Co-funded by the European Union

SCALE-UP
foStering women's finanCing in sociAL EntrepreneUrshiP

M4 - Finance your startup. ROI and SROI. Market Failures and Institutions: Changing the Rules of the Game

Course description:

This course is designed to provide aspiring women entrepreneurs and startup founders with a comprehensive understanding of finance, focusing on optimizing Return on Investment (ROI) and Social Return on Investment (SROI). Participants will gain knowledge of key financial concepts, techniques, and strategies that are essential for managing the financial aspects of a startup. Additionally, the course will explore the impact of market failures and the role of institutions in shaping the business environment.

Course Objectives:

I. Develop a solid understanding of financial concepts, including ROI, SROI, profitability, cash flow, and financial statements.
II. Learn to analyze and interpret financial data to make informed business decisions.
III. Explore various funding sources and strategies for financing a startup.
IV. Understand the concept of social impact and its evaluation through SROI analysis.
V. Examine market failures and their implications for startups.
VI. Gain insights into the role of institutions in shaping the rules of the business game.

SCALE-UP: Project No. 2022-1-ES01-KA220-VET-000087577
The European Commission's support for the production of this publication does not constitute an endorsement of the contents which reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Co-funded by
the European Union

SCALE-UP
foStering women's finanCing in sociAL EntrepreneUrshiP

Summary

1. Concepts and fundamentals of Finance, Financing, and Social Impact Investment (SII) 2
1.1 What does finance mean? 2
1.2 What is financing? 2
2. 4
2.1 Why do business owners need to know and understand finance? 2
2.2 What is a Financial Statement? 3
3. 7
3.1 What is Financial Management? 6
4. 8
4.1 What is a Social Enterprise? 7
4.2 Social Enterprises best cases 8
5. 10
5.1 Definition 9
5.2 Social Impact Investments challenges 9
6. Return of Investment (ROI) & Social Return on Investment (SROI) 9
6.1 What is ROI? 9
6.2 What is SROI? 10
6.2.1 How do we calculate the social benefits of an investment? 10
6.2.2 What is the utility to SROI? 12
6.2.3 What are the limitations to SROI? 12
7. Financing your startup in Europe 13
7.1 Different forms of EU funding 13
7.2 Active programmes: 13
7.3 The two types of funding within the EU 14
7.4 Different ways of getting funding: 14
References 15

SCALE-UP: Project No. 2022-1-ES01-KA220-VET-000087577
The European Commission's support for the production of this publication does not constitute an endorsement of the contents which reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

1. Concepts and fundamentals of Finance, Financing, and Social Impact Investment (SII)

1.1 What does finance mean?

Definition of **finance**:

1. The process of raising funds or capital for any kind of expenditure.
2. (The management of) a supply of money.

Definition of **business finance:** the funding a business needs for commercial purposes. It is the money business owners require to start, run, or expand a business. Finance is the foundation of any business. It is nearly impossible to succeed without strong finances in place.

1.2 What is financing?

Definition of **financing**:

1. The money needed to do a particular thing, or the way of getting the money.
2. Asking any financial institution (bank, credit union, finance company) or another person to lend you money that you promise to repay at some point in the future. In other words, when you buy a car, if you do not have all the cash for it, the dealer will look for a bank that will finance it for you.

Examples:

- The developer was unable to get full financing for the project.
- Financing was provided by his father who made himself available for advice in running his new company.
- He is trying to get bank financing.

SCALE-UP: Project No. 2022-1-ES01-KA220-VET-000087577
The European Commission's support for the production of this publication
does not constitute an endorsement of the contents which reflects the views only of the authors,
and the Commission cannot be held responsible for any use which may be made of the information contained therein.

2. Understanding finance: how to build a Financial Statement

2.1 Why do business owners need to know and understand finance?

Understanding financial statements will help you make better decisions. If you don't know how your business is performing, you can't make informed decisions. As a small business owner, you will begin to take management action to make things happen. Running a company successfully is not nearly as hard as some people make it out to be. Understanding your numbers is a key first step to simplifying that process.

2.2 What is a Financial Statement?

Financial Statements are reports that explain a company's financial performance and profitability for a certain period of time. It includes 3 elements:

a. **Balance Sheet:** A balance sheet tracks the assets (everything the business owns), liabilities* (everything the business owes) and owner-held equity** (what's left after subtracting a company's liabilities from its assets) for your business at a specific point in time.
* Current liabilities: Obligations that must be paid within the year (loans, payroll, lines of credit, etc).
* Long-term liabilities: Can be paid over a longer period of time (larger loans, deferred income tax).

It's important because it indicates the approximate cash value of a business. Partners might use it to valuate stock, and lenders look at it to assess collateral and risk, this affects your likelihood of receiving funding for your business.

** Equity: Also referred to as *shareholders' equity*. The amount of money that would be returned to a company's shareholders if all of the assets were liquidated and all of the company's debt was paid off in the case of liquidation. Equity gives the right to have a claim on the cash flows and assets of the firm and have control over the management.

Balance sheet. How is it done?

This is done by subtracting the total liabilities from the total assets to calculate the *owner's equity*, (for corporations) or simply the *net worth*.

Example of a Balance sheet:

Balance Sheet

As of December 31, 2016 (000s)

What the Company Owns | What the Company Owes | Shareholders' Equity

Assets		Liabilities	
Cash	481	Accounts Payable	625
Marketable Securities	1,346	Current Portion L-T Debt	1,021
Accounts Receivable	1,677	Taxes Payable	36
Inventory	2,936	Accrued Expenses	157
Prepaid Expenses	172	Total Current Liabilities	1,839
Other Current Assets	58		
Total Current Assets	6,670	Long-term Debt	2,332
		Total Liabilities	**4,171**
Gross Value of Property, Plant & Equipment	2,019	**Owner's Equity**	
Accumulated Depreciation	(664)	Common Stock and Paid-in Cap	194
Net Property, Plant, Equipment	1,355	Retained Earnings	4,009
		Total Shareholders' Equity	4,203
Note Receivable	349		
Total Assets	**8,374**	**Total Liabilities and Equity**	**8,374**

Source: Fincash (2023).
For more information: Accounting Stuff. (2021, March 30).; Wise. (n.d.).

b. **Income Statement**: An income statement shows a company's financial performance by revealing whether it's made a profit or a loss by calculating the company's income and expenses. It focuses on revenue, expenses, profit, gain, and losses of a company during a particular period.

- Revenue (or Gross Income): The amount of money a company generates from its sales, without subtracting the expenses.
- Expenses: Costs that businesses incur during their operations. Examples: wages, salaries, maintenance, rent, and depreciation.
- Profit (or Net Income): The result of subtracting operating expenses from the total revenue. Profitability levels tell about an enterprise's efficiency.
- Gain (less broad concept than "profit"): Any economic benefit that is outside the normal operations of a business. Example: If a share of stock is bought on the market for 100 and later sold for 120. The gain is 20.
- Losses: Occurs when your business has more expenses than earnings during an accounting period. The loss means that you spent more than the amount of revenue you made.

Revenue - Expenses = Profit

Income statement. How is it done?

Once you have all the information you can calculate the Net Income* = (Revenue + Gains) – (Expenses + Losses)

* Net income, Net Profit, or Net Earnings: The amount an individual or business makes after deducting costs, allowances, and taxes.

Example of an Income Statement:

COMPANY B
INCOME STATEMENT
For Year Ended September 28, 2019 (In thousands)

NET SALES	$	4,358,100
COST OF SALES		2,738,714
GROSS PROFIT		**1,619,386**
SELLING AND OPERATING EXPENSES		560,430
GENERAL AND ADMINISTRATIVE EXPENSES		293,729
TOTAL OPERATING EXPENSES		**854,159**
OPERATING INCOME		**765,227**
OTHER INCOME		960
GAIN (LOSS) ON FINANCIAL INSTRUMENTS		5,513
(LOSS) GAIN ON FOREIGN CURRENCY		(12,649)
INTEREST EXPENSE		(18,177)
INCOME BEFORE TAXES		**740,874**
INCOME TAX EXPENSE		257,642
NET INCOME	$	**483,232**

Harvard Business School Online

Source: Harvard Business School (2020).
For more information: Wise. (n.d.).

c. **Cash Flow Statements (CFS):** This is a measure of how much cash a business brought in or spent in total over a period of time. It is the money that flows in and out of your business throughout a given period. It measures how well a company manages its cash position, meaning how well the company generates cash to pay its debt obligations and fund its operating expenses. CFS paints a picture as to how a company's operations are running, where its money comes from, and how money is being spent. Also, it helps its creditors determine how much cash is available (liquidity) at the end of the year. The cash comes from 3 areas:

- Operating activities: the cash a company generates (or consumes) from carrying out its operating activities over a period of time. Operating activities include generating revenue, paying expenses, and funding working capital.

Formula: Operating Income + Depreciation* – Taxes + Change in Working Capital** = Operating Cash Flow

* Depreciation: The monetary value of an asset decreases over time due to use, wear and tear, or obsolescence. Example: If a Truck is purchased by a Company with a cost of 100000 and expects to use the truck for 5 years, The annual depreciation is 20.000. Depreciation is the process of deducting the total cost of something expensive you bought for your business. But instead of doing it all in one tax year, you write off parts of it over time. When you depreciate assets, you can plan how much money is written off each year, giving you more control over your finances. You can't depreciate assets that don't lose their value over time – or that you're not currently making use of to produce income. These include Land. Collectibles like art, etc.
** Change in Working Capital: The differences in the liquidity of the company.

The European Commission's support for the production of this publication
does not constitute an endorsement of the contents which reflects the views only of the authors,
and the Commission cannot be held responsible for any use which may be made of the information contained therein.

▪ Investment activities: The net amount of cash received and paid during an accounting period for long-term assets and investments. You can think of these activities as the money a company uses to invest or the money it makes from its investments. Cash flow from investing activities is often negative since it contains mainly the costs of implementing the initiative, as well as business expansion and modernization. It is usually covered by income received from the main activity of the enterprise (sale of goods or services.

▪ Financing activities: It refers to the act of raising money or returning raised money by promoters or owners of the firm to grow and invest in assets like purchasing new machinery, opening new offices, hiring more workforce, etc. These transactions are normally part of a long-term growth strategy and hence affect the long-term assets and liabilities of the firm.
Example of CFS:

Cash Flow Statement Company XYZ
FY Ended 31 Dec 2017
All Figures in USD

Cash Flow From Operations		
Net Earnings		2,000,000
Additions to Cash		
Depreciations		10,000
Decrease in Accounts Receivable		15,000
Increase in Accounts Payable		15,000
Increase in Taxes Payable		2,000
Subtractions From Cash		
Increase in Inventory		(30,000)
Net Cash From Operations		2,012,000
Cash Flow From Investing		
Equipment		(500,000)
Cash Flow From Financing		
Notes Payable		10,000
Cash Flow for FY Ended 21 Dec 2017		**1,522,000**

Investopedia

Source: Investopedia (2017)
For more information: CFI Team. (n.d.)

3. Financial Management

3.1 What is Financial Management?

Financial Management is the business function concerned with profitability, expenses, cash, and credit, so that the "organization may have the means to carry out its objective as satisfactorily as possible" – Source: UpFina. Upscaling Finance. (n.d.).

"Financial management is the activity concerned with planning, raising, controlling and administering of funds used in the business"- Source: Sajjan A. (2022)

The 4 elements of Financial Management to guarantee a successful business:

a. Planning: the process of calculating the amount of capital that is required by an organization and then determining its allocation.
Question to ask: Have you taken the time to properly establish your business goals and objectives? Do you know what your long-term plans are *for* yourself, your brand, and your staff?
A financial plan includes:

- Determining the amount of capital required.
- Determining the capital organization and structure.
- Framing of the organization's financial policies and regulations.
- Financial control: This is one of the key activities in financial management. Its main role is to assess whether an organization is meeting its objectives or not.

b. Controlling: Ensure each aspect of the organization is following the established plan. Now you know your steps, do you know that each part of the business is working to achieve the objectives?
c. Organizing & Directing: Decide on what resources are necessary to effectively carry out the plan. Resources don't just refer to material assets and tools. It expands over to staff, roles, budget, funding, technology & software, outsourcing services, and more. You do not want to start implanting a strategy if you don't even have all the resources ready to get the ball rolling. The goal is to make productive use of the resource and to provide regular supervision.
d. Decision Making: Reviewing all the information collected and making final decisions to enhance and maximize financial management in an organization.

For more information: Strutner. (2023).

4. Social Entrepreneurship

4.1 What is a Social Enterprise?

According to Muhammad Yunus (founder of Grameen Bank), a social enterprise is a business "whose objective is to solve social, economic and environmental issues affecting humanity; hunger, homelessness, illness, pollution, ignorance." – Source: Grameen Bank. (n.d.).
It is motivated by the desire of making/contributing to alleviate some type of systemic social or cultural problem to create a positive impact. It's important to know that, is still a business which intends to make profit.

The European Commission's support for the production of this publication
does not constitute an endorsement of the contents which reflects the views only of the authors,
and the Commission cannot be held responsible for any use which may be made of the information contained therein.

- **Why should we care about social enterprises?**

Because 62% of consumers want companies to stand up for the issues they are passionate about, and 66% think that transparency is one of a brand's most attractive qualities, according to Accenture – Source: Sonsev (2019)

- **What is the difference between social enterprises and conventional for-profit business?**

The difference is that conventional business centers in maximizing profitability & individual consumers, while social enterprises focus on social impact, social wealth & social groups. Profitability is a means to that end, a guarantee of the viability of the business.

Characteristics of social business as compared to conventional for-profit and not-for-profit organizations

	Conventional for-profit business	Conventional not-for-profit organization	Social business
Financial self-sufficiency	✓	×	✓
Dividend payments	✓	×	×
Social benefits as primary objective	×	✓	✓

Source: Hec Paris (2023)

Some examples of Social Enterprises: Credit Union, Sustainable fashion, a coffee shop that sells fair-trade beans and/or hiring employees from at-risk communities or with disabilities.

- **How do I start a social Enterprise?**

First, figure out the problem and the solution to it. Make sure you have the professionals to make the impact.

4.2 Social Enterprises best cases

1. **Grameen Bank**: A microfinance organization and a development bank from Bangladesh that provides small loans to individuals in rural communities who have the interest in starting their own business and becoming financially independent. (Many of them are women). Due to a bigger flow of capital in the communities, the local economies grow. – Source: Grameen Bank. (n.d.)
2. **TOMS**: Shoe producer that donates a pair of shoes for every pair of shoes sold to people in need. After a while they realize that that business model was not the best for the creation of social impact, that is why nowadays they reserve part of their profits for grassroots good,

The European Commission's support for the production of this publication
does not constitute an endorsement of the contents which reflects the views only of the authors,
and the Commission cannot be held responsible for any use which may be made of the information contained therein.

partnering with the local communities' organizations and providing cash grants. – Source: TOMS. (n.d.)

3. **Patagonia**: A clothing brand with a corporate and social responsibility. It donates 1% of annual sales to the preservation and restoration of the environment. As well as donation to grassroots environmental groups in local communities. = local & social impact. – Source: Patagonia. (n.d.)

5. Social Impact Investment (SII)?

5.1 Definition

Social Impact Investment is the provision of finance to organizations addressing social needs with the explicit expectation of a measurable social, as well as financial return by connecting the supply side with the demand side. The three main principles:

1. Social impact intentionality.
2. Impact measurement.
3. Profit orientation.

5.2 Social Impact Investments challenges

SII could lead to some challenges:

1. Difficulties in measuring impact.
2. Risk of impact washing: Enterprises exploiting their activities without seeking actual commitment and positive impact.
3. Transaction costs of financial instruments
4. SII is not the answer for solving all social challenges: Not all problem-solving approaches are viable and suitable for SII Investments.

6. Return of Investment (ROI) & Social Return on Investment (SROI)

6.1 What is ROI?

ROI means "Return on Investment", but why should we care about it? ROI is a mathematical formula used to evaluate investment. The calculation of ROI will tell you if you have made a good or bad decision for your business, if it's worth it to invest.

SCALE-UP: Project No. 2022-1-ES01-KA220-VET-000087577
The European Commission's support for the production of this publication
does not constitute an endorsement of the contents which reflects the views only of the authors,
and the Commission cannot be held responsible for any use which may be made of the information contained therein.

The calculation of the ROI percentage index is simple: (net income/investment costs) x 100.

Example: Let's say you invest 100€ (risk) and your total income value/benefit will be of 130€. To calculate the ROI, you will have to do as follows: [130 (total income value) – 100 (total investment costs)]/100 (total investment costs) x 100.

a) First you calculate the net income: 130-100 = 30€ (net income)
b) Now, divide the net income by the total investment costs: 30/100 = 0.3€ (gain for every 1€ invested)
c) To calculate the ROI percentage index, just multiply the result by 100. (30/100) x 100 = 30% (of the net income)
(!) If the ROI is less than 1, it represents a loss.

For more information: Eye on Tech. (2021).

6.2 What is SROI?

SROI means Social Return on Investment. Why is it important? Because we live in a changing, increasingly purpose-driven, and customer-conscious world. SROI considers the social, economic, and environmental impact, it focuses on the value, rather than money. To create social value through capital allocation.

There are **2 types of SROI**:

a. Evaluative: based on actual outcomes.
b. Forecasting: prediction of social impact if the activities meet the outcomes. (Useful when planning)

The SROI calculation is a rigorous process because we need to understand how to measure impact. How much change we "get back" and how much impact value we have created in return for what we put into making the change happen. SROI is founded on seven principles: 1) Involve stakeholders; 2) Understand what changes; 3) Value the things that matter; 4) Only include what is material; 5) Do not over-claim; 6) Be transparent; 7) Verify the results.

6.2.1 How do we calculate the social benefits of an investment?

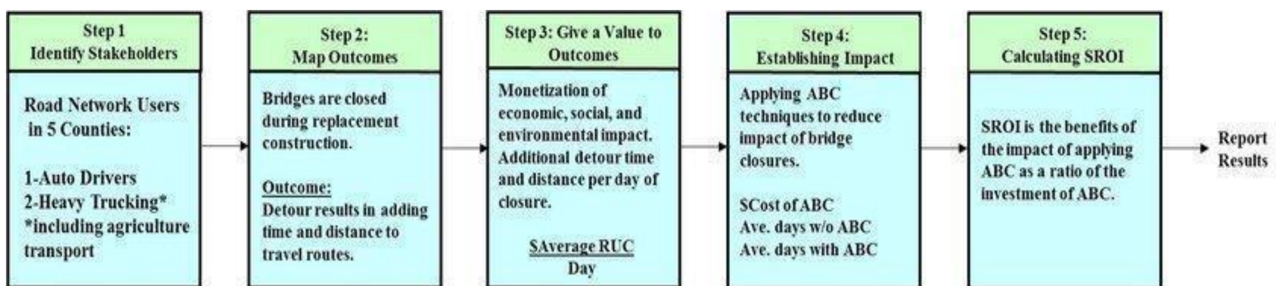
SROI analysis includes **6 stages:**

1) Identifying the stakeholders: identifying the scope of the project.
2) Mapping the outcomes: mapping all the possible outcomes. Outcomes may be tangible or intangible, as well as positive (benefits) and negative (disadvantages) for stakeholders.
3) Evidencing outcomes and giving them a value:
    A. Developing outcome indicators

SCALE-UP: Project No. 2022-1-ES01-KA220-VET-000087577
The European Commission's support for the production of this publication
does not constitute an endorsement of the contents which reflects the views only of the authors,
and the Commission cannot be held responsible for any use which may be made of the information contained therein.

B. Collecting data to assign a value to the identified outcomes (this may include both Quantitative and qualitative data, such as expert opinions and stakeholders feedback)
C. Establishing how long an outcome lasts
D. Valuating the outcome. This means assigning an actual monetary value to the identified outcomes (this may involve various techniques such as contingent valuation, cost avoided valuation, and market valuation).

4) Establishing Impact: assessing whether the outcomes identified result from your activities.
5) Calculating SROI
6) Reporting, using, & embedding



Source: Barutha, Zhang, Alipur, Miller, Gransberg (2017).

Stage 5: Calculating SROI

The calculation of SROI follows 4 steps and an optional 5th step:

1) Projecting into the future: the value of the identified outcomes needs to be projected into the future.

2) Calculating the net present value (NPV): a process called “discounting” is necessary. Monetary values (of both benefits and inputs) are adjusted to reflect their so-called “present value” (since future benefits are valued less than immediate benefits). The net present value (NPV) is calculated by subtracting the total cost of investments from the total present value: (total present value) – (total cost of investments) = NPV

3) Calculating the ratio: the net SROI is calculated by dividing the net present value (of benefits) by the net cost of investments. The resulting SROI ratio indicates the amount of social value generated per unit of monetary investment: (net present value)/(net cost of investments) = net SROI.

Then, the calculation of the SROI percentage index is very simple: (net present value)/(cost of investments) x 100 = SROI

The European Commission’s support for the production of this publication
does not constitute an endorsement of the contents which reflects the views only of the authors,
and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Example: Imagine an investment of money in a program designed to improve local health outcomes. Let's say the money input was around 100,000 € (total cost of investments) and the measured health improvements (total social value) were around 400,000€. To calculate the SROI index, you will have to adjust the total social value by subtracting deadweight (improvements that would have occurred without the investment) and attributions (other external factors), let's say the result is 120,000€.

To calculate the SROI, you will have to do as follows: [400,000 (total social value) - 120,000€ (deadweight + attributions)]/100,000€ (total cost of investments) x 100.

a) First calculate the net social value: 400,000 – 120,000 = 280,000€ (net social value)

b) Then divide the net social value by the total investment costs: 280,000/100,000 = 2.8€ <u>(gain for every 1€ invested)</u>

c) To calculate the SROI percentage index, just multiply the result by 100. (2.8 x 100) = <u>280% (of the net social value)</u>

For more information: Sheth. (2018).

4) <u>Sensitivity analysis</u>: this step assesses to which extent your results might change if you change some assumptions you made in previous stages.

5) <u>Payback period</u>: this step assesses how long an investment would take to be paid off. payback period (<u>in months</u>) = (investment)/(annual impact/12).

For more information: Syarifudin. (2018).

Overall, SROI calculation involves:

- Collecting information on the changes experienced by borrowers (the "Outcomes"), that can be positive or negative. For data collection we used the survey.
- Assigning a monetary value to these changes, to assess the impact from a monetary point of view ("Social Return", or "Value of Benefits", in the numerator of the ratio). In this step, we used conservative estimates.
- Comparing the Social Return with the monetary inputs used for the activity ("Investment" in the denominator of the ratio), after adjusting for attribution, drop-off, deadweight, and displacement.

6.2.2 What is the utility to SROI?

✓ <u>Impact measurement</u>: SROI provides a systematic way to measure the social impact of a project, allowing investors and organizations to assess its effectiveness.

✓ <u>Informed decision making</u>: by quantifying social value, SROI facilitates comparison between different projects and investment options.

The European Commission's support for the production of this publication
does not constitute an endorsement of the contents which reflects the views only of the authors,
and the Commission cannot be held responsible for any use which may be made of the information contained therein.

✓ Transparency and accountability: by providing a transparent and evidence-based assessment of social impact, SROI promotes accountability and transparency in the social sector.

6.2.3 What are the limitations to SROI?

- Subjectivity in evaluation: evaluating social outcomes can be subjective and prone to biases, which can affect the accuracy and reliability of SROI results.
- Complexity & costs: implementing SROI can be complex and costly, especially in terms of data collection and analysis, which may limit its applicability in smaller-scale projects.
- Monetization limitations: not all social impacts can be easily monetized, leading to an underestimation of the total value generated by a project.

Overall, despite the subjectivity, complexity & costs, and monetization limitations of SROI, evaluating the Social Impact of financial activities is critical for business operating in the market today. As previously told, we live in a changing, increasingly purpose-driven, and customer-conscious world that cares about creating social and environmental value in our

economies. The Social Return on Investment (SROI) is the necessary framework to measure and account for this much broader concept of value by incorporating social, environmental, and economic costs and benefits, helping us reduce inequality and environmental degradation.

7. Financing your startup in Europe

There is a wide array of European Funding for small businesses opportunities that Small and medium-sized enterprises (SMEs) can utilize. SME represents 99% of all businesses in the EU, which is why the region helps financing. Up next, we will explain some active programmes to get access to funding, the type of fundings, and the relevant factors to bear in mind to get funding.

7.1 Different forms of EU funding

- Grants: A grant is a gift to an individual or company that does not need to be paid back People apply for grants by submitting ideas for projects following a 'call for proposals': a fund given by a person or organization, often a public body, charitable foundation, a specialized grant-making institution, or in some cases a business with a corporate social responsibility mission. Source: European Commission. (n.d.).
- Subsidies: It is a money transfer made by governments (national or regional authorities). A way of stimulating the economy. – Source: European Commission. (n.d.).

The European Commission's support for the production of this publication
does not constitute an endorsement of the contents which reflects the views only of the authors,
and the Commission cannot be held responsible for any use which may be made of the information contained therein.

- Loans, guarantees and equity: Agreement that guarantees that the businesses will return the money back and repay the debt. A form of financial assistance to support EU policies and programs (loans to EU Member States and non-EU countries)
- Prizes: Given as a reward due to a contest. Example: for winners of Horizon Europe contests. – Source: European Commission. (n.d.).

7.2 Active programmes:

- COSME Programme. It provides loan guarantees up to €150.000 as well as equity during the growth and expansion phase of a company. – Source: European Commission. (n.d.).
- InnovFin Programme (Horizon 2020). It provides loans and guarantees to innovative businesses and finances Research & Development (R&D) projects and equity for their early and start-up phases. A key instrument is the EIC accelerator* that offers funding and coaching to innovative SMEs. – Source: European Innovation Council. (n.d.).
- Creative Europe. Finance in the cultural and creative sector. – Source: European Commission. (n.d.).
- Programme for Employment and Social Innovation (EaSI). Up to €25.000 microloans to micro-enterprises or vulnerable people who want to start a micro-business. Also, it can invest up to €500.000 in social enterprises. – Source: European Commission. (n.d.)

- European Structural and Investment Funds (ESI funds). Multi-annual programmes co-finances by the EU, with loans, guarantees, equity, and business grants. – Source: European Commission (n.d.)
- European Investment Bank & European Investment Fund venture capital, business loans, microfinancing, and guarantees. – Source: European Investment Bank. (n.d.).; European Investment Fund. (n.d.).

7.3 The two types of funding within the EU

1. Direct funding. The allocation of the capital is managed by the European institutions. The funding is offered through grants. Grants are given to specific projects that relate to EU policies, usually following a public announcement known as a call for proposals. You can apply for a grant if you run a business or related organization carrying out projects that further the EU's interests, or if you contribute to the implementation of an EU programme or policy.
2. Indirect funding. It is managed by national and regional authorities and comprises almost 80% of the EU's budget. This is predominantly done through 5 big funds under the umbrella of the European Structural and Investment Funds:

▪ European Regional Development Fund
▪ European Social Fund
▪ Cohesion Fund

The European Commission's support for the production of this publication
does not constitute an endorsement of the contents which reflects the views only of the authors,
and the Commission cannot be held responsible for any use which may be made of the information contained therein.

- European Agricultural Fund for Rural Development
- European Maritime and Fisheries Fund

7.4 Different ways of getting funding:

There are multiple ways of getting finance and each company needs to know all the possibilities the enterprise can have:

1. Traditional finance. "Traditional" financing generally means a loan or line of credit secured through a financial institution under conventional terms, usually based on the "four Cs": character, collateral, capital, and capacity. The process for securing such financing is standardized, with lenders looking at your credit history, your business plan, and your assets when assessing your qualifications. I if you have the financial records to secure traditional funds, it's generally a small business' best option.

a) Personal or Family savings.

b) Business profits and assets.

c) Business loans: Suitable funding option for businesses that already have a presence established.

d) Small Business credit cards: A card designed specifically with the interests of SMBs and entrepreneurs in mind. more flexibility than venture capital. You aren't giving up valuable equity in your company.

2. Hybrid Financing. It has some characteristics of debt and some characteristics of equity. Simply, it is the financial security that possesses the characteristics of both the debt and equity.
3. Angel Financing. An investment model wherein "business angels" – essentially, high net worth individuals – provide financial backing for small businesses in exchange for equity in the company. Angel financing can be a one-time investment, or it can refer to ongoing support.
4. Crowdfunding. The use of small amounts of capital from a large number of individuals to finance a new business venture.
5. Venture Capital. Typically geared toward businesses with an unpredictable cash flow and not much brand presence yet. In other words, it's commonly used by brand-new businesses that are still in the opportunity stage.
6. Social Impacts Bonds. Social impact investment tackling social & environmental challenges.
7. Microfinance. Financial tool for people who experience any type of financial exclusion.

SCALE-UP: Project No. 2022-1-ES01-KA220-VET-000087577
The European Commission's support for the production of this publication
does not constitute an endorsement of the contents which reflects the views only of the authors,
and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Co-funded by the European Union

SCALE-UP
foStering women's finanCing in sociAL EntrepreneUrshiP

References

- Accounting Stuff. (2021, March 30). The Balance Sheet For Beginners (Full Example). YouTube. https://www.youtube.com/watch?v=CMv1zlZhb4Q
- Barutha P., Zhang N., Alipour A., Miller C., and Gransberg D. (2017), Social Return on Investment as a metric to prioritize use of accelerated bridge construction in rural regions. Transportation Research Board Annual Meeting, Paper 17-05002. https://www.researchgate.net/publication/330293054_SOCIAL_RETURN_ON_INVESTMENT_AS_A_METRIC_TO_PRIORITIZE_USE_OF_ACCELERATED_BRIDGE_CONSTRUCTION_IN_RURAL_REGIONS
- CFI Team. (n.d.). Cash Flow Statement Template. https://corporatefinanceinstitute.com/resources/financial-modeling/cash-flow-statement-template/
- Chen J. (2023, February 20). What Is a Creditor, and What Happens If Creditors Aren't Repaid?. Investopedia. https://www.investopedia.com/terms/c/creditor.asp
- European Commission (n.d.). CulturEU Funding Guide. https://culture.ec.europa.eu/funding/cultureu-funding-guide
- European Commission. (n.d.). 2014-2020 European structural and investment funds. https://commission.europa.eu/funding-tenders/find-funding/funding-management-mode/2014-2020-european-structural-and-investment-funds_en
- European Commission. (n.d.). Before you apply: EU funding for beginners. https://commission.europa.eu/funding-tenders/how-apply/you-apply-eu-funding-beginners_en
- European Commission. (n.d.). COSME - Europe's programme for small and medium-sized enterprises. https://single-market-economy.ec.europa.eu/smes/cosme_en?prefLang=es
- European Commission. (n.d.). EU Funding Programmes. https://commission.europa.eu/funding-tenders/find-funding/eu-funding-programmes_en
- European Commission. (n.d.). Horizon Europe. https://research-and-innovation.ec.europa.eu/funding/funding-opportunities/funding-programmes-and-open-calls/horizon-europe_en
- European Commission. (n.d.). Microfinance and Social Entrepreneurship axis of EaSI. https://ec.europa.eu/social/main.jsp?catId=1084&langId=en.
- European Innovation Council. (n.d.). EIC accelerator. https://eic.ec.europa.eu/eic-funding-opportunities/eic-accelerator_en
- European Investment Bank. (n.d.). Legacy Mandates. https://www.eib.org/en/products/mandates-partnerships/legacy/index.htm
- European Investment Fund. (n.d.). https://www.eif.org/index
- Eye on Tech. (2021, November 2). What is ROI (Return on Investment). YouTube. https://www.youtube.com/watch?v=FpNVy_nPTbY

The European Commission's support for the production of this publication does not constitute an endorsement of the contents which reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

- FundThrough. (n.d.). The Ultimate Small Business Finance Guide. Important Small Business Finance Basics and Questions - Guide. https://www.fundthrough.com/small-business-finance-guide/
- Georgiades, A. (2024) Beyond The Ledger: Traditional Finance In The Age Of DeFi. FORBES. https://www.forbes.com/sites/forbesfinancecouncil/2024/02/12/beyond-the-ledger-traditional-finance-in-the-age-of-defi/
- Gossett R. (2012, December 17). Elements of a Business Plan. Small Bizz Club. https://smallbizclub.com/startup/creating-a-plan/elements-of-a-business-plan/
- Grameen Bank. (n.d.). https://www.grameenbank.org.bd/
- Hayes A. (2023, September 28). Understanding Liquidity and How to Measure It. Investopedia. https://www.investopedia.com/terms/l/liquidity.asp
- Hec Paris. (n.d.). What is Social Business? Executive Factsheet. https://www.hec.edu/en/faculty-research/centers/sustainability-organizations-institute/think/so-institute-executive-factsheets/what-social-business
- OECD. (2023). 29. Joining Forces for Gender Equality What is Holding us Back? https://www.oecd-ilibrary.org/sites/aa4719c3-en/index.html?itemId=/content/component/aa4719c3-en
- Patagonia. (n.d.). https://eu.patagonia.com/es/en/home/
- Sajjan A. (2022, November 23). Introduction to Financial Management – A Complete Guide. Great Learning. https://www.mygreatlearning.com/blog/financial-management-introduction-guide/
- Sheth U. (2018, May 29) How to Calculate Social Return On Investment. Sopact. https://www.sopact.com/perspectives/social-return-on-investment-calculation
- Sonsev V. (2019, November 27). Patagonia's Focus On Its Brand Purpose Is Great For Business. Forbes. https://www.forbes.com/sites/veronikasonsev/2019/11/27/patagonias-focus-on-its-brand-purpose-is-great-for-business/

- Strutner S. (2023, September 5). What is Financial Management. Oracle NetSuite. https://www.netsuite.com/portal/resource/articles/financial-management/financial-management.shtml
- Syarifudin A. (2018, June 8). Measure your impact with Social Return on Investment. YouTube. https://www.youtube.com/watch?v=l3CWpt49maw
- The SROI Network. (2009; 2012). A Guide to Social Return on Investment. https://static1.squarespace.com/static/60dc51e3c58aef413ae5c975/t/60f7fa286b9c6a47815bc3b2/1626864196998/The-SROI-Guide-2012.pdf
- TOMS. (n.d.). https://www.toms.com/
- UpFina. Upscaling Finance. (n.d.). Financial Management. https://upscalingfinance.weebly.com/business-finance-and-financial-management.html
- Wise. (n.d.). Free Balance Sheet Template. https://wise.com/us/balance-sheet/#download-template
- Wise. (n.d.). Income Statement Template. https://wise.com/us/income-statement/
- Your Europe. (2022). Getting funding. https://europa.eu/youreurope/business/finance-funding/getting-funding/index_en.htm

SCALE-UP: Project No. 2022-1-ES01-KA220-VET-000087577
The European Commission's support for the production of this publication
does not constitute an endorsement of the contents which reflects the views only of the authors,
and the Commission cannot be held responsible for any use which may be made of the information contained therein.

SCALE-UP: Project No. 2022-1-ES01-KA220-VET-000087577
The European Commission's support for the production of this publication
does not constitute an endorsement of the contents which reflects the views only of the authors,
and the Commission cannot be held responsible for any use which may be made of the information contained therein.