In Pursuit of Innovative Financing Alternatives for Social Enterprises: Lessons for Social Enterprises of Bangladesh

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Abstract:
In the pace of breeding population social demands are increasing while the scarcity of the resources is predominating. Consequently, poverty is overwhelming the world. Various socio-economic problems, fundamental needs and wants are still unmet, or are yet to be addressed proficiently by the existing market systems (Di Domenico et al. 2010; Peredo& McLean, 2006; Hacket, 2010). Research evidence indicates that social enterprises (SEs) that are convincingly addressing social needs (Mair and Marti, 2006; Levine, Kogut and Kulatilaka, 2012 and Darko, 2015) are constantly confronting barriers to access financing in a sustainable manner (Arena, et al, 2018). For instance, so far, the institutional financing solutions (like grants, charity, and personal equity) that are being widely exploited by the SEs are not sufficiently adequate to support social tech start-ups to scale (Arena, Bengo, Calderini and Chiodo, 2018). On the ground, this research aims to explore the innovative financing methods and instruments for social enterprises (SEs). This research contributes in two ways – i) identified new tools of financial re-engineering through exploring of financing practices by some of the forwarding thinking foundations and pioneering countries, and ii) thereby, harvesting lessons for Bangladeshi social enterprises, so that Bangladeshi SEs find the ways to conquer financing challenges and overcome the difficulties to attain financial sustainability.
Key Words: *Financing social enterprises, approaches, challenges and financial sustainability*

Part- 01: Introduction

Background, Theoretical Paradigm, Research Opportunities and Study Methods

Background: In the pace of breeding population social demands are increasing while the scarcity of the resources is predominating. Consequently, poverty and other social problems are pervasive all over the world. Today, nearly 1.3 billion people are living in extreme poverty (UNDP; Human Development Report, 2014), 22,000 children die each day due to poverty (UNICEF, 2014), 805 million people don't have enough food to eat (FAO, 2014), 750 million people lack adequate access to pure drinking water (WHO and UNICEF, 2014), approximately 1.6 billion people live without electricity (UN, 2018). Moreover, diseases like diarrhea, pneumonia, diphtheria, tetanus, HIV/AIDS, malaria, and tuberculosis are still costing children lives especially in developing countries (UNICEF, 2018). There is numerous evidence around the world that people are suffering from insufficient food, deficiency of safe and pure water, homelessness, lacking treatments or malnutrition, wanting access to electricity and being in short of many other social overheads. Thus it's eventually emphasized that "to promote inclusion, social protection systems must be sensitive to the needs of those population groups that are at highest risk of poverty: children, youth, older persons, persons with disabilities, international migrants, ethnic and racial minorities, and indigenous peoples" (UN Report on World Social Situation 2018). The report also shows that each of these groups faces particular barriers to social protection coverage. Various socio-economic problems, fundamental needs and wants are still unmet or are yet to be addressed proficiently by the existing market systems (Di Domenico et al. 2010). Only government and federal agents or private organizations are not enough to bridge such persisting gaps, therefore, there emerge some entrepreneurs who are working for meeting such social problems innovatively and successfully (Peredo& McLean, 2006; Hacket, 2010). For example, Di Domenico et al. (2010) argues that the unique characteristics of SEs are that they are established in the areas where private markets failed to address such social problems effectively, efficiently and in a value-creating way.

It is largely acknowledged that social enterprises are significantly impacting to resolve socio-economic problems of the community (Doherty et al. 2009; Galera and Borzaga, 2009 and Diochon and Anderson 2009). SEs are addressing a range of social, economic and environmental issues" (Blundel and Lyon, 2015). They also argued that governments around the world are testing the potentials of SEs as an alternative avenue for meeting social problems. For example, the UK government took initiatives for the development of SEs a decade ago (Mswaka, et al. 2016) and national policymakers in the different parts of the world are seeking ways to eliminate the direct funding of the sector (Defourny and Nyssens, 2008). Leading scholars emphasize that social ventures should therefore move beyond business models largely relying on grants and charities but acquiring valuable resources for their sustainability, for instance, a commercially sustainable business model as recognized by Doherty, et al. (2014). Scholarly investigations propose that innovative funding scope is not only the pivotal issue for the social enterprise but also truly challenging (Doherty et al. 2014).

Research indicates that onward the spreading of social enterprises & their activities, the market for venture capital is becoming challenging and more competitive. Accessing funding and other forms of technical support have become burning challenges for social enterprises all over the world (Martin and Thompson, 2010). "Financing constraints is one of the biggest concerns impacting potential entrepreneurs around the world (Kerr & Nanda, 2009)". With the growing competitive donors and grants for funding, today's non-profit organizations are running their operations in the competitive market (Weerawardena & Mort, 2006). These enterprises are struggling to lessen their dependence on grants and moving to non-grants capital. Moreover, there are some warnings for using grants (venture capital, crowdfunding etc.). Due to their social business nature and social mission and goals, they are not able to get profits extensively to reinvest their ventures by conventional investments. SE is ever growing and discussed concepts all over the world. "Much of the academic literature has therefore focused on analyzing the nature of these frictions, the effect they have on access to finance, and the impact of reduced financing constraints on rates of entrepreneurship (Kerr and Nanda, 2009)". Consequently, this research aims to explore innovative financing methods and instruments for social enterprises. ***This study explores financing practices by some of more forward-thinking foundations and pioneering countries like UK, Europe, USA, Australia etc, and, thereby harvesting lessons for Bangladeshi social enterprises- so that Bangladeshi SEs find the ways to conquer financing challenges and overcome the difficulties to attain financial sustainability.***

Theoretical Paradigm: Social enterprises (SEs) are emerged as " a process of involving the innovative use and combination of resources to pursue opportunities to catalyze social change, and/ or address social needs" (Mair and Marti, 2006) . Social entrepreneurs are referred to the individuals who establish enterprises primarily to meet social objectives rather than generating personal financial profit (Mulgan and Landry, 1995; Shaw & Bruin, 2013). Borzaga and Galera (2012) clearly defined that those are social enterprises that have a commitment to building social capacity & preserving the environment by being motivated by ethical values and social aims- like job creation, training and provisioning local services. On the other hands, Social Enterprises (S.Es.) have business orientation belonging explicit sustainable objectives of generating surpluses and profits which is necessary to be reinvested for developing capacity in lieu of hoarding personal wealth as corporate entrepreneurs are doing (Martin and Thomson, 2010; Doherty et al., 2009). While Chell (2007) argues that S. Enterprises should have dedicated accountability to the larger community. Pearce (2003) emphasizes on social ownership and stakeholders' participation. In fine (Chell, et al., 2010) recognizes social enterprise as a hybrid business as an avenue to address triple bottom line e.g. social, economic and environmental goals. Society's expectation from the government and from corporate has been gradually changing day by day (Singh et al., 2017). The government is expected to act as a mediator to ease the tension between business and society. On another hand, society desires that the business considers them an active stakeholder. Therefore, social enterprises have been emerged as a global phenomenon to bridge the gap between the demands for the fulfillment of social and environmental needs, and the corresponding supply of resources (Nicholls, 2006). "Social entrepreneurship is a rapidly emerging domain within both the academic and practitioner communities" (Smith & Stevens, 2010). It's now becoming a well-established concept in business (Peredo& McLean, 2005, p.

56). In many scholarly books, journals are discussing the SE. SE has emanated to deal with complex social problems through an innovative approach (Johnson, 2000). SE is a promising instrument for addressing unmet social needs that need legal and financing supports and another sort of social policy.

Traditionally, entrepreneurs are the persons who initiate the new concepts, ideas and transform these into reality with their innovative knowledge and skills. Alike, in the more scholarly understanding, Social Entrepreneurs are those who launch enterprises a set of individuals & groups who have the capacity to create significantly greater value, often in a shorter period of time & thus make uncommon contributions in the world ((Peredo& McLean, 2005). To narrate the distinguishing features of Social Entrepreneurs, Faruk et al (2016) stated that Social Entrepreneurs are ambitious, persistent, taking major issues and offering new ideas for the wide-scale change. "Entrepreneurs are highly innovative, highly motivated, and critical thinkers" (Howaldt and Schwarz, 2015).

Social enterprises can be for-profit or not for profit (NFP) though both have a common mission of social value creation. Peredo& McLean (2005) drew upon 'what makes social' and 'what makes entrepreneur'. There are a number of approaches to social entrepreneurship in the private NFP domain. Weerawadena & Mort (2006) addressed some features for NFPs. Because of the failure of the government services; NFPs have proved their distinctiveness to attract the fund providers and are facing competitions in markets of funds. Peredo& McLean (2005) claimed that not-for-profit enterprise's mission is social where the central criterion is not wealth creation and does not redistribute the profit to members e.g. Grameen Bank. Some scholars named 'Hybrid' organization as of for-profit and not-for-profit combination.

Recent research evidence indicates that financing barriers have emerged as one of the pivotal constraints onward the growth of social enterprises (Social Enterprise UK, 2011). 'The lack of appropriate financing' is the single most important constraint onward the development of SEs throughout the world (The Bank of England, 2003). From this perspective SEs have been dependent much on grants, donations, charity etc. and need to broaden their horizons of funding by taking out loans and securing other sorts of equity finance. Emerson et al. (2008) argue that availability of capital is the function of access to funding opportunities which is always constrained, and thereby promising and growing SEs are confronting difficulties accessing into desired investment. The view articulates that there has been an insufficient supply of development finance for SEs and still is an influential policy debate. Today, the UK is the fertile land of development finance for social enterprises and the Labor Government resumed the journey in the late last decade by introducing funding schemes like Futurebuilders and Capacitybuilders to increase the supply of finance for SEs (The Cabinet Office, UK. 2011). Some scholarly contributions recommended that tools and approaches of financing SEs are to be changed or diverged indeed. Instead of relying on grants and earned income, SEs are today increasingly searching alternative avenues to finance from banks and venture capitalists (Bryson and Buttle, 2005). In the UK and USA Community Development Finance Institutions (CDFIs) deeply dedicated to providing credit and financial services to low-income, low-wealth, disadvantaged people or communities who join the economic mainstream (Nicholls, 2010). However, Lyon and Ramsden (2006) argue that financing SEs are not similar but varied geographically, and SEs encounter patchy contexts of financing realities.

In Pursuit of Research Opportunity: 'A New Approach to Funding Social Enterprises' (HBR, 2012) reveals that the financial crisis between 2007 to 2009 badly smashed up the trustworthiness of financial innovation in the wits of the general public. Instead of collateralized debt and credit default swaps Microfinance (MFIs) is now a market of billion dollars. At the end of 2017, MFIs reached an estimated 139 million low-income and underserved clients with loans totaling an estimated 114 billion dollars. These levels represented a growth of 5.6% in total borrowers and 15.6% in the loan portfolios. While the loan portfolio growth was stronger than the 2016 results (plus 6.2 points), expansion in outreach to new borrowers slowed by half in 2017 compared to the 9.6% growth experienced in 2016, representing a rising average loan balance per borrower (Microfinance Barometer, 2018) . The growth is rising because of the ability of investment banks to pool the microloans of many lenders and issue collateralized debt obligations against them in the international financial markets, freeing up the capital of those lenders and allowing them to make additional microloans. Numerous research evidence suggests that current methods of funding social enterprises are less attractive and inefficient. As a result, social enterprises have started working to broaden their access to capital (Levine, Kogut and Kulatilaka, 2012; Mswaka , 2015; Martin and Thompson, 2010). Therefore, these SEs are searching and exploring new approaches to financing opportunities that will help these enterprises to achieve financial sustainability.

Bangladesh has a burgeoning social enterprise sector (Darko, 2015 & 2018) and SE activities are more visible in sectors such as health, agriculture, technology and the creative industries (Darko, 2015 & 2018), power and energy distribution, micro-finance, , education etc. (Heckett, 2010; Dalberg and GIIN, 2015). For instances BRAC (Bangladesh Rural Advancement Committee) and the Grameen Trust are two household names prominent not only in Bangladesh but across the world (Ward, 2015), and are known globally for having influencing social enterprise activities such as poverty alleviation, capacity building, education, health services, micro-credit, resolving housing crisis, tackling malnutrition etc. in Bangladesh (Darko, 2015; Mizan ,1994; Yunus, 1999; Yunus, 2008). Thus, the real world scenario and study suggests that beyond these two leaders, there are also a wide range of growing small and medium SEs in Bangladesh which are significantly contributing for meeting any sort of social goals or local needs or national crisis while existing market system failed or untouched or un-addressed thereby (Hackett, 2010). The literature review reveals that financing is a vital concern of Bangladeshi social enterprises like other developing countries, yet it's an outreached phenomenon in the social enterprise discourses of Bangladesh (Hackett, 2010).

Eventually social enterprises (SEs) are those entrepreneurial institutions that solve the social problems in an innovative way unlike business enterprises (Levine, Kogut and Kulatilaka, 2012). They might be both nonprofit and for-profit ventures, and their returns blend social benefit and financial revenues. Social enterprises have been becoming of many flavors but they all face a similar bottom question: Can SEs make revenue and pursue enough investment to make the costs with corresponding benefits and grow their activities? A good number of remarkable scholarly investigations reveal that social enterprises are exhibiting significant impacts onward addressing the broader range of social needs in a socially legitimated way. But funding scope and opportunities are still hindered and challenging. As a result, leading scholars, professionals, policymakers and social entrepreneurs are increasingly urging for innovative avenues of financing social ventures. Consequently, ***this research project endeavors to explore and investigate the innovative approaches of financing practiced by some of more forward-thinking foundations and pioneering countries, and thereby harvesting lessons for Bangladeshi social enterprises so that Bangladeshi SEs find the ways to conquer financing challenges and overcome the difficulties to attain financial sustainability.***

Research Methodology: The investigation made by this research is principally based on existing scholarly contributions and materials are obtained from various published and unpublished sources, and, therefore, this study can be classified as a qualitative analysis pursuing desk-study researching strategy (Verschuren and Doorewaard, 2010). Eisenhardt (1989) in " Building Thehories From Case Study Research" suggests that "qualitative research is suitable when little is known about a phenomenon". Moreover, Langley (1999) states that qualitative research is an influencing apt to pursue research outcomes when the aim is to derive ideas from the data at hand and attach them to theoretical perspectives. Hence, for the purpose of secondary data search - a wide range of journal articles, projects reports, seminar papers, books, working papers, newspapers and different websites and profile description from the Schwab Foundation are used to explore the SE financing concepts, process & models as well as related issues of SEs in developing economies like Bangladesh. Furthermore, through the approach of "bibliometric analysis (Pritchard, 1969 and Leeuwen, 2004)" secondary data is searched by using three keywords; social enterprise, social entrepreneurs and financing social enterprises and then selected secondary samples (more than 50) with an underlying value of SE financing alternatives, approaches, challenges and barriers pervasive all over the world irrespective to developing and developed countries. The ISI (Institute Scientific Information) Web, Schwab Foundation, SIE (Social Innovation Europe) Web, Business Source Complete, Science Direct, British Council (websites) Reports on Social Entrepreneurship and Bangladesh Social Enterprise Project (BSEP) are the major database explored in this study. Articles from Social Enterprise Journal and Journal of Social Entrepreneurship were also extensively explored for the purpose of investigation and analysis in pursuit of research outcomes. Besides of these, sources and constraints of financing of SEs are also investigated by mapping of local and international practices endowed by the leading social enterprises or foundations. After such a thorough review, finally, the study concluded with some recommendations on how social enterprise can adopt new approaches to financing as well as access to financing opportunities and overcome the barriers onwards. In fine, the research is derived in developing the financing policy implications for Bangladeshi Social Enterprises.

This study is constructed as the following sections; Part one comprises Background, Theoretical Paradigm, Research Opportunities and Study Methods, then finding and analysis section explores all financing alternatives from traditional to new financing approaches to financing SEs, and thus, investigated SE financing practices by the leading-edge social enterprises, pioneer countries or foundations throughout the world. Finally, the Conclusion and Policy Recommendation part of the research sheds some significant policy recommendations for Bangladeshi SEs guiding them toward a new avenue of funding opportunities and approaches.

Part – 02: Findings and Analysis

The Substantial Requirements for Funds and Capital to Finance SEs

The current landscape of funding social enterprises reveals that SEs generally rely on either on grant capital in the form of donations, grants, project funding or commercial funding such as bank loans and advances etc. (Burkett, 2010; Social Enterprise UK, 2013; Glanzel et al., 2013). Burkett (2010) also warned about the drawbacks of such kinds of financing, for instance double costing of commercial funding (paying back loans with interest) & unhealthy and unprofessional behavior of grants providers. In the context of the contemporary landscape of financing SEs, Lyons &Kickul (2013) uttered that “Where money and meaning intersect” is becoming the mantra for a new generation of entrepreneurs and investors both within the US and abroad. Financing social enterprises are a very new subfield of SE which is the recent attraction of researchers (Lyons &Kickul, 2015). It is immensely a fertile field for research. However, access to funding, like in any other commercial enterprise, is a critical component for enabling social enterprises to deliver on their mission, and can often be the determinant of the ability to scale and achieve greater scale (Sunlay& Pitch, 2012). According to Volkmann, Tokarski and Ernst (2012), securing access to capital has a crucial role in achieving the social mission. In the traditional sense, financing covers all processes and measures within an organization related to the provision and repayment of the funds needed for an organization’s investment or business operations development.

There are two possible forms of financing – internal and external. If the social venture generates cash flow through the provided services and products, it makes use of internal financing. Normally, the target group itself pays for the services but there are also cases when third-party provide the payment – either the government or service beneficiaries (Volkmann, Tokarski& Ernst 2012). According to Spiess-Knafl (2012), the government funds only concrete projects and there are complex administrative procedures that have to be fulfilled. Internal financing by the service recipients often proceeds in the form of membership fees. Zimmer and Priller (2007) state that only 32.3% of the total financial volume is financed by internally generated revenues. Often internal financing is accessible to SE. Financing through public authorities is not available to for-profit ventures and so it is one of the differences in the financial structure of the two types of enterprises (Volkmann, Tokarski& Ernst 2012: 158).

Such internally generated funds do not, however, meet the volume to expand reach & scale the programs to drive sustainability. Donations are of great importance for SE, especially in cases when other financing streams are not accessible. Since donations are not repayable and do not give any managerial rights to the donors, they are often preferred by social entrepreneurs. However, they also have their disadvantages. In most cases they are related to a specific project, short-term oriented and have fundraising costs. Therefore, money for the organizations themselves is lacking and they remain underfinanced. Sources of donations could be Corporate Social Responsibility funds of firms, private individuals or foundations (Peeva, 2015). All in all, donations form only 4% of the financial volume of nonprofits (Grohs, Schneiders&Heinze 2014). Nevertheless, they are a significant part of the social sector (Volkmann, Tokarski& Ernst (2012). For instance, in Bangladesh, Brac and Grameen Bank also got their early-stage finance by donations and grants from various institutions.

According to Volkmann, Tokarski and Ernst (2012), "the shortcomings of donations have led to use of other financing instruments". Thus, external financing has a significant meaning for the SEs. Social entrepreneurs use external financing for long-term investments, like equipment and buildings, or to cover negative operating cash flows. Sources of external financing are investors without or with reduced financial return expectations because of the limited financial capability of social enterprises. Therefore, it is habitual when investors lower the rate of expected financial return. Basically the same external financial instruments are available for traditional companies and social enterprises: equity, debt and mezzanine capital (Lyons &Kickul, 2015). In addition, social ventures can receive donations or can have hybrid capital. However, in many countries like US social enterprises are engaging in financing their operations by ***crowdfunding*** (*Crowdfunding is the process of funding a project online by collecting small amounts of money from a large volume of people*) and also a viable alternative for social enterprises (Herminway, 2016; Lyons &Kickul, 2015). Hermingway claimed that like social enterprise, crowd-funding reacts to unmet demand in the market- the market for capital. Basically, social entrepreneurs use this type of capital at the growth stage when grants funds can't meet the needs of additional capital requirements.

Another alternative for financing working capital, negative cash flow or even long-term investments is equity capital. According to (Volkmann, Tokarski & Grünhagen (2010), the formal sources of equity capital could be **business angels** (*Business angels are wealthy, entrepreneurial individuals who provide capital in return for a proportion of the company equity. They take a high personal risk in the expectation of owning part of a growing and successful business*)**, private equity (***Private equity is an alternative investment class and consists of capital that is not listed on a public exchange. Private equity is composed of funds and investors that directly invest in private companies, or that engage in buyouts of public companies, resulting in the delisting of public equity)* **and venture philanthropy funds (***Venture philanthropy is characterized by a high degree of investor oversight and engagement, in addition to financing plans which are tailored very specifically to a company or organization's capacity-building needs)*. The shortcoming of these types of capital is that the capital provider receives shares of the enterprise and therefore gets control and voting rights (Volkmann, Tokarski& Ernst, 2012). An option for financing long-term investments, like equipment or buildings, without giving away venture´s share is **debt capital**. In this case the enterprise has to pay regular interest - a payment period is defined and at its end the debt has to be repaid.

Social Enterprises, for which neither equity, nor debt capital is the perfect option, can chose the **mezzanine financing** *(Mezzanine financing is a hybrid of debt and equity financing that gives the lender the right to convert to an equity interest in the company in case of default, generally, after venture capital companies and other senior lenders are paid)* as a hybrid concept between the other two. The dominant elements of equity or debt capital depend on the concrete case (Volkmann, Tokarski&Grünhagen 2010). This collective form is often chosen by social investors because their investment is repaid like a loan and additionally they receive the option of "performance related compensation in case of financial success" (Volkmann, Tokarski& Ernst 2012). However, these additional financing instruments providing external capital are often problematic, because SEs often does not generate sufficient financial returns.

The review on conventional funding sources has highlighted that the most common institutional solutions (such as grants, donations and state spending) are not enough to sustain the scaling of social tech startups. The above sources, in fact, are characterized by common drawbacks — i.e., they are generally tied up with specific projects and are limited in their amounts and time horizons. Moreover, commercial sources of external finance (e.g., commercial banks or venture capitalists) are typically less easily accessible to social tech start-ups because mainstream providers tend not to recognize the peculiarities of this emerging entrepreneurial model. These circumstances hinder the possibility that social tech start-ups will exploit these sources of financing to make long-term investments (Brown, 2006) and pose significant challenges for financing SEs in a sustainable way. For instance, according to Hermingway (2016), traditional financing like crowd-funding and program-related investments are no longer adequate for funding, therefore there emerges a need for financing which free up the social entrepreneurs to concentrate on social achievement. On this ground there is an emerging funding option evolved for social enterprises i.e. Social Impact Investment. Scholarly researches and academicians mentioned that **Social Impact Investment (SII)** is a novel idea for financing SEs. Nicholls and Emerson (2015) are affirming that SII contributes onward pursuing double bottom lines social and environmental goals in a proactive way and prioritizes the creation of social impact by combing the financial investment social, and/ or environmental impact. However, SII addresses many limitations of financing SE and make it possible for social entrepreneurs to attain double/triple bottom line activities. One of the challenges of SII is the pressure to measure & monetize social impact (Herminway, 2016; Lyons &Kickul, 2015). Not for profits (NFPs) are basically grant-funded and also self-funded, where financial sustainability needs to be attained (Khulengisa&Myres, 2016). They didn't find any distinguishing features of For-profit & NFP in status and structure for a social enterprise, with such enterprises combining non-profit and private-sector approaches to achieve social impact and financial sustainability.

Danish Technology Institute Report 'Investing in European Social Enterprise: A Brief Overview of The European Social Enterprise Investment Market, conducted by Carpenter, G. (2015) compiled a list of social financing products for social enterprises. The report reveals a variety of financing methods for social enterprises.

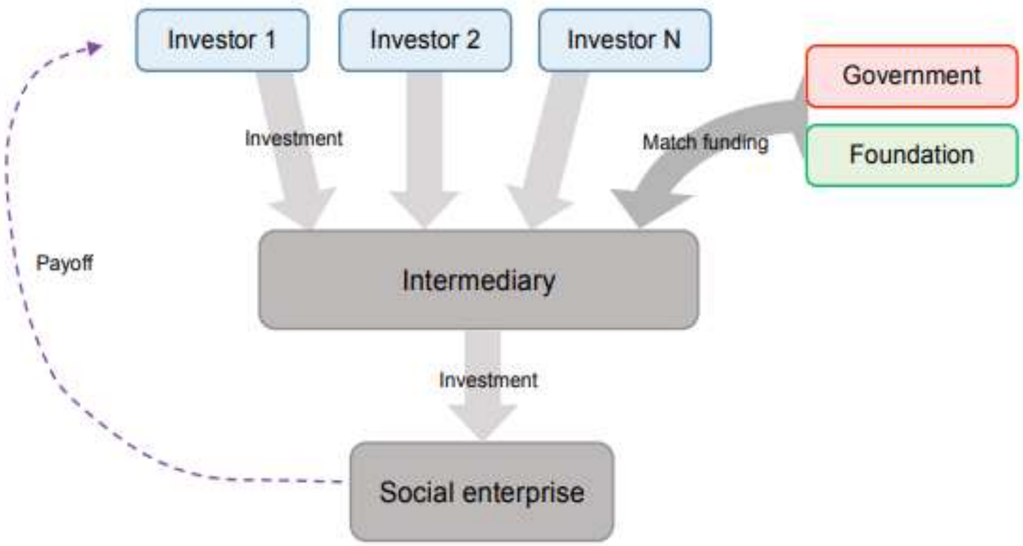
Type of Capital	Instrument	Scheme Description
Grant Capital	Repayable Grants	Grants that include clauses for repayment of some or the whole grant in case the social enterprise achieves certain financial thresholds or milestones (Burkett, 2010)
	Matched Grants	Grants that match the surplus or equity generated by the social enterprise over a specified period of time. This incentivises the social enterprise to maximise its income generated by commercial activities (Burkett, 2010)
Debt Capital	Social Enterprise Lending	Ordinary loans, but with special conditions applying to social enterprises, such as low interest rates, no interest rates, interest-free periods, longer repayment periods, etc. Typically provided by social banks or through foundation or government supported schemes (Burkett, 2010)
	Program Related Investment Loans	Mainly used by foundations as a supplement to grant funding. Their investment in social enterprises can typically motivate other funders to get involved, while receiving a low return on investment years later (interest rate of 1-4%) (Ford Foundation, 2014)
	Subordinated Debt	Debt providers have a subordinate status in relationship to the normal debt. It has a lower credit rating and therefore, a higher yield. However, it has a lower priority than other debt in case of liquidation during bankruptcy. (GIZ, 2014)
Equity Capital	Social Angen Investments	Individuals (angels) or networks of angels who invest in promising social enterprises in return for equity, decision making power and a social return. Typically accompanied by non-financial support i.e. sparring, access to networks, etc. (clearlysocialangels.com)
	Social Impact Investments	Impact investors typically finance either social enterprises or for-profit companies that have social impact potential. In return, they typically take on partial ownership through which they gain decision-making power (NYCA, 2014; Saltuk, et. Al., 2011)
Mezzanine capital	Convertible loan/ mezanine financing	Mezzanine financing is basically debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time or in full. Typically used to finance expansion and growth (GIZ, 2014; OECD, 2013 and Investopedia, 2014)
Hybrid Capital	Reconvertible grant	A regular loan that must be repaid if the project reaches certain predefined goals. If the goals are not reached, the loan is converted into a grant (TUM and Schwab Foundation, 2011)
	Forgivable loan	A loan that is converted into a grant if certain predefined milestones are reached. In a way, it is the opposite of a recoverable grant (TUM and Schwab Foundation, 2011)
	Quasi-equity	Typically a loan where the financial returns are calculated as a percentage of the future revenue of the company. Attractive to social enterprises that, due to their legal structures, often cannot attract share capital (Venturesome, 2008a)
	social impact bonds	Social enterprises and other non-profit service providers (with support from intermediaries) are contracted to deliver a specific social impact. Impact investors and philanthropic organisations fund it. The government only pays if the programme succeeds (Social Finance, 2012).
	Royalty Financing/ Revenue share	The investor provides funding for the social+C7 enterprise for a guaranteed percentage of future revenues. Upside: Paying back in down months not a problem, no giving up control to equity investors. Downside: Usually high interest rates (TUM and Schwab Foundation, 2011)

Source: Lauritzen, J. R. and Carpenter, G., 2015, Promoting Social Enterprise Financing, Center for Policy and Business Analysis, Danish Technology Institute.

SE Financing Models: Avenues to Financial Re-engineering

Emerging Financing Models for SEs: Financing of social enterprises requires different products that emerge from different funding models all over the world. The three emerging models are: ***The Match Funding Model, The Capital Fund Model and The Social Impact Bond Model*** (Carpenter & Lauritzen, 2016).

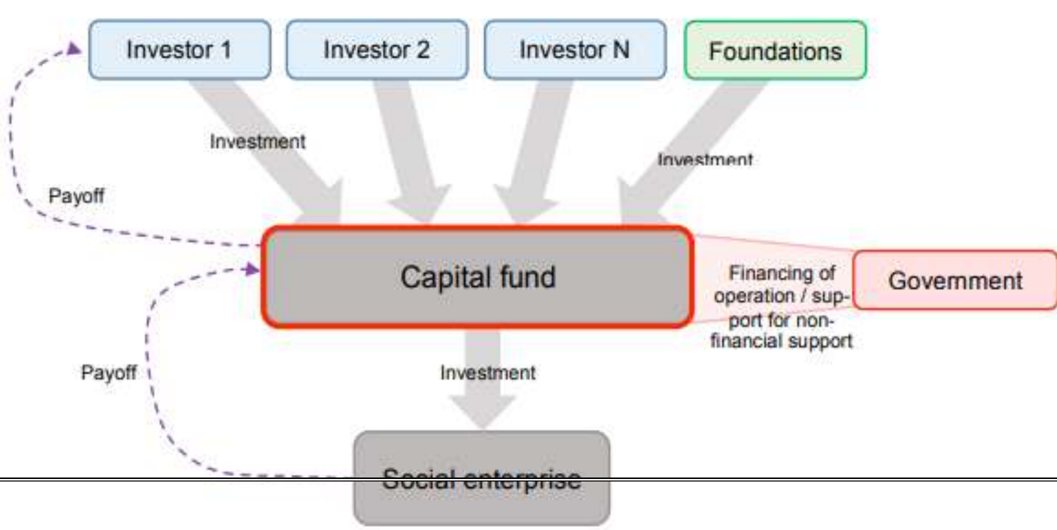
Match Funding Model, Foundations and corporations often bestow philanthropic donation to a non-profit entity in the form of matching gift. When an employee makes a donation, they'll request the matching gift from their employer, who then makes their own donation- usually match donations at a 1:1 ratio. In match funding model government or private foundations match investment made by private investors (pensions, banks, mutual funds, etc) with taxpayer money or philanthropic donations. The investors invest through an intermediary organization (e.g. investment fund or NGO) that has the necessary expertise or potential insights into social enterprises. The pay-offs such as interest or share on profit etc. are channeled back directly to the investors or through intermediaries (Carpenter &Lauritzen, 2016). The Model is demonstrated below-



Source: Lauritzen, J. R. (2015) Investing in European social enterprises: A brief overview of the European social enterprise investment market. Centre for Policy and Business Analysis, Danish Technological Institute

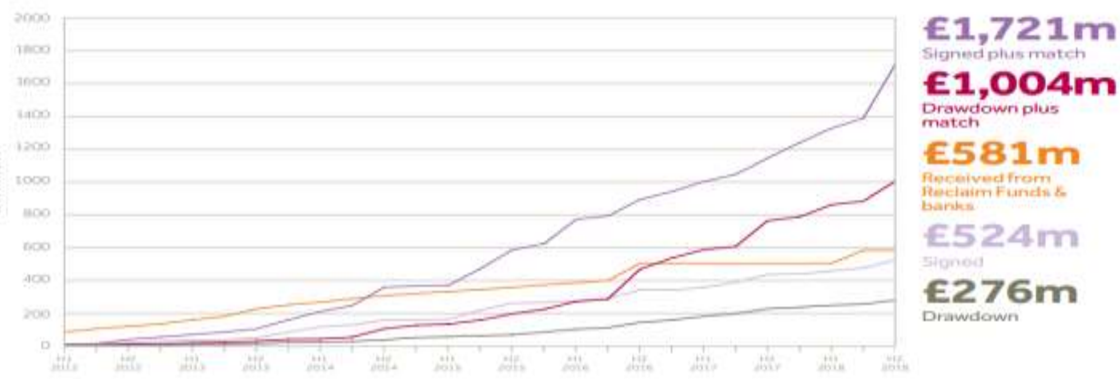
The model is attractive to private investors because of solid pay-offs. It paves the way for supplemented private-sector funding too. For instance, The Australian Government's Social Enterprise Development and Investment Fund provides investment at the seed and growth stage. The Social Enterprise Development and Investment Funds (SEDIF) improve access to finance and support for social enterprises to help them grow their business and increase the impact of their work in their communities. To build the match fund the Australian Government is providing seed funding to Social Enterprise Finance Australia (SEFA), Social Ventures Australia and Foresters Community Finance to offer tailored financial products and loans to meet the needs of social enterprises. Recently the investment funds have a total capitalization of $32 million. Moreover, d Bridges Ventures, UK started with initial investment totaling £20 million with a recent rise to £460 million due to success in attracting impressive private investment.

Capital Funding Model, one or more investor can place long term investment in a capital fund which invest in the country's social enterprise. The model embraces one or more private investors or foundations that provide long-term investments in a capital fund. The government can play a vital role by financing the daily operations and administering the capital fund. The government may also provide non-financing supports to the SEs. However, many capital fund set-ups prevail that the involvement of the government is not mandatory in the capital funding scheme. Yet, the combination of financial and non- financial support is attractive to all parties involved and has proven efficient in terms of creating both financial and social impact (Carpenter &Lauritzen, 2016). The payoff is returned back to the capital fund, which in turn pays back in private investors. The model is depicted below:



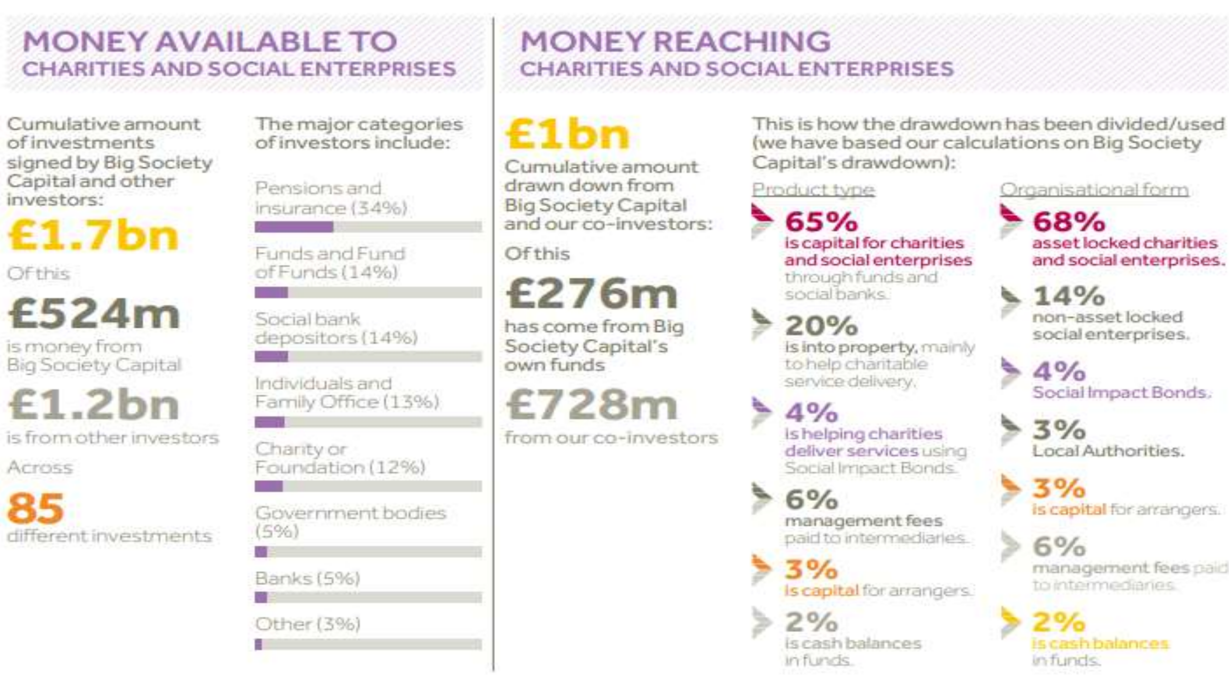
Source: Lauritzen, J. R. (2015) Investing in European social enterprises: A brief overview of the European social enterprise investment market. Centre for Policy and Business Analysis, Danish Technological Institute

The model is successfully implemented in various parts of the world. For instance, Big Society Capital Fund, UK was established by the UK government in 2012. Big Society Capital (2012), the world's first social investment bank, its initial investment commitments were the totaling £37 million in April 2012. The Annual Report 2018 of the Big Society Capital reveals that the capital fund has recently risen to 1,721 million dollars in 2018 with a proven impact in improving the lives of people in the UK by connecting social investment to charities and social enterprises (Big Society Capital, 2018). Big Society Success Story is depicted below



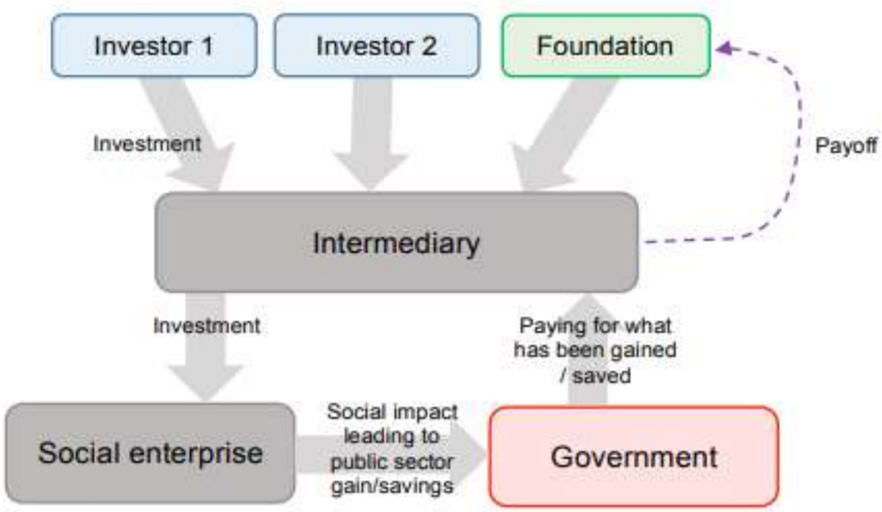
Source: Big Society Capital Annual Report 2018, www.bigsocietycapital.com/annualreport

The following extracts from the Big Society Annual Report 2018 reveal the sources from which the fund is realized and the categories of disbursement of the capital fund.



The Big Society Capital started the journey in 2012 with a deepening mission of improving the lives of people in the UK by connecting social investment to charities and social enterprises (Big Society Capital, 2018). Sir Harvey McGrath (Chair of Big Society Capital) and Cliff Prior (CEO of Big Society Capital) chorus that "We believe the greatest chance to improve lives comes when investors and enterprises are both motivated by a social mission. We engage with investors, fund managers, charities and social enterprises making it easier to use social investment to achieve more impact. With other investors, we have made over £1.7 billion of new capital fund which is in return disburse to SEs and charity organizations with a social mission, through investments into fund managers and social banks. We have a special focus on: providing homes for people in need; strengthening places and communities; and early action to prevent problems" (Big Society Annual Report, 2018). Moreover, The Social Capital Fund in Denmark and the RBC Generator Fund in the USA are also real world success evidence that exploits the capital fund model for financing today's social enterprises in an innovative way.

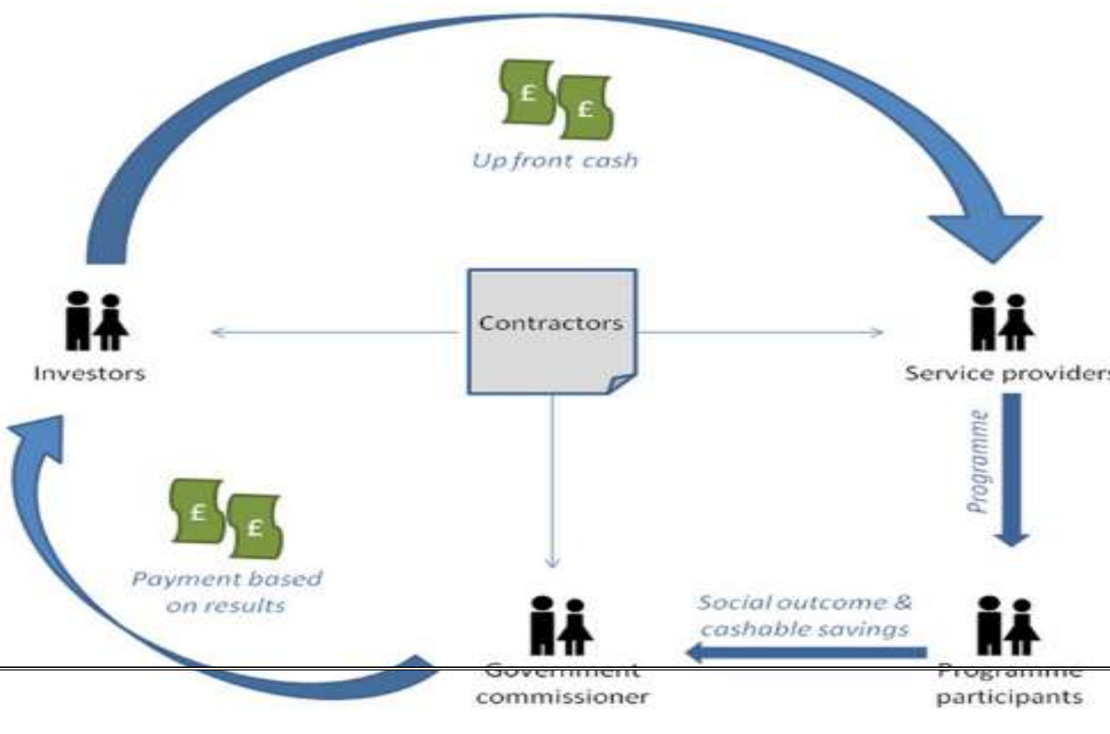
Social Impact Bond Model: It is also called the Pay for Success/payment-by-results scheme. The model unites the resources of government, private investors and social enterprises onward functionally supporting the innovative solution to social problems. In this model private investors make a long term investment in an independent intermediary, which in turn places individual investments in social enterprises that provide efficient solutions to the social challenges (Carpenter &Lauritzen, 2016). The value generated is then carefully calculated, resulting in a specific amount, which is then paid back to the intermediary by the government institution. If the value added by the social enterprises involved in the scheme is higher than what was originally invested in them, the principal as well as a return on investment is paid back to the private investors. The model is depicted below:



Source: Lauritzen, J. R. (2015) Investing in European social enterprises: A brief overview of the European social enterprise investment market. Centre for Policy and Business Analysis, Danish Technological Institute

Onward promoting SEs financing Danish Technological Institute (2016) articulates that “to social enterprises, SIB presents a clear alternative to other models in that the investment can be paid back as added social value instead of only hard cash. This is particularly attractive to enterprises in the ‘social’ end of the ‘mainly social-mainly business’ continuum that otherwise often find it difficult to attract financing other than donations or project funding. There are different variants of social impact bonds. In the so-called ‘managed SIB’ the intermediary is independent of the three other actors (private investors, social enterprise and government). It approaches potential investors and collects their investments, it makes and tracks the investments made in the social enterprises, it measures the social effects generated by the social enterprise, and calculates its value to allow the government to pay back the intermediary appropriately and, in turn, the private investors”. Social Impact Bond Fund in the UK, State of Ontario- Social Impact Bonds in Canada and Rikers Island, New York, USA are the real world paradigms of practicing social impact bond model in the different parts of the world.

Social Impact Bond in UK (SIB, UK) was established in 2012 to optimize a social value-based orientation – “There is a range of entrenched social problems that government has consistently struggled to address, including children in care, homelessness, youth unemployment or long-term health issues. Traditional models have failed to deliver the innovation and focus upon results needed to make inroads with these issues. Social Impact Bonds (SIBs) bring together the public, private and voluntary sectors to solve these challenges by having a clear and relentless focus upon delivering the outcomes we want to see” (SIB, UK, 2012). Social impact bonds (SIBs) are a commissioning tool that can enable organisations to deliver outcomes contracts and make funding for services conditional on achieving results. Social Investors pay for the project at the start, and then receive payments based on the results achieved by the project. There now exist over 30 SIBs across the UK, supporting tens of thousands of beneficiaries in areas like youth unemployment, mental health and homelessness (SIB, UK, 2018). The following illustration reveals the SIB working model in the UK.



Source: Social Impacting Bond, UK, 2018; www.gov.uk/guidance/social-impact-bonds

Part – 03: Collusion and Policy recommendations for Bangladesh:

This research has an endeavor to investigate various traditional funding options such as (grants, donations, subsidies etc.) that are not only insufficient but also less effective to sustain the scaling of social enterprises. Experiences and scholarly evidence suggest that these funding alternatives are generally characterized by 'being tied up with specific projects' or limited in terms of 'required amount by SEs' or 'span of time' necessary for the balanced growth of social enterprises (Arna, et al. 2018). Furthermore, commercial funding options such as equity and debt are almost impossible or very challenging for SEs (Miller, 2008; Bank of England, 2003; OECD, 2015; SEUK, 2015) because commercial fund providers tend to not recognizing peculiarities of the emerging social entrepreneurial model. consequently, Brown (2006) argues that SEs lack the potential sources to make long-term investments. Therefore, social enterprises are confronting significant challenges toward achieving sustainability of their twofold nature- ' meeting social needs or goals-i.e. social benefit ' and ' gaining enterprising goals- i.e. profitability '. On this burning ground, Social Enterprises today are in the earnest need for innovative finding alternatives. This research produces an explorative review of most conventional funding sources (such as grants, donations, philanthropic charities, social spending, debt and equity capital etc.) practiced by the typical social enterprises. Then, this study explores the exemplary institutions which are currently employing new and innovative approaches to funding the SEs. Arena, et al. (2018) recognized the emergence of such an innovative funding platform as 'the rise of socially impacting investments (SII)'. This new landscape of financing alternatives comprises mezzanine financing, social impact bond, social capital fund, social angel investment, social impact investment, match funding etc. have been paving various new avenues to sustainable financing for today's social enterprises. In this era of financial re-engineering the discussed models and real world examples will certainly provide both cognitive knowledge-base and practical directives for the social enterprises located in the different corners of the world. However, these financing instruments are yet lacking widespread empirical evidence as well as theoretical underpinnings (Arena, et al. 2018). So the future researchers can employ and examine in the specific country or context and such contribution will eventually enrich the discourse of SE financing.

Lessons and Policy Recommendations for Bangladesh

Evidence shows that as governments in developing economies often fail to assume their role in creating and strengthening social institutions, SE might play a significant role in economic development and growth (Mair and Marti 2009). Presently, we see some outstanding innovations in social entrepreneurial enterprises, in developing economies and in Bangladesh, that address basic fundamental rights and human needs. But these initiatives are not yet complete and fall short of expectation. Experts suggest that optimal SE is possible in developing economies, although it is challenging due to lack of institutional structures (Seelos and Mair 2005), lack of access to capital (human, social and financial), and exploitation of entrepreneurial opportunities (Seelos and Mair 2005). Governments in developing countries often fail to offer these functions, while social entrepreneurship searches to find innovative ways to overcome these institutional failures.

In Bangladesh, start-up enterprises often rely on informal, personal sources of funding and apply for grants to begin piloting operations. Once operations have reached a certain scale and sustainability, commercial debt finance can be sought under strict terms and conditions. For example, in terms of access to finance for social enterprises, requirements for loans can be prohibitive – e.g. having two years of formal financial accounts (Darko, 2018). Bangladeshi social enterprises can employ and exploit this new pavement of financial re-engineering. Research evidence suggests that some pioneering countries like UK, USA and Australia are providing initiatives like mentoring, nurturing, administering financing. These countries are also enacting substantial supportive legal structures for financing social enterprises and thus exploiting opportunities to mending and rebuilding backward social and ethnic groups. From this perspective, it could be interesting for

Bangladesh to understand this new social entrepreneurial development. Bangladesh can harvest superior opportunity from enterprising social initiatives because she has a burgeoning social enterprise sector (Darko, 2015 & 2018) and SE activities are more visible in sectors such as health, agriculture, technology and the creative industries (Darko, 2015 & 2018), power and energy distribution, micro-finance, , education etc. (Heckett, 2010; Dalberg and GIIN, 2015). For instance, BRAC (Bangladesh Rural Advancement Committee) and the Grameen Trust are two household names prominent not only in Bangladesh but across the world (Ward, 2015). And, it's possible when the government and policymakers can determine a workable framework and relate different policy approaches toward addressing social needs in a socially value-creating way while existing market based models are truly failed to do so. Bangladesh can utilize any one the emerging social impacting investment models by achieving strategic-fit in between socio-economic, socio-political and socio-legal backgrounds.

'The rich get richer, the poor get poorer' is no more a cliché but also a fact in Bangladesh. The report as titled "Household Income and Expenditure Survey (HIES) 2016", published by Bangladesh Bureau of Statistics reveals that social inequality is widening in Bangladesh (BBS, 2016). As a result, the social fabric is fractured and we need to have policies in place that promote fairness and equity because a happy, equal and just society will always achieve peace and prosperity. This study will significantly contribute during such policy inquest from the socio-economic investment perspective onward the achieving of social equality. Moreover, this research will be benefiting for both existing social enterprises, entrepreneurs and future entrepreneurs who wish to serve the people, country by their distinctive entrepreneurial initiatives irrespective to the national or global arena.

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