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Access to funding for social entrepreneurship projects through networked platforms and their relationship with Sustainable Development Objectives

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ABSTRACT

- This presentation analyses Crowdfunding as a financing option for social entrepreneurship projects in initial stages. It proposes a literary review regarding the term crowdfunding and details about the main financing platforms for social entrepreneurship in Spain.
- It is based on the research project "**Conceptual definition of social entrepreneurship**" carried out by the Cátedra de Emprendimiento Social. Its conclusions reveal a broad and inclusive definition of social entrepreneurship as well as the differentiating features of these projects agreed upon by university, secondary school and professional training professors.

THEORETICAL FRAMEWORK

- The Cátedra de Emprendimiento Social UCM - Santander, carries out a research project to look for a **new definition of Social Entrepreneurship**, as well as the characteristics demandable to these projects, based on the consensus of university professors.
- The following definition emerges from the study :

Profit or non-profit initiatives which try to **create sustainable social value, either through social orientation** and intention or through its contribution to social cohesion based on the primacy of people over capital and their democratic and/or participative governance. (Lejarriaga and Bel, 2018)

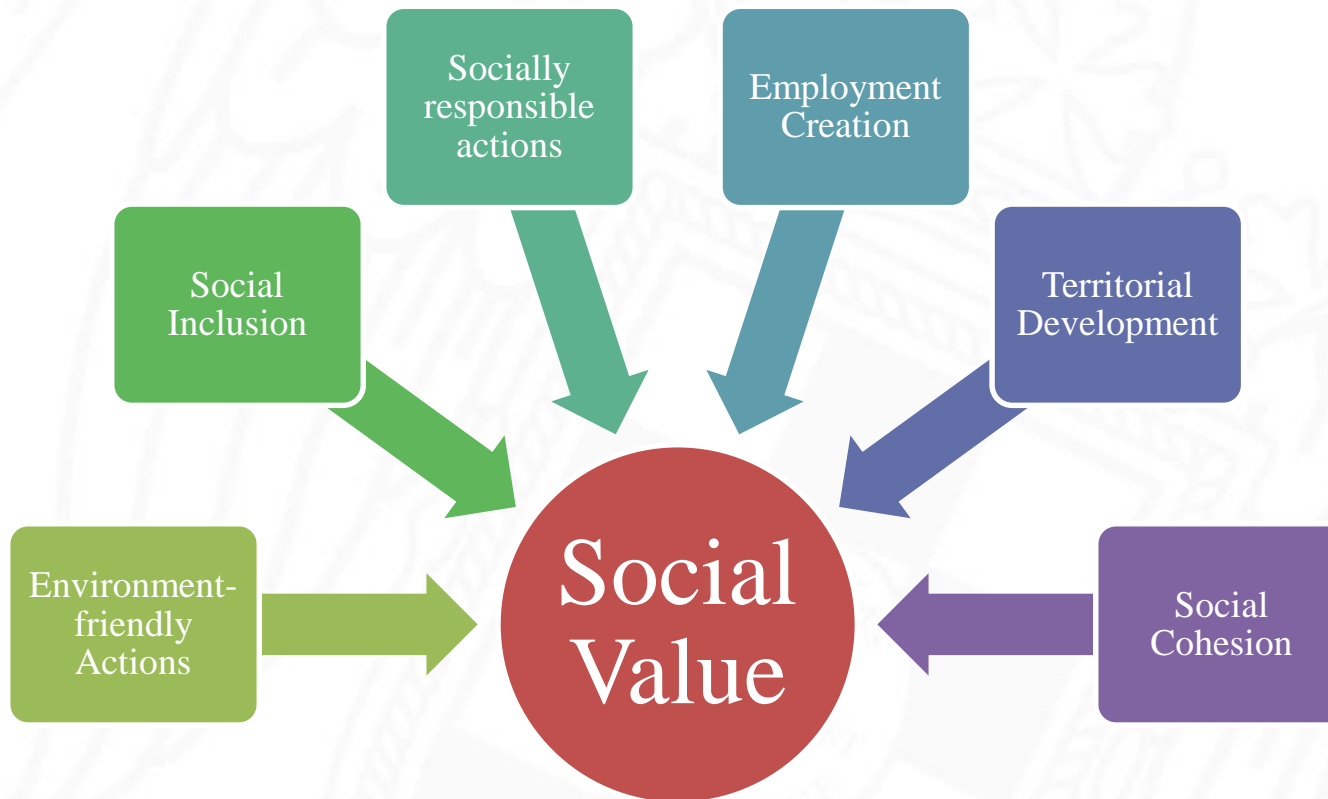
THEORETICAL FRAMEWORK

Social Economy and Social Entrepreneurship

All companies which integrate the concept of Social Economy: *Sociedades cooperativas* (cooperatives), *sociedades laborales* (labour societies), *asociaciones* (associations), *fundaciones* (foundations) and *mutualidades* (mutual societies), are **natural forms of social entrepreneurship. In general terms, organisations in which members participate democratically in all flows of the organisation**, in which the primacy of people over capital is clearly manifested because promoters set objectives and make decisions in democracy, are often identified as social entrepreneurship projects.

THEORETICAL FRAMEWORK

- Out of the fundamental characteristics of a Social Entrepreneurship project, the most significant is the creation of social value that can be achieved in different ways:



These examples are not exhaustive

OBJECTIVES

- An approach to the concept of **Crowdfunding**, as a financing formula for **Social Entrepreneurship projects**, in initial stages of establishment.
- To get to know the existing **Crowdfunding platforms in Spain**, focused on Social Entrepreneurship projects.
- To assess **how private investors that are sensitive to social entrepreneurship respond to requests for project financing according to their relationship with the Sustainable Development Goals.**

CROWDFUNDING DEFINITION:

- *Crowdfunding* is the collecting of small amounts of capital from a multitude or a relatively large number of people, with the aim of financing business activities. (**Jensen et al. 2018**)

CROWDFUNDING'S EVOLUTION:

- Traditionally, there have been many examples of crowdfunding in History, such as the building of the Statue of Liberty. (**Harris, 1985**)
- The modern conception of crowdfunding is associated with the emergence of internet, digital communication and social networks. (**Schwienbacher y Larralde, 2010; Mollick y Kuppuswamy, 2014**)
- Currently, the reconstruction of the Cathedral of Notre-Damme.

CROWDFUNDING AGENTS

1. Project Promoters who initially propose the idea
2. Funders or sponsors who support it
3. Intermediary platform that provides communication and connects both parties

(Ordaini et al, 2014)

TYPES OF CROWDFUNDING PLATFORMS

1. Crowdfunding based on rewards
2. Loan-based crowdfunding
3. Crowdfunding based on donations
4. Capital-based crowdfunding

(Massolution, 2012)

TYPES OF CROWDFUNDING PLATFORMS

1. Crowdfunding based on rewards

The goal of sponsors or funders is to win **NON-FINANCIAL** rewards, such as samples of gratitude, sometimes through the website, or, in the case of manufactured products, a first edition of a prototype.

- **Goteo:** it is defined as a civic and collaborative crowdfunding platform for social, educational, cultural or technological projects. Funding is provided to the project in exchange for rewards or recognition.
- **Verkami:** platform aimed at projects by artists, designers, creators or collectives. The rewards can be unique experiences, specific creations, exclusive designs, products or access to music or video downloads.

TYPES OF CROWDFUNDING PLATFORMS

2. Loan-based Crowdfunding

Sponsors expect to receive a periodic fixed income and repayment of the original principal investment.

- **Ecrowd:** You can only invest in projects that have a positive impact on the environment and society. For example, energy efficiency projects, biomass, renewable energies, optical fibre, recycling, etc.
 - They are responsible but also profitable investments.
 - They are projects between 1 and 5 years old.
 - 5-7% interest is offered, charged in monthly instalments with no commissions for the investor.

TYPES OF CROWDFUNDING PLATFORMS

3. Crowdfunding based on donations

Sponsors collaborate in causes in which they do not expect to receive compensation.

They only receive the satisfaction of doing something good and supporting a project that excites them.

They are solidarity projects with a great social impact.

TYPES OF CROWDFUNDING PLATFORMS:

3. Platforms based on donations

- **Migranodearena:**
 - Donations can be made to NGOs for various projects.
 - Any user can create and post online their project or solidarity challenge for one of the 1,300 social causes on the page.
 - You can promote the challenge on social networks to mobilize your friends and acquaintances to help in this cause.
 - Donations are effective even if the objective is not achieved.
 - The platform raised more than €1,500,000 in 2018 for more than 1,200 causes - NGO.4% commission on donated funds.

TYPES OF CROWDFUNDING PLATFORMS:

3. Platforms based on donations

- **Microdonaciones.net:**
 - They publish solidarity projects promoted by Spanish NGOs that have been declared of Public Utility.
 - NGOs do not pay to use the platform.
 - The projects are uploaded to the website for 5 weeks and users can make donations with no minimum or maximum limit.
 - The platform only makes the pre-donations effective if 100% of the economic objective of the project is achieved.
 - 100% of the money raised goes to the project, excluding financial commissions.
 - The platform has channeled more than €450,000 for 226 NGO solidarity projects, with a total of 4,242 donations made (data from 2016).

TYPES OF CROWDFUNDING PLATFORMS:

3. Platforms based on donations

- **Teaming:**
 - Only one euro a month is donated for a social cause.
 - Any user can create a group page and promote it with friends and social networks.
 - Every time someone joins the group they agree to pay one euro each month.
 - The platform collects the money to transfer it to the current account of the social cause without commissions.
 - The platform has raised more than 1.6 million euros in 2015 for 4,745 causes, and have more than 100,000 donors on the platform.

TYPES OF CROWDFUNDING PLATFORMS:

3. Platforms based on donations

- **Ihelp:**
 - Its services are 100% free and they carry out an exhaustive study of all the causes presented on the platform and follow-up on what has been achieved with the funds obtained.
 - It is aimed at solidarity challenges.
 - It offers the opportunity to people who are committed to be able to create a challenge, attract donations and promote NGOs.
 - In 2018 they channeled more than €100,000, more than 35 projects financed or in the process of being financed and more than 45 solidarity challenges created.

TYPES OF CROWDFUNDING PLATFORMS

4. Capital-based Crowdfunding

Sponsors receive compensation in the form of income based on equity participation.

La Bolsa Social (2014).

Spain's first capital-based crowdfunding platform for social entrepreneurship projects.

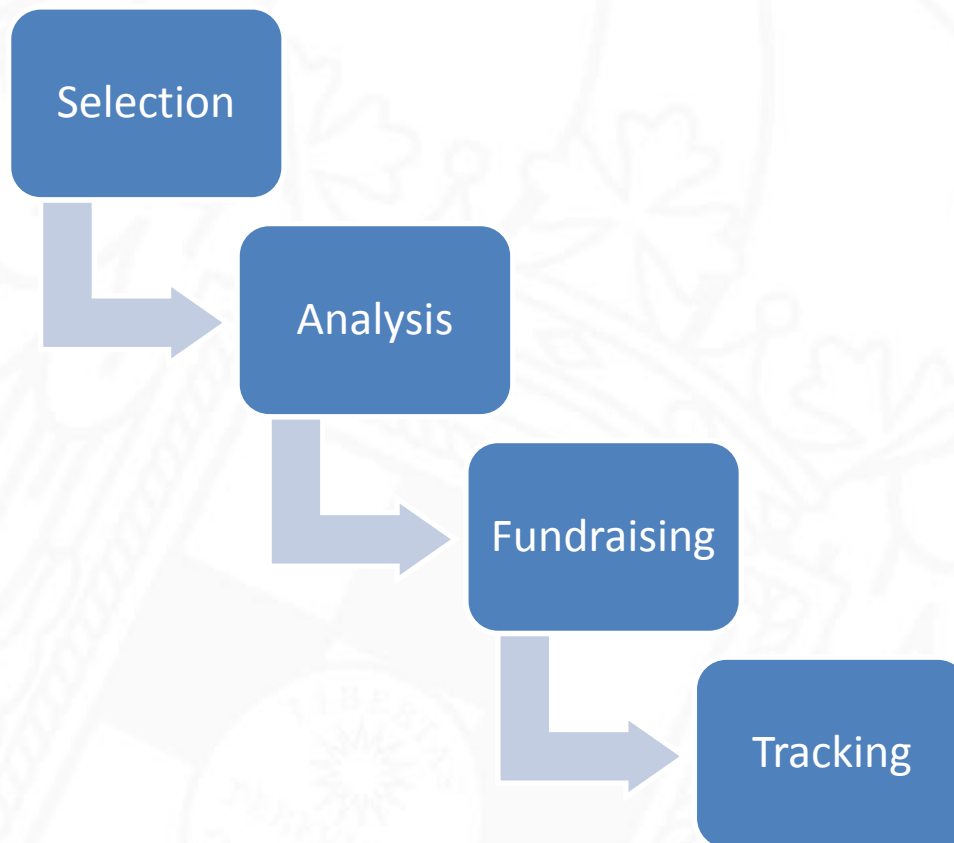
- Specialised in investments with a positive social and environmental impact.
- Investors must be registered on the platform before they can access all the information on the projects and invest.
- Investors **seek to obtain economic, social and environmental profitability from their contributions.**
- It is the first collective investment platform in Spain that links **Sustainable Development Goals (SDGs)** with entrepreneurial projects seeking financing.
- 100% of the objective must be achieved for the financing to be effective.

La Bolsa Social (2014).

Areas of action based on social and environmental challenges:

1. Health and well-being
2. Quality education
3. Responsible consumption and production
4. Climate action and the environment
5. Social integration and development

Stages:



- Investor profiles**
- **Non-accredited:** (according to Spanish Law 5/2015, on the promotion of business financing) that **cannot invest neither more than 3,000 euros per company**, nor more than 10,000 euros per year in the different projects of the Social Exchange.
 - **Accredited:** registered professional investors, largest asset companies, investors, individuals and corporations that have a financial advisory contract that covers the operations of Bolsa Social or those that demonstrate that they have appropriate economic capacity and investment knowledge

Investment

- **Seed range:** aimed at businesses that are in their initial phase.
- **Growth range:** aimed at companies that seek to grow once their business model has been validated and have capital needs of more than 100,000 euros.

If the campaign is **successful**, Bolsa Social will charge companies a commission of up to 6% of the capital raised (with a minimum of 6,000 euros) plus 500 euros per year for 5 years.

If the campaign is **unsuccessful**, Bolsa Social will only charge the company a publication fee of 1,000 euros.

Bolsa Social posts the selected projects on its website and investors can invest in them in periods of between two and three months.

While the deadline is open, the money contributed by the investors is deposited in a Triodos Bank account.

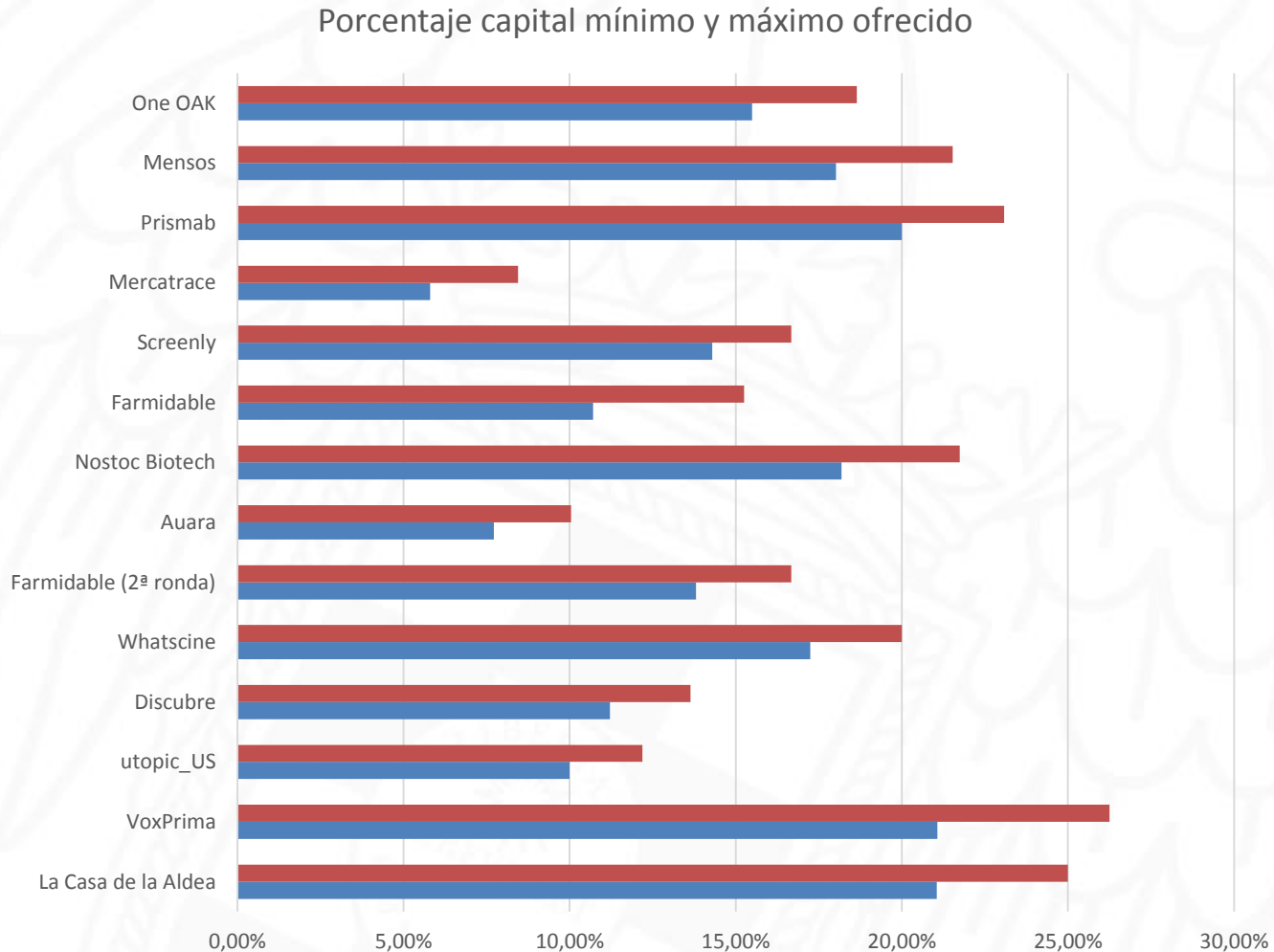
If the amount requested by the entrepreneur is collected, the money is transferred to the entrepreneur and the capital increase is carried out; otherwise, the contributions are returned to the investors.

Investors' profitability may be high but they also have a high risk because they are newly created companies with high growth potential.

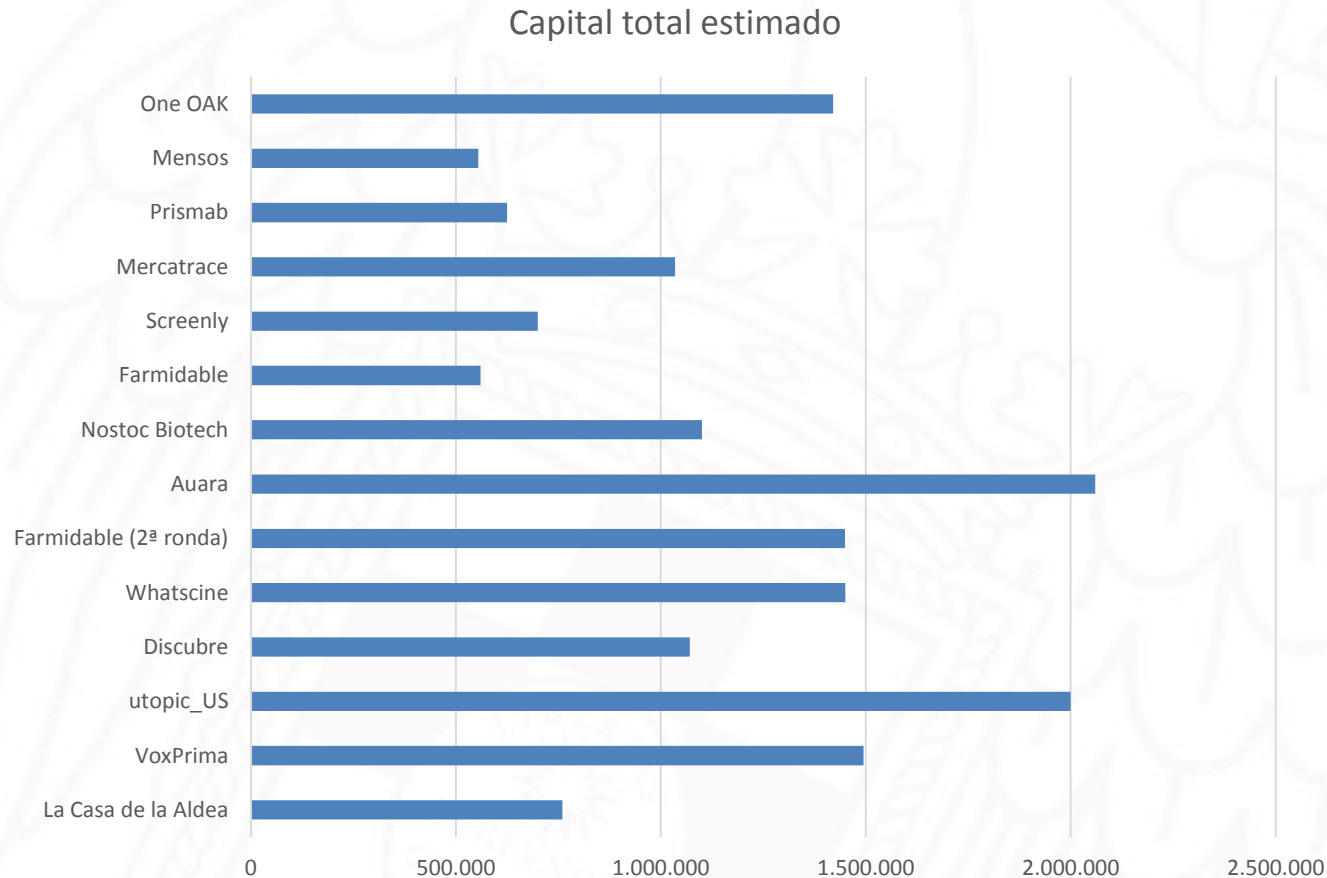
The investor who makes the largest contribution is referred to as the "benchmark investor":

- They will represent the other shareholders at the shareholders' meeting, and
- They may appoint a member of the Board of Directors to look after the interests of the members of Bolsa Social.

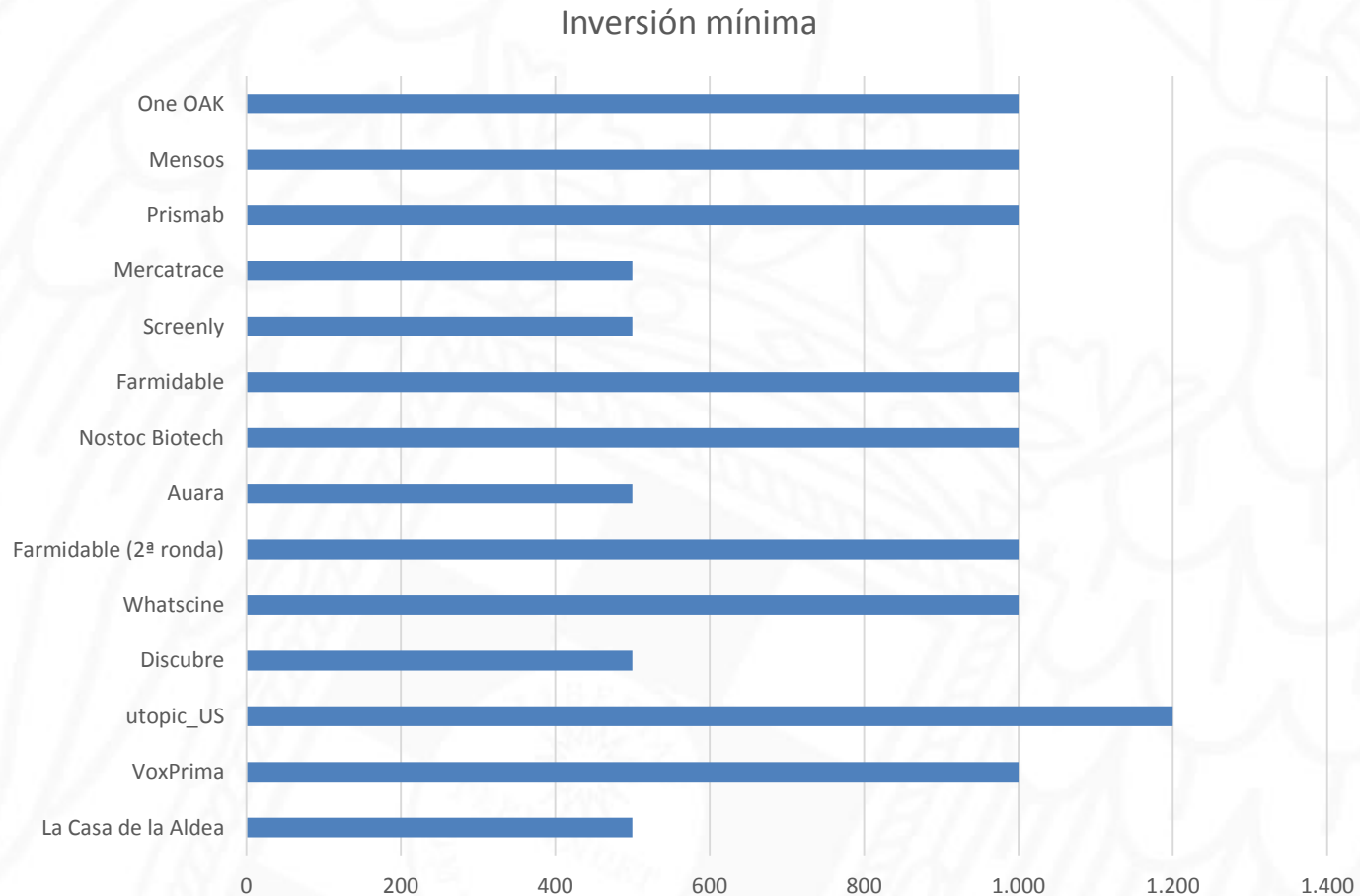
The percentage that is offered is mostly between 10 and 20%.



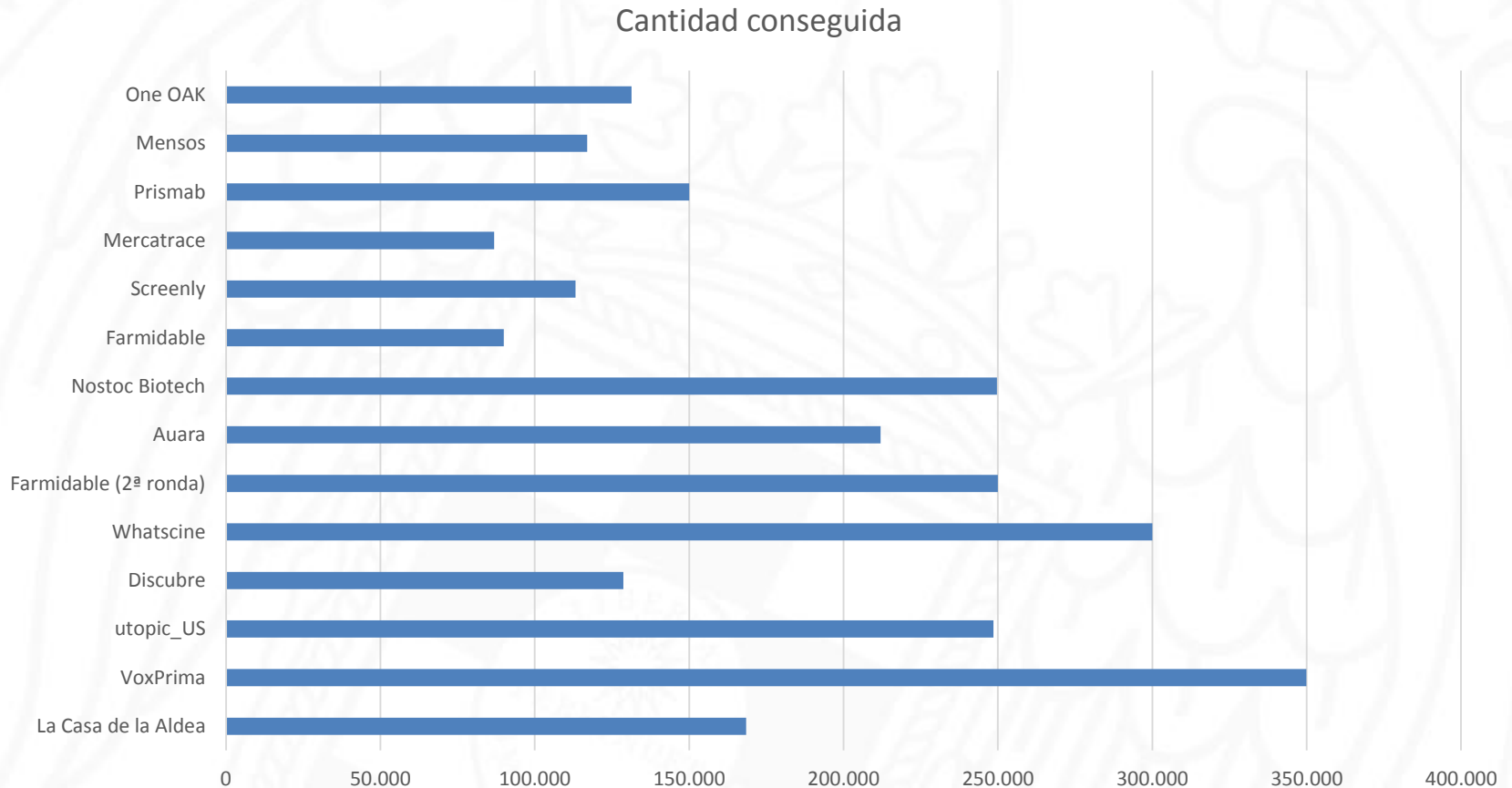
The total estimated capital ranges mainly between 500,000 and 1,500,000 euros.



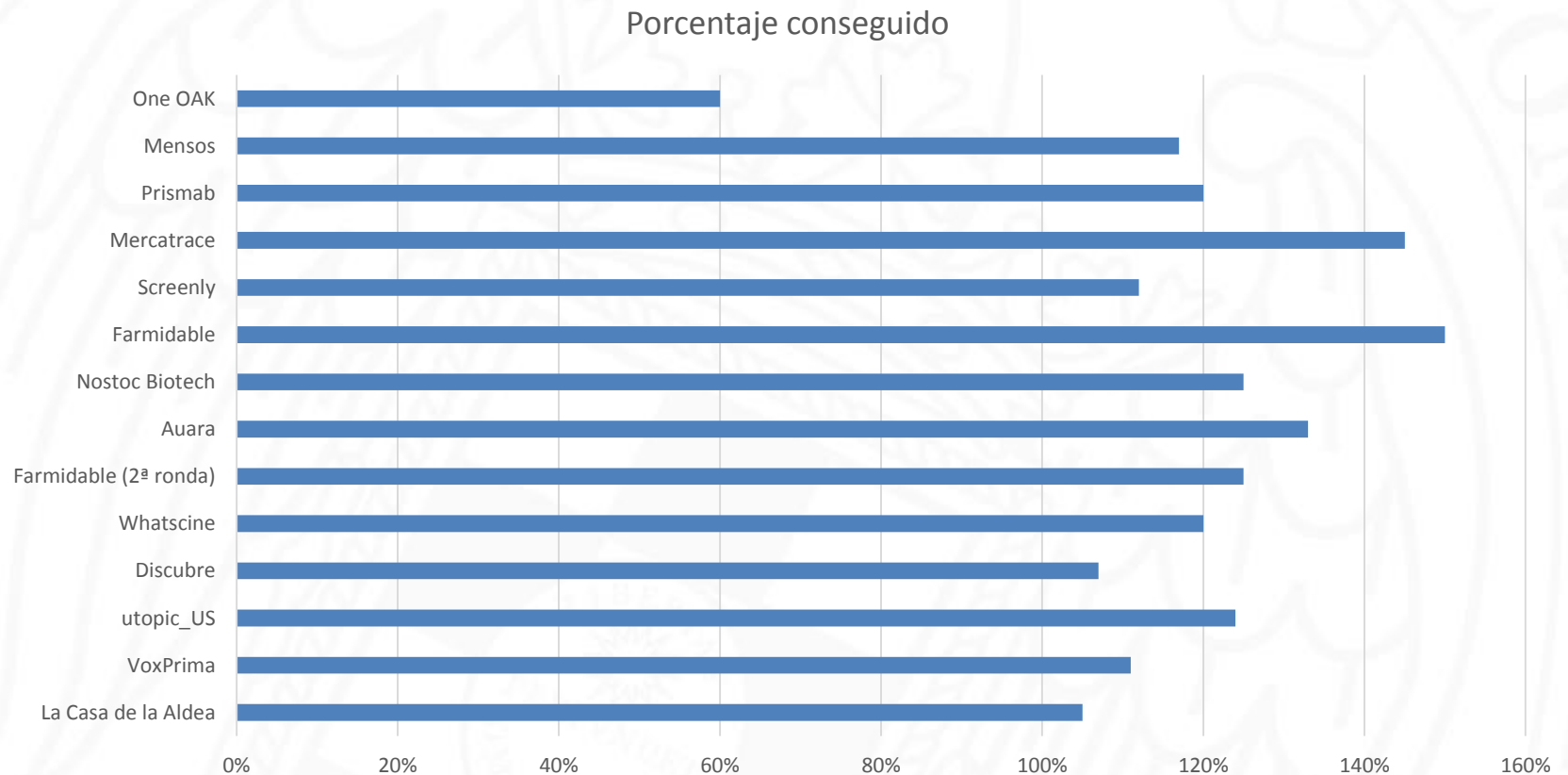
The minimum investment is mostly between 500 and 1,000 euros.



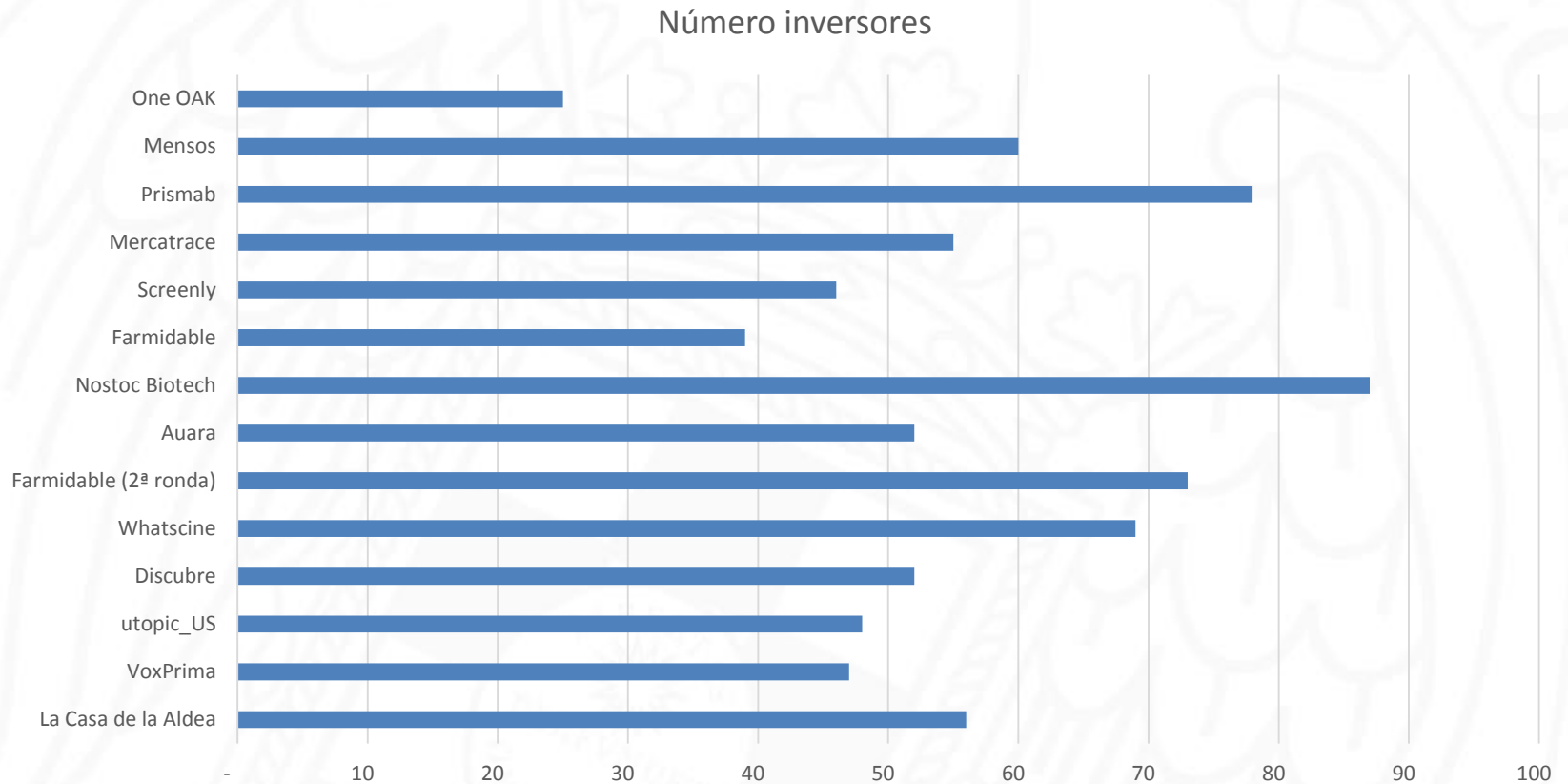
The amount obtained is mostly between 100,000 and 250,000 euros (in total more than 2,700,000 euros).



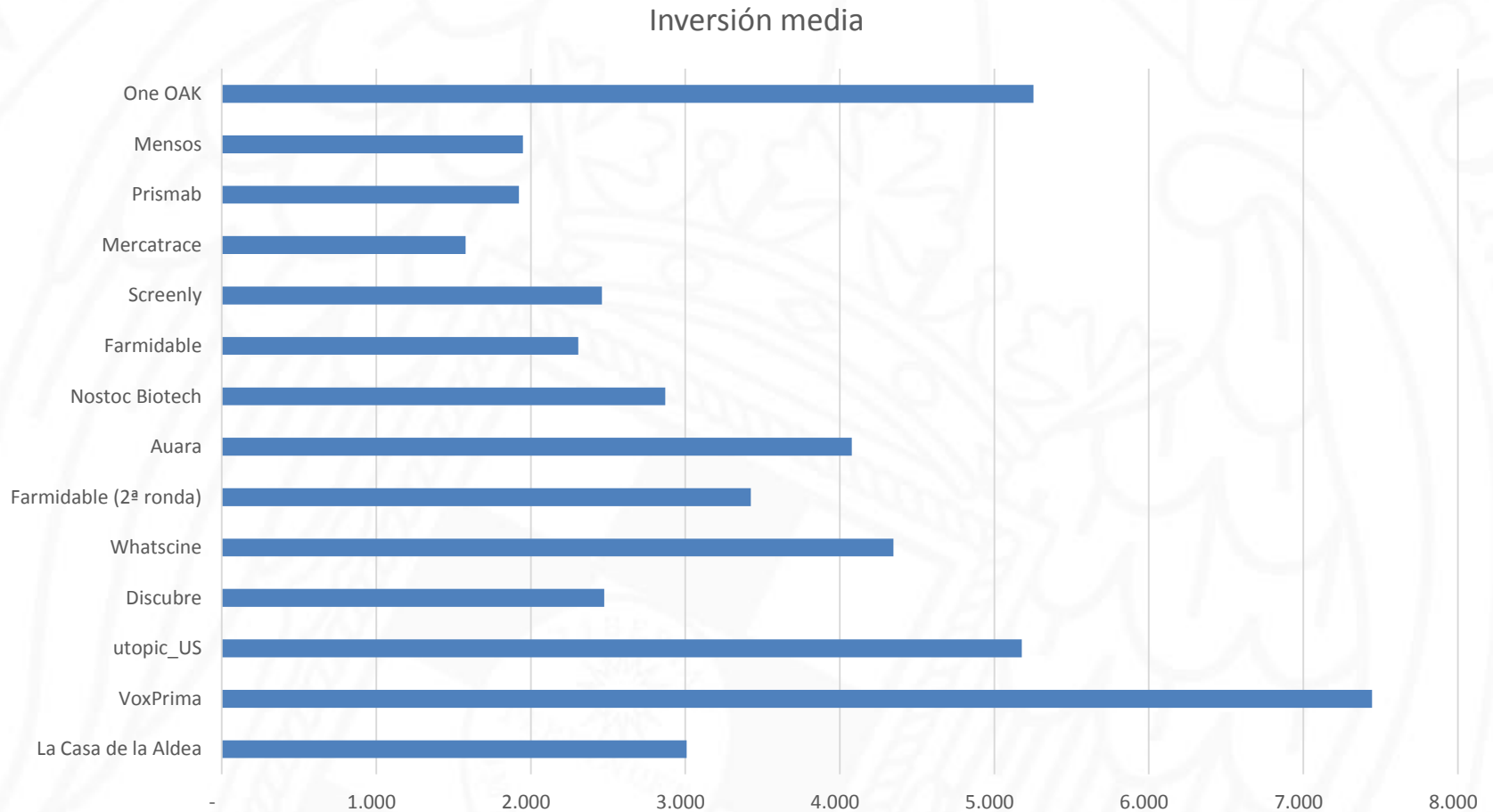
The achieved percentage is mostly between 100% and 120%.



The number of investors ranges mostly between 40 and 60



The average investment is mostly between 2,000 and 4,000 euros.



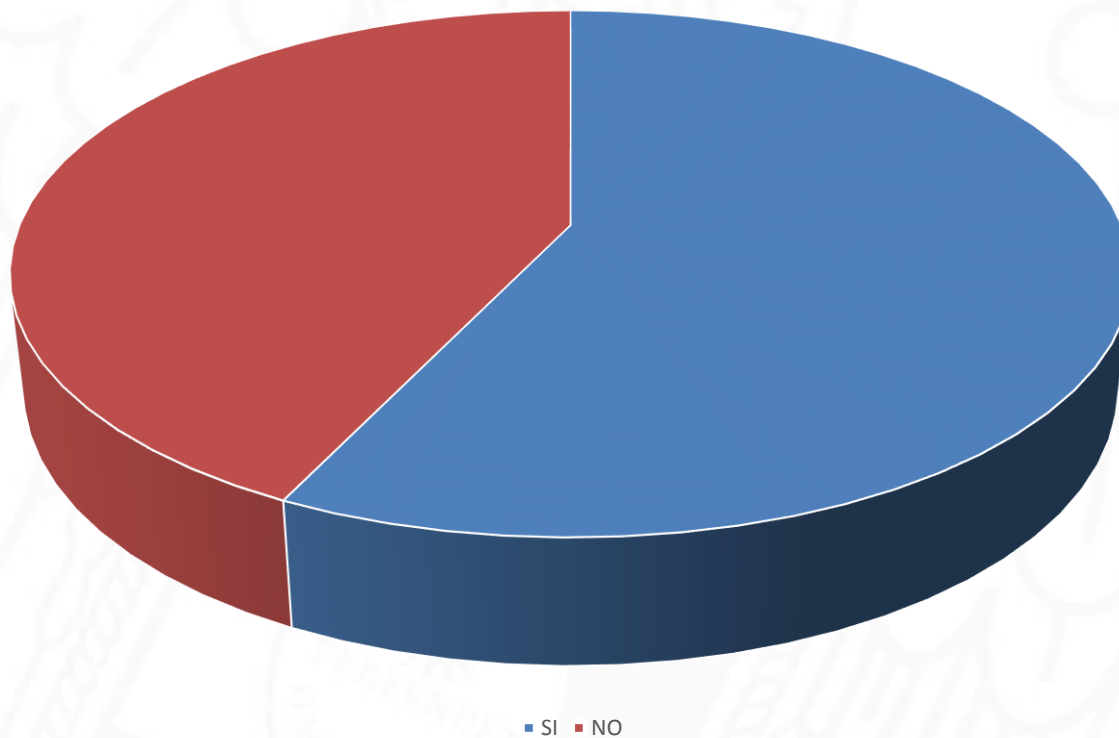
It should be noted that when the projects are published on the website, they already have part of the funding.

For instance, in the case of the company One OAK, when the campaign was opened on 12th March, it already had 85,984 euros, which represented 39% of the funding requested. This amount had been contributed by 7 investors, and therefore the average investment was 12,283 euros.

44% of the projects offer a higher return on the capital invested and 9% provide a return 10 times higher than the investment made. The average return on investment is 2.2 times the capital invested over 3.6 years (REY-MARTÍ, *et al*: 2019).

57% of investments have tax incentives

Inversión con incentivos fiscales



When investing as an individual in companies that have been active for less than 3 years, up to 20% of the investment can be deducted out of in their income tax.

The maximum investment that can be deducted is €50,000 (deduction of €10,000 in the total income tax quota).

In some regions of Spain this deduction can reach up to €16,000 (Cataluña) or €14,000 (Madrid, Andalucía, Aragón, Galicia and Murcia).

Holdings in the company must be held for a minimum of 3 years and a maximum of 12 years.

Activities

Healthy Eating

Education

Collaborative Economy

Tecnology and disability

Disability

Nutrition – work integration

Access to water

Green economy

Healthy Eating

Education

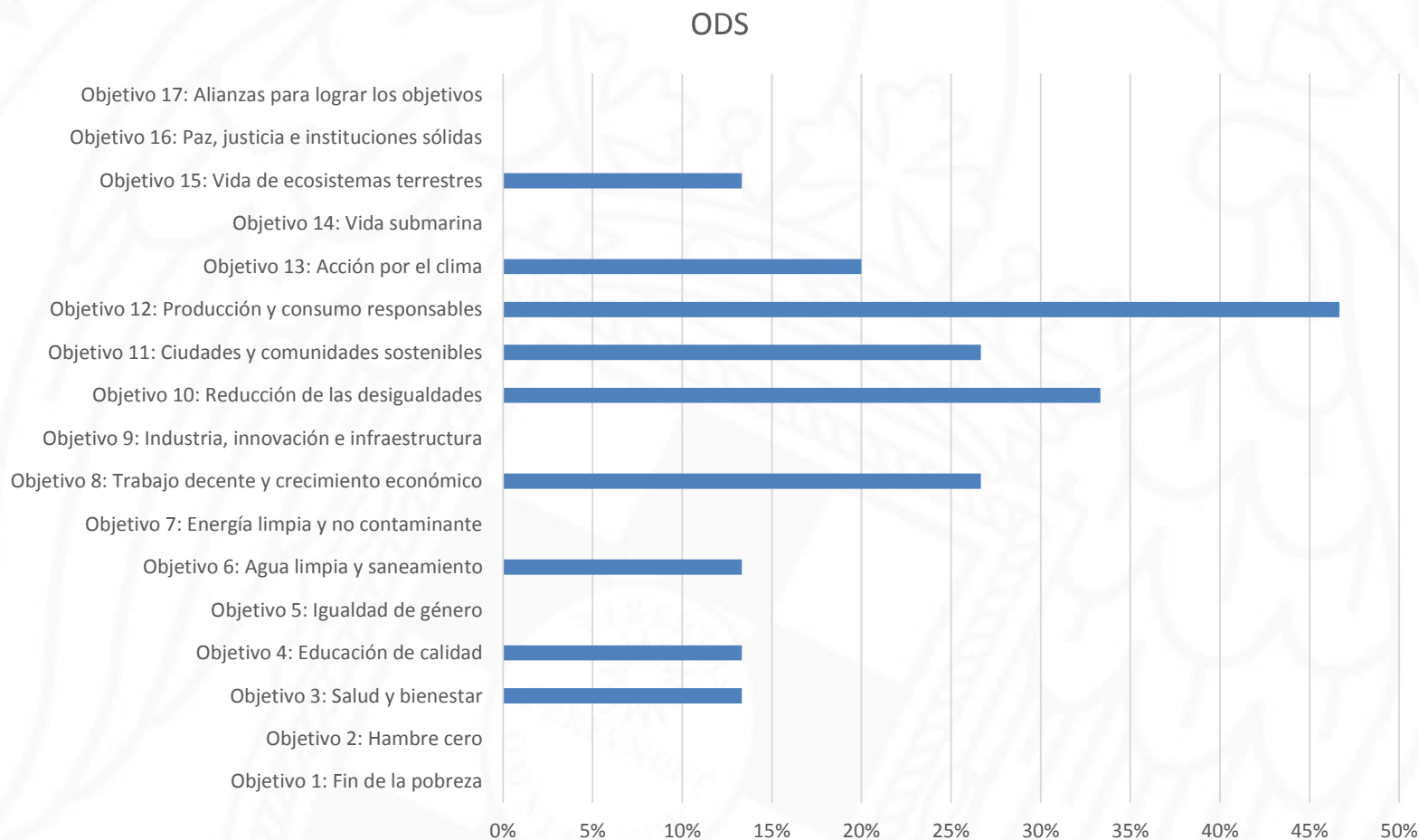
Tecnology and Nutrition

Agronomic measurement systems

Sustainable Messenger service

Sustainable Fashion

The most frequent SDGs are those related to responsible production and consumption, the reduction of inequalities, decent work and economic growth.





SUSTAINABLE DEVELOPMENT GOALS



<https://www.undp.org/content/undp/en/home/sustainable-development-goals.html>

Conclusions

- Every initiative or new project, in which the promoters create social value, in any of its possible manifestations, must be considered as social entrepreneurship.
- The embodiment of social value creation in social entrepreneurship projects is linked to the Sustainable Development Goals (SDGs).
- Most social entrepreneurship projects focus their actions on one or more of the Sustainable Development Goals (SDGs).
- The largest social entrepreneurship projects seeking funding through online crowdfunding platforms use the formula of offering investors equity participation.

Conclusions

- In Spain, the benchmark is Bolsa Social: a platform that unites **entrepreneurs and investors** seeking a **positive impact on society and the environment** to promote the **UN's Sustainable Development Goals**.
- Social entrepreneurship projects often contribute to the objectives of "**decent work and economic growth**", "**responsible consumption and production**" and "**reduced inequalities**".
- The platform must work with thoroughness and be clear about the information offered to investors in order to offer them the security that would reduce their perception of risk.