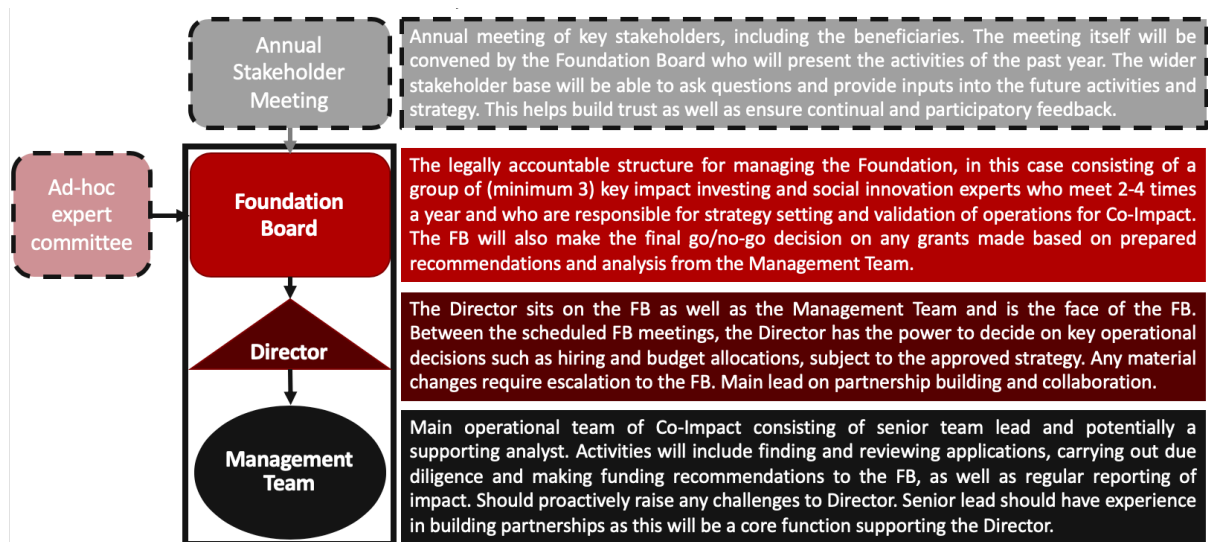
- **Trust**

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- **Transparency**
- **Adaptability**
- **Accountability**
- **Evidence base**

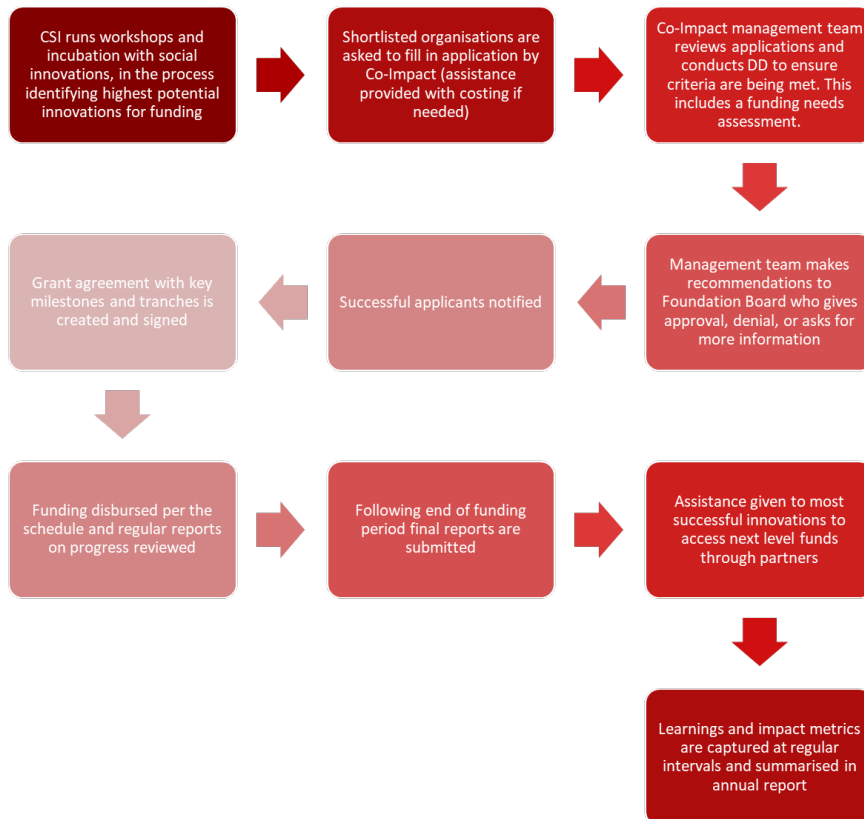
The ultimate people that Co-Impact is responsible to are its **beneficiaries** who will also receive access to annual reports as well as participate in an annual feedback meeting on Co-Impact for all interested parties.

In addition, the main governance structure is described by the diagram below. The main strategic decision-making entity as well as the final approval for all funds disbursed will sit with the Foundation Board. If needed, ad-hoc advisory and expert committees will be assembled on a project-by-project basis to provide input into certain investments. Apart from this, the day-to-day operations will be overseen by the Director and the Management Team. The Management Team will carry out application reviews and due diligence as well as make funding recommendations to the Foundation Board.



Co-Impact – Grant Facility Process Flow

In terms of finding and selecting social innovations to fund, the process flow at high level is described by the diagram below.



Sustainability and Impact

Given the grant-based nature of the fund, it will be critical to find alternative ways of building financial sustainability. In addition, the ecosystem reliance up and down stream of success means that partners will be needed to help ensure support at all levels of the value chain.

Financial Sustainability Options

Some of the options we have considered to ensure long term financial sustainability include:

- Fundraising will need to be mobilised and organised across various team members
- An endowment fund can be considered
- There is a potential for 1-2% investment from local entrepreneurs in perpetuity as this could be tax deductible
- Co-impact could sell key knowledge and research for income as well, in the form of consulting services for example
- Crowdfunding could be used as well, as social innovations typically have viral potential and can gain momentum

Continuity of impact

In order to ensure longer term impact and success, it will also important to:

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- Mobilise partners for success – to ensure access to funding for the next steps as well as for funding the ecosystem (for example, government may give additional success based grants after the initial round)
- Carry out research on key “pain points” in value chains to prioritise areas for linking and development which will have a transformative benefit
- Carry out capacity building of the target social enterprises / NGOs / CSOs and assistance to scale innovations

Potential partners could include: HBOR, HAMAG-BICRO, EU structures in impact investment, local businesses, Feelsgood Social Impact Venture Investment Fund and others.

Measuring Success

We are currently working on a full IMM structure but some initial considerations are as follows:

Of grants:

- Mainly impact based rather than finance based, but will also look at financial measures such as innovation contribution to overall turnover
- Set of common metrics (such as e.g., increased number of people employed), as well as set of unique metrics for each specific innovation depending on the target impact

Of other activities:

- # of partnerships, including new partnerships, established
- Contributions to the impact investing ecosystem more broadly, through participation in workshops / working groups, etc
- # publications and case studies with learnings and recommendations

Since ACT Group has key IMM experts as part of its core team, the IMM framework and approach will be developed according to best practices but with a view to also be as lean and non-burdensome as possible. In addition, external evaluators from the Faculty of Law in Zagreb may also assist in this process.

Risk management

In any endeavour it is important to anticipate potential risks in order to pre-plan potential mitigation as well. Some of the key risks we have considered include:

RISK	MITIGATION
Co-impact is a new type of service, rooted in finance, and there is a risk that if something goes wrong it could erode the trust built up by ACT Group in the community thus affecting other ACT Group operations negatively	Clear communication about the intentions of Co-Impact funding and clear contracts and agreements to ensure proper alignment of expectations upfront. Separation of operational staff at ground level (level of interaction with beneficiaries)
Local social organisations are not used to thinking about innovation or commercialisation and so may need a lot more support to get to viable innovations	Capacity building and innovation methodology workshops, mentorship, and ongoing support from ACT Group and the CSI.
Co-Impact fails to raise enough sustainable fundraising capital to keep the facility going past the initial round	Come up with innovative fundraising methodologies and potentially invest the funds elsewhere to generate interest.
Difficulty in assessing organisations applying (financials, innovation viability, etc)	Ensure Co-Impact team has the right mix of skills needed for evaluation of applications and that the investment committee does as well.
Ecosystem based risks such as government underpaying for services	Good relationships and communications with beneficiaries to understand their key ongoing challenges for scaling innovations and establishing good relationships with partners and government agencies in order to be able to advocate for these organisations.
Survival mode of organisations means little room for anything else – could affect both the generation of new ideas as well as their sustainability	Both capacity building support as well as the same actions as the previous point will assist with this risk.