



A PRACTICAL GUIDE TO PLANNING AND EXECUTING AN IMPACTFUL EXIT

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PREFACE

Preface

When we invest in social businesses, we often invest alongside our emotions. Letting go of these investments may not always be easy. But when your investee grows up, or gets into a new phase, or when your venture philanthropy (VP) or social investment (SI) organisation has reached a point where it can no longer add value to its investee, it may be time to move on.

A well thought out exit strategy is ultimately the key to a successful investment, as it prepares the social purpose organisation (SPO) for the next phases in its development and supports the lock-in of social impact. The exit strategy process involves planning, managing and executing the exit strategy, and following up after the exit to learn from the process and revise the investment strategy if needed.

With ten years of practice behind us, European venture philanthropy and social investment organisations (VPOs) are starting to build valuable experience on exits. The willingness to share in the EVPA community made it possible to capture this experience and spread knowledge and best practices and make them available for all practitioners so they can learn from others' mistakes and successes.

This guide explores a multitude of aspects and scenarios that VP/SI practitioners and SPOs face when planning and executing an exit – and provides concrete and practical solutions and recommendations. This wholistic approach to exits – developed with the input of VP/SI practitioners – goes beyond the parallel tracks in venture capital to explore the impact of different financing instruments on the exit strategy and the importance of finding a balance between achieving social impact, financial sustainability and organisational resilience, relative to time.

Being a member based and practitioner oriented community, EVPA is well placed to perform a knowledge capture project like this.

We hope this guide will go a long way to spread the knowledge that will help ensure better and more impactful exits.

Pieter Oostlander,
Chairman of the European Venture Philanthropy Association

PREFACE

Expert Group Composition

EVPA would like to thank the following Expert Group for their contribution to the development of this manual.

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EVPA would like to thank the following social entrepreneurs who accepted to share their views with us including:

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EXECUTIVE SUMMARY

This manual is targeted specifically at venture philanthropy (VP) and social investment (SI) practitioners, and more broadly at other social sector funders such as foundations, grant making organisations and impact investors who may benefit from having a clearer and more transparent exiting process. We use the term venture philanthropy organisations (“VPOs”) or “investor” to refer to such social sector funders.

Having an exit strategy is necessary for organisations that practice venture philanthropy and social investment because the partnerships they build with their investees, the social purpose organisations (“SPOs”), cannot go on forever. The VPOs’ limited resources must be put at use where they can have the greatest impact; meaning that at some point it will be time to “hand over the baton” and let go.

The first objective of this manual is to provide VP/SI practitioners with an important tool to assist them in their daily activities and thus enhance the effectiveness of their work. The second objective is to increase the transparency and accountability of the VP/SI sector. This manual should be useful for both experienced VPOs that want to reflect on how to exit their investments while maximising and sustaining the impact achieved, and for organisations approaching VP, which can learn from the experience of VP/SI practitioners.

The starting point for this research was the recognition of the fact that highly engaged VPOs want their impact to last beyond their intervention, and in order to do so, they need to have a clear exit strategy. **We define an exit strategy as the action plan to determine when a VPO can no longer add value to the investee, and to end the relationship in such a way that the social impact is either maintained or amplified, or that the potential loss of social impact is minimised.**

Analysing a large number of existing sources, we realised that as of today no clear overall framework for exit strategies exists in VP/SI. Thanks to the contribution of an expert group composed of VP/SI practitioners, representatives of SPOs, academics and consultants, we developed a five-step model for the exit strategy process.



Figure 1:
The five-step exit
strategy process
Source: EVPA

EXECUTIVE SUMMARY

This process helps maximising the achievement of the return objectives for the VPO at the time of exit. By properly managing the process, the VPO maximises its exit options and works towards enabling the most appropriate and impactful use of its resources. Additionally, by stressing the importance of the SPO's exit-readiness, the five-step process is designed to help the SPO maintain and continue generating social impact after the VPO has exited.

Importantly, the manual recognises that an investment does not always happen according to plan. The cases used to illustrate how an exit strategy process is implemented in reality show that a VPO must be flexible and adapt to unforeseen circumstances. However, having a clearly defined exit strategy is helpful to move the VPO and its partnership with the SPO in the right direction.

The goal of a VPO is to fund and build stronger social purpose organisations so that they can achieve sustainable societal impact. That is why the centrepiece of the exit strategy process is represented by the SPO's exit readiness. Exit readiness is measured along three dimensions: social impact, financial sustainability and organisational resilience, as detailed in figure 2.

Social impact	The social change on the target population resulting from an SPO's actions.
Financial sustainability	The assessment that an SPO will have sufficient resources to continue pursuing its social mission, whether they come from other funders or from own revenue-generating activities.
Organisational resilience	The assessment of the degree of maturity of an SPO, in terms of the degree of development of the management team and organisation (governance, fund raising capacity etc.).

Figure 2:
The three dimensions
of exit readiness

Source: EVPA

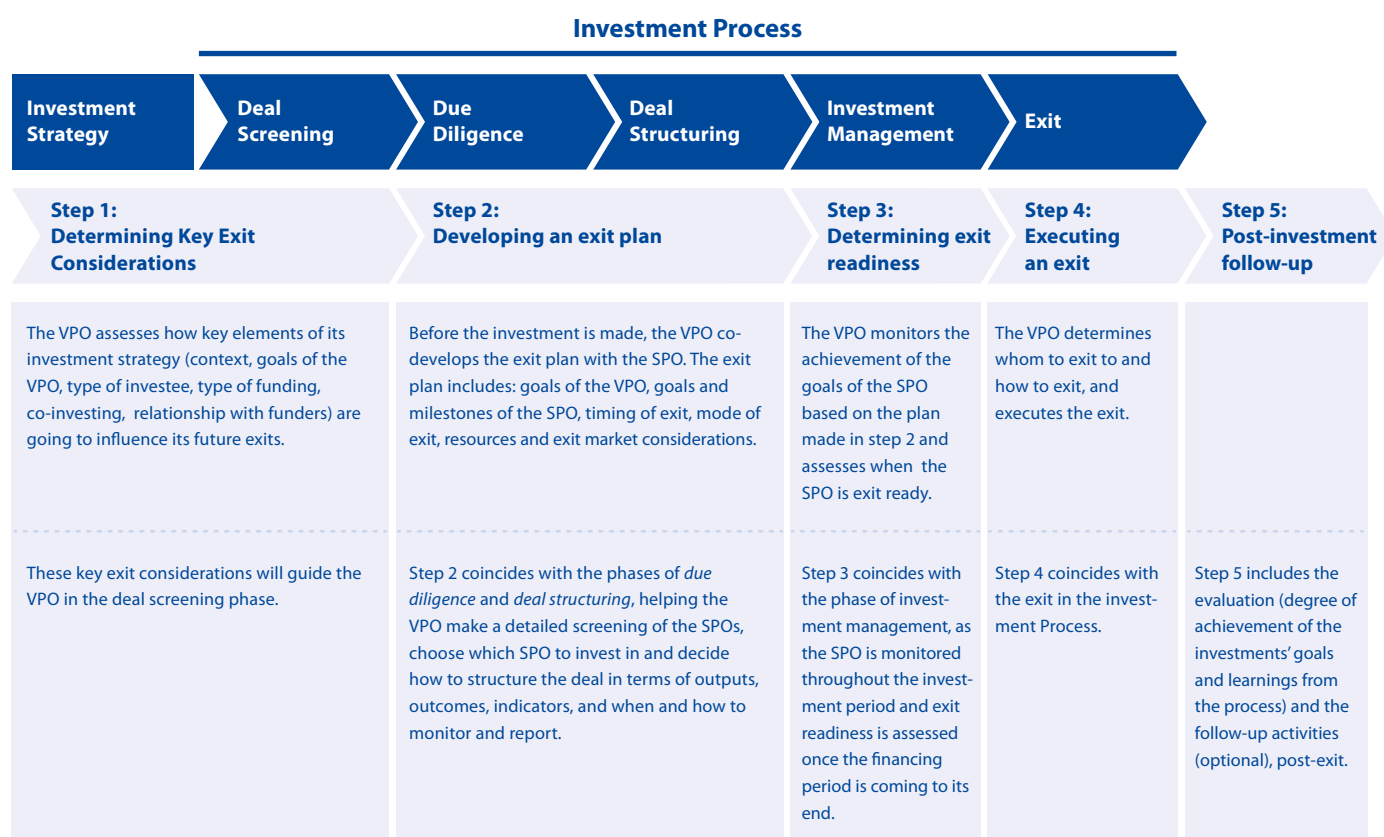
The VPO plans, monitors and executes the investment and the exit with the final aim of leaving behind an SPO which has a stronger business model and organisational structure and that is capable of attracting and managing the resources necessary to pursue its social goal(s) in the long term.

To ensure long lasting impact, the exit strategy process needs to be developed as an integral part of the VPO's investment process.

EXECUTIVE SUMMARY

Figure 3: The investment process and the exit strategy process

Source: EVPA



In what follows we provide a short summary of the different steps of the exit strategy process detailed in the report and we show how they overlap with the investment process.

Step 1 – Determining key exit considerations

Aligning the exit strategy and the investment strategy is the crucial pre-condition for a successful exit. During the first step of the exit strategy process the investor looks at the key elements of its investment strategy and derives the implications for the exit strategy.

The key exit considerations are developed in parallel to the investment strategy and will guide the VPO in the deal screening, i.e. in assessing which investment opportunities fit with the VPO's social impact and financial return goals.

The elements of the investment strategy that affect the exit strategy are:

Context: The investment strategy includes choices as to the geographical and the sector focus of a VPO. This focus determines the context in which both the SPO and the VPO operate and

EXECUTIVE SUMMARY

will therefore influence the exit strategy, especially in terms of whom to exit to and how to exit. In some cases, choosing to operate in a certain sector will reduce the exit options.

Social and financial return goals of the VPO. Some VPOs have a social sector focus and many have developed specific social impact objectives they would like to achieve in the social sectors where they operate. Financial return goals express the preference of the VPO in terms of return on investment (ROI) of the SPOs it invests in and the definition of how each investment is expected to contribute to the overall portfolio return. In VP, there is a wide range of financial return goals including pure grants with negative financial return expectations, debt and equity with capital repayment and positive return expectations.

Type of investee. The social and financial return goals will influence the type of SPO the VPO decides to invest in, ranging from charities without trading revenue that may give a pure social return to social enterprises that may give a combination of social and financial return. The VPO may also decide to invest at a particular stage of development of the investee, whether at seed/incubation stage, start-up, growth or maturity of the SPO. The type of investee funded and the stage of development of the investee influence how the VPO exits, whom the VPO can exit to and the milestones the VPO and the SPO use to define exit readiness.

Type of funding. The type of return sought and the type of organisation the VPO invests in determine the type of financing instrument used, ranging from pure grants to different types of debt to equity. Each investment modality (debt, equity or grant) will have different benefits/place different constraints on the exit strategy. Some investment structures will simplify exit, while others will pose some more challenges for both the investor and the investee at the time of exit. The investor needs to perform an overall assessment of the instruments it uses to finance the SPOs in its portfolio and how they influence the exit.

Co-investing. Having co-investors has clear advantages: co-investors help increase the total pool of resources available to the SPO and bring complementary non-financial skills. Co-investors with a broad network that can be leveraged are a very important asset, especially at the time of exit. However, co-investors also create challenges. Before engaging with co-investors the VPO needs to assess the co-investors' investment strategy and objectives, financial/impact trade-offs and exit plans, to make sure they are compatible and aligned. A misalignment in the investment strategy of the co-investors can generate issues throughout the investment period and at the time of exit.

Relationship with VPO funders. The way in which the VPO is funded impacts the investment strategy and as a result the key exit considerations. If funders have a strong influence on the investment strategy of the VPO, a sudden change in the investment strategy will result in the development of new key exit considerations.

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Step 2 – Developing an exit plan

Planning for an exit constitutes the second step of the exit strategy process. The investor and the investee co-develop the exit plan, in which they agree on some key points related to the exit which include the general goals of the investor and the financial, organisational and impact milestones of the investment, the expectations of both parties and the timing of the exit. The aim is to maximise the transparency of the relationship between the investor and the investee and to clarify expectations. During this step the exit plan must be matched with the deal structuring, and the resources necessary to monitor the investment and to rollout the overall exit plan need to be allocated.

The phase of development of the exit plan coincides with the phases of due diligence and deal structuring: the VPO has shortlisted a number of investments based on the key exit considerations developed in step 1 and proceeds to the detailed screening. When an investment is selected, the VPO decides how to structure the deal in terms of outputs, outcomes, indicators, and when and how to monitor and report. All these elements are crucial for the development of the exit plan, so these two phases need to be developed simultaneously.

The key elements of the exit plan are:

- **Investment goals of the VPO** – as derived from the key exit considerations
- **Goals of the SPO and milestones** – Goals are defined in terms of social impact, financial sustainability and organisational resilience. Milestones are defined to monitor the progression of the SPO towards the goals, identify issues along the way and adjust the plan accordingly, and to help determine when exit readiness is achieved
- **Timing of the exit** – i.e. the investment horizon, which largely depends on the flexibility offered by the financing instrument used
- **Mode of exit** – including how and whom to exit to, both of which largely depend on the financing instrument used
- **Resources** – to monitor the investment and roll-out the exit plan.
- **Exit market scenarios** – in which the VPO tries to predict whom it will exit to and what the market will be like at the time of exit.

The development of the exit plan is a joint effort of the VPO and the SPO, and the goals and milestones should be formalised and included in a Memorandum of Understanding.

The exit plan needs to be detailed and clear (including when the VPO will exit, how and to whom), but also needs to provide sufficient flexibility (and liquidity) to be able to react to deviations.

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Step 3 – Determining exit readiness

In the third step of the exit strategy process the VPO monitors the investment based on the plan co-developed with the investee in step 2. The SPO cooperates with the VPO by providing information on the status of development of the project and on the achievement of the goals set in the plan.

The monitoring is crucial, as it allows the VPO and the SPO to take action in case of deviations from the original exit plan.

Based on the monitoring, the VPO and the SPO determine if readiness is reached relative to the planned date of exit. Exit readiness needs to be assessed for both the SPO and the VPO. The SPO is evaluated on the achievement of three categories of goals: social impact, financial sustainability and organisational resilience goals. It is important that the SPO reaches the goals on all three dimensions because a strong, financially viable organisation is the pre-requisite for the long term achievement of the social impact goals.

The VPO also considers exit readiness from the perspective of its own social impact and financial return goals.

At the moment of determining exit readiness, five scenarios are possible:

1. Readiness is reached or partially reached, to the point that the VPO can no longer add value to the investee. In this case the VPO can exit the investment according to plan.
2. Readiness is reached or partially reached, to the point that the VPO can no longer add value to the investee, but investment readiness is not reached. In this case the VPO can:
 - a. Invest more resources to bridge the gap between exit readiness and investment readiness
 - b. if there is no market for the SPO, let go.
3. Readiness is reached or partially reached, and the VPO feels it can still add value to the SPO. In this case the VPO re-invests in the SPO taking it to the next level.
4. Readiness is not reached or only partially reached and the VPO feels it can still add value to the SPO. In this case the exit strategy process needs to go back to step 2: the VPO and the SPO need to develop a new exit plan.
5. Readiness is not reached and the VPO cannot add more value to the SPO. In such case the VPO needs to accept the failure and let go, while trying to minimise the loss of social impact.

Step three is central to the exit strategy process. It is the turning point in which both the VPO and the SPO have to assess their own work and their relationship.

Step 3 coincides with the phase of investment management, as the SPO is monitored throughout the investment period and exit readiness is assessed once the financing period is coming to its end.

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Step 4 – Executing an exit

In Step 4, the investor executes the exit and determines how to exit (mode of exit) and whom to exit to (follow-on investors), balancing the financial and social return.

The exit strategy execution determines the end of the financial relationship of the VPO with the SPO and therefore coincides with the last step of the investment process.

How the exit strategy is executed depends on:

- The type of financial instrument used – as some instruments have a fixed duration (i.e. grant) and the support is withdrawn when the exit date is reached, whereas other instruments are more flexible (i.e. equity).
- The context – as in different countries the exit process is implemented differently according to the possibilities for an investee to find new sources of funding.
- The stage of development of the SPO – as different stages of development call for different exit modes.

In terms of *whom* to exit to there are three options:

- To find a new investor that can better support the investee, both in terms of financial and non-financial support, such as:
 - A public funder
 - A traditional grant-maker
 - A commercial investor
 - An industrial partner
 - A VPO
 - The broader public
- The SPO is self-sustaining, and can continue on its own with no additional support
- The investee is not performing and has to shut down its operations. This is a case of failure, and therefore the investment is not exited to any specific entity.

Whatever the choice of whom to exit to, the decision needs to be guided by the objective of keeping the social mission of the SPO going, unless it has been demonstrated that the intervention of the SPO does not generate sufficient social return to justify its existence.

The assessment of the 'fit' of potential new investors – including whether they share the same position on the social mission, their anticipated financial return, the desire for influence and the level of engagement in the investment- is an important tool to enable the social impact to be maintained after exit.

The VPO and the SPO should discuss how much responsibility is placed on the investor to help the investee find follow-on financing vs. this being the responsibility of the entrepreneurial team. Additionally, the VPO needs to assess whether the social mission of the

EXECUTIVE SUMMARY

investee can create tangible value (mission lock-in) such that the acquirer is de-incentivized from discontinuing the investee's social mission.

Step 5 – Post-exit follow-up

Step 5 includes the evaluation of the exit (degree of achievement of investor's and investee's objectives and learnings from the process), and the post investment follow-up.

The VPO **evaluates** the success of the project after exit in terms of financial return and social return and the SPO determines how well it has achieved its objectives along the three dimensions of social impact, financial sustainability and organisational resilience.

The **follow-up** refers to all those activities that the VPO puts in place to keep a link with the SPO after exit (offering additional non-financial support, networking, etc.) to keep contact with the SPO with the purpose of both monitoring and supporting the achievement of the social impact goals after the exit. Post-exit monitoring and support can be another way to try and reduce the risk of mission drift and check that the follow-on investor is continuing the original/intended social mission/impact.

Follow-up activities are optional and the extent to which they are performed depends on the strategy of the VPO and the willingness and incentives of the SPO to stay in touch.

Part 1:

Introduction and Overview

INTRODUCTION AND OVERVIEW

This manual is targeted specifically at venture philanthropy (VP) and social investment (SI) practitioners, and more broadly at other social sector funders such as foundations, grant making organisations and impact investors who may benefit from having a clearer and more transparent exiting process. We use the term venture philanthropy organisations (“VPOs”) or “investors” to refer to such social sector funders.

Having an exit strategy is necessary for organisations that practice venture philanthropy and social investment because the partnerships they build with their investees, the social purpose organisations (“SPOs”), cannot go on forever. VPOs’ limited resources must be put to use where they can have the greatest impact; meaning that at some point it will be time to “hand over the baton” or simply let go.

The first objective of this manual is to provide VP/SI practitioners with an important tool to assist them in their daily activities and thus enhance the effectiveness of their work. The second objective is to increase the transparency and accountability of the VP/SI sector. This manual should be useful for both experienced VPOs that want to reflect on how to exit their investments while maximising and sustaining the impact achieved, and for organisations approaching VP, which can learn from the experience of VP/SI practitioners.

Exit strategies as a topic is attracting increasing interest from a broader audience. GrantCraft, for example, recently developed a guide on exits aimed at foundations¹. A substantial body of work on exits can be found for the venture capital/private equity (VC/PE) sector. This manual has been informed by reports on exits in VC/PE that analyse data on exits in the sector, pointing out the main trends and studying the differences between exits in the US and in Europe². In this report, we build on such work, but also highlight where the differences lie between VC/PE and VP/SI.

Despite the strategic nature of the issue of exiting, not much research has been conducted on exit strategies in the context of VP/SI. This manual aims to fill this gap by addressing exit strategies in the hybrid space between pure grant making and financial investment. This hybrid space is covered by VP/SI organisations that seek different combinations of social and financial returns – making exits more complex.

This manual can also be very useful for social purpose organisations (SPOs) – the investees of VP/SI. An investor’s exit strategy is extremely relevant for an investee, as a well-planned exit strategy can ensure the long-term sustainability of the SPO, provides the SPO with a funding plan that can help scale the operations in the long term and help build a partnership relationship with the investor that may last beyond the end of the financial support. However, exits are still a delicate topic for both investors and investees, and especially the latter, to the point that some social enterprises interviewed even considered exits to be negative. The purpose of this report is to support VPOs and SPOs in the planning, management and execution of the exit strategy process to improve the transparency and the effectiveness of the exit strategy process for both investors and investees.

-
1. **Kerkhoven, R., Herweijer, R.,** (2013). “Foundations moving on: Ending Programmes and Funding Relationships”. GrantCraft.
 2. **Schwiebacher, A.,** (2002). “An empirical analysis of venture capital exits in Europe and the United States”. EFA 2002 Berlin Meetings Discussion Paper, University of Amsterdam.

INTRODUCTION AND OVERVIEW

Background

What is VP/SI?³

Venture philanthropy (VP) and social investment (SI) work to build stronger investee organisations with a social purpose (SPOs) by providing them with both financial and non-financial support in order to increase their social impact.

The term SPO captures the entire spectrum of organisations whose primary purpose is to create social value (rather than shareholder value). The terminology for these different kinds of organisations varies enormously across countries and jurisdictions, and is therefore far from precise. The following types of organisations will fall under the banner of SPOs:

- Charity, non-profit, foundation, association, company limited by guarantee (having no trading activities, or where trading is of marginal importance)
- Social enterprise, Community Interest Company (having trading as a significant or exclusive part of their operations). Some do not make any financial returns to investors (or cap returns) but reinvest surpluses into the organisation. Even within social enterprise there are several different models.
- Socially driven business – profit distributing businesses but with clear and stated social objectives.

Often the SPOs are referred to as the “investee”, as VPOs invest in SPOs using the venture philanthropy approach.

Venture philanthropy is an approach that includes both the use of social investment (debt and equity instruments) and grants and is characterised by high-engagement, tailored financing, multi-year support, non-financial support (such as capacity building and managerial skills), involvement of networks, organisational capacity-building and impact measurement.



Figure 4:
Definition of Venture
Philanthropy

Source: EVPA

3. See also: <http://evpa.eu.com/knowledge-centre/what-is-vp/>.

INTRODUCTION AND OVERVIEW

Organisations that practice venture philanthropy following the principles outlined above are defined “venture philanthropy organisations” (VPOs), social investors (SI) or simply “investors” in this document.

VPOs and social investors invest in SPOs to help them become sustainable, scale or restructure, and bring them to a point where another investor takes over or they can continue on their own. In the end what really matters for the VPO is to achieve sustainable social impact that is maintained and scaled beyond the investment period and to make sure the resources available are used in the best possible way. Such sustainable social impact is possible only if the VPO has a clearly planned exit strategy.

What can we learn from grant making foundations?

Similarly to VP/SI, having a good exit strategy is also crucial for grant making foundations. Recent work by GrantCraft shows that grant making foundations are increasingly focussing on planning for an exit, to avoid the exit to be guided by emotional considerations and gut feeling⁴. The Guide proposes nine best practices that were distilled from a series of interviews and constitute a list of ingredients for a successful exit, as shown in the box below.

Eight helpful practices distilled from 30 GrantCraft interviews:⁵

1. Look before you leap: be honest and rational about why you enter the partnership
2. Be prepared
3. Think sustainability early on
4. Talk timelines
5. Manage irrationalities in relations
6. Reflect, be patient and realistic
7. You can contribute more than money
8. Communicate, communicate, communicate
9. Revisit and learn

What can we learn from VC/PE?

Planning an exit strategy is as important as deciding how to start the enterprise⁶, both in VC/PE and in VP/SI. However, exits in the VC/PE sector are different from exits in VP/SI for many reasons. First, VP/SI employs a different set of financing instruments compared to VC/PE including grants, guarantees and debt instruments with lower or non-existing interest rates. Exit modes of the VC/PE sector (mergers and acquisitions, initial public offerings, management buyout and liquidation)⁷ differ from the most common ones in VP/SI (where, for example, IPOs are very rare and investments are most commonly passed on to follow-on investors). Importantly, VC/PE investors exit when they have reached their financial return goals, whereas in VP/SI the goals to be reached are not primarily financial, but primarily social and the capital invested needs to be “patient”.

4. Kerkhoven, R., Herweijer, R., (2013). “Foundations moving on: Ending Programmes and Funding Relationships”. GrantCraft.

5. *ibid.*

6. Guo, B., Lou, Y. and Pérez-Castrillo, D., (2012). “Investment, Duration, and Exit Strategies for Corporate and Independent Venture Capital-backed Start-ups”. Barcelona GSE Working Paper Series. Working Paper n° 602.

7. For a summary, see EVCA, (2007). “Guide on Private Equity and Venture Capital for Entrepreneurs – An EVCA Special Paper”, pp. 33-35.

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Despite these differences, reports on exits in the VC/PE sector point to issues that are also highly relevant for VP/SI. For example, research on exits in VC/PE has recently focussed on the importance of strengthening the investee and preparing it to be self-sustaining at the time of exit, which is an important topic also for the VP/SI sector. Furthermore, VC/PE organisations are increasingly interested not only in generating good returns for their shareholders, but also in creating stronger, more competitive companies, and in creating value more than leverage, by creating sustainable improvements to the businesses they back⁸. Recent empirical evidence shows that venture capitalists are more closely involved than conventional investors, in particular for what concerns the support to the professionalization of the companies they finance. VC/PE have a so-called “soft” side in that they provide support for building the human resources of the company, building the management team and finding the right CEO⁹.

Status of exits in VP/SI

EVPA’s research shows that VPOs are at a point in their development where there is enough experience on how to exit to be able to draw some conclusions to build knowledge: about 60% of the organisations surveyed by EVPA in 2012 experienced an exit.

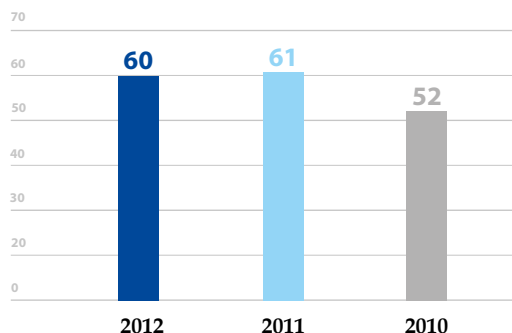


Figure 5:
% of VP/SI organisations that
have experienced exits¹⁰

Source: EVPA

numbers in %

Moreover, recent interviews of ten CEOs and funders of VPOs showed that exiting is a topic that is challenging even for the most experienced VPOs and social investors. The balance between achieving sustainable impact through the SPO in the long term and achieving the financial return objectives of the investor is quite delicate.

Among investees there is not much clarity around exit strategies, and much can be done to improve the exit strategy process to make it more transparent and effective.

Exiting a social investment needs careful planning and most VPOs claim to have a planned exit strategy. EVPA’s research shows that VPOs plan their exit strategies either in all cases (48%), often (31%) or sometimes (11%). A majority of respondents (52%) already start planning the exit before the investment is made, and some (35%) plan the exit depending on the progress of the organisation.¹¹

8. **E&Y**, (2012). “Branching out: how do private equity investors create value? A study of European exits”.
9. **Hellmann, T. and Puri, M.**, (2000). “Venture Capital and the Professionalization of Start-up Firms: Empirical Evidence”. Graduate School of Business, Stanford University, Stanford, CA
10. **Hehenberger, L., Harling, A.-M.**, (2014). “European Venture Philanthropy and social investment 2012/2013 – The EVPA Survey”. EVPA.
11. **Hehenberger, L., Harling, A.-M.**, (2013). “European Venture Philanthropy and social investment 2011/2012 – The EVPA Survey”. EVPA.

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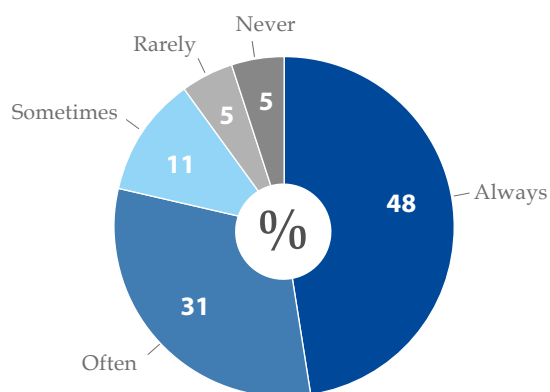


Figure 6:
Do you have a planned
exit strategy for your
investments?

Source: EVPA

(n=61)

However, many questions still remain unanswered, especially with respect to when to exit, how to exit and whom to exit to.

By means of this manual EVPA aims at filling the knowledge gap around exits in VP/SI, providing a framework developed together with practitioners to help practitioners better manage the exit strategy process.

Methodology

This manual is the result of several years of knowledge gathering, through the annual EVPA industry survey, EVPA workshops, including two on exits at EVPA's annual conferences, a site visit and a year of in-depth research. We started by scanning the literature on exits from all available sources, to discover that the topic had not been extensively studied. We then reached out to the EVPA network to engage practitioners and develop an expert group to work on the definition of "exit strategy" and on the "exit strategy process", to solidly ground the research in practice. The expert group was composed of 24 VP/SI practitioners, representatives of SPOs, academics and consultants, providing the key contribution to the development of this manual. After a kick-off meeting at EVPA's annual conference in Geneva in November 2013, the expert group's members were divided into working groups, reflecting the steps of the exit process originally envisaged.

The results of the discussions inside each working group were reported back to the wider expert group during a series of webinars, organised with the purpose of stimulating discussion among practitioners on the issues related to exit.

During the webinars, the working groups presented the findings of the internal discussions together with case studies to illustrate success and failure cases in exiting. Due to the many dimensions that play a role in each of the steps of an exit strategy process, we believe that the case studies make a key contribution in summarising the main findings of this research project, highlighting both best practices and challenges.

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Table 1 provides an overview of the cases discussed in this manual, organised by financing instrument and each with the name of the VPO and the investee.

Grant and Hybrid	Debt	Equity
NESsT – <i>Alaturi de Voi</i>	Bon Venture – <i>KKB</i>	PhiTrust Partenaires – <i>AlterEco</i>
Ferd SE – <i>Unicus AS</i>	D. Capital – <i>Waste Co.</i>	Oltre Venture – <i>Ivrea 24 / Sharing</i>
IKARE – “ <i>SOS Uganda</i> ”	ERSTE Stiftung and Erste Bank Oesterreich (good.bee - Social Banking Development) - <i>Light</i>	
	Impact Invest Scandinavia – <i>The Weather Company</i>	

Table 1:
Case study grid

After having engaged members of the expert group to provide us with their views on exit strategies, we turned to the investees and the social entrepreneurs, whom we interviewed by means of a short questionnaire, but also leaving room for them to express their opinion about general issues around exits.

We then organised a workshop to test our finding with a broader group of VP/SI practitioners and academics and shared a draft version of this report for a broader consultation. The workshop and the consultation allowed us to identify a few additional exit scenarios, as well as enhanced information about the modes of exits when dealing with the different financing instruments. We also developed further the link between the exit strategy process and the investment process, and identified clearer recommendations and challenges. In general, however, we were encouraged by the feedback that the general exit strategy process and the main conclusions of the report resonated with VP/SI practitioners and made sense within the broader stakeholder group.

The manual is structured as follows. After defining the “exit strategy”, the “exit strategy process” is presented in part one. Part two explores in detail each of the five steps that we eventually developed as key parts of the “exit strategy process”, followed by part three, which presents the nine cases discussed by the working groups.

INTRODUCTION AND OVERVIEW

What is an exit strategy?

The exit strategy constitutes the action plan to determine when the VPO can no longer add value to the investee, and to end the relationship in such a way that the social impact is either maintained or amplified, or that the potential loss of social impact is minimised.

The end of the relationship may involve finding a new investor that can better support the investee (both financially and in terms of non-financial support), deeming the investee self-sustaining, or simply letting go.

EVPA's definition of exit strategy

“An exit strategy is the action plan to determine when the VPO can no longer add value to the investee, and to end the relationship in such a way that the social impact is either maintained or amplified, or that the potential loss of social impact is minimised”

One may think that the VPO has exited when its financial relationship with the SPO is over, i.e. when the loan has been repaid, the last grant report has been submitted or the social investor has sold any equity share it may have had in the SPO. However, such an assumption underestimates the importance of the engagement of the VPO with its investees and the ultimate objective of generating social impact. The engagement in the SPO depends on the relationship the VPO has with the SPO, which can take different forms:

- Financial (in the form of a grant, equity, debt)
- Non-financial (mentoring/ advisory role either by the investor or by involving the investor's network to provide external expertise/support)
- Hybrid (financial and non-financial support)

Whatever the form of the engagement, the ending of the financial relationship (the moment when the funding is over) constitutes an important strategic moment for the SPO, which needs to be carefully planned, managed and executed through the “exit strategy process”.

The VPO is not only interested in the social impact reached by the SPO, but also in building stronger, financially sustainable organisations. The exit strategy is planned, managed and executed with the purpose of leading the SPO to strengthen on three dimensions: social impact, financial sustainability and organisational resilience, as detailed in figure 7.

INTRODUCTION AND OVERVIEW

Social impact	The social change on the target population resulting from an SPO's actions.
Financial sustainability	The assessment that an SPO will have sufficient resources to continue pursuing its social mission, whether they come from other funders or from own revenue-generating activities.
Organisational resilience	The assessment of the degree of maturity of an SPO, in terms of the degree of development of the management team and organisation (governance, fund raising capacity etc.).

Figure 7:
The three dimension of exit readiness of the SPO

Source: EVPA

These three dimensions are important levers throughout the “exit strategy process”, and we therefore refer to them as “dimensions of exit readiness”. The VPO and the SPO plan for the exit and set the goals for the SPO based on these three dimensions and the VPO evaluates when it is time to exit based on these dimensions. The financial and non-financial support provided by the VPO throughout the investment period aim at building an SPO that is more mature than at the beginning of the investment period, and that is capable of accessing the resources needed for the next steps of its growth.

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The exit strategy process

Our research shows that the exit strategy process is composed of five steps as shown in figure 8.

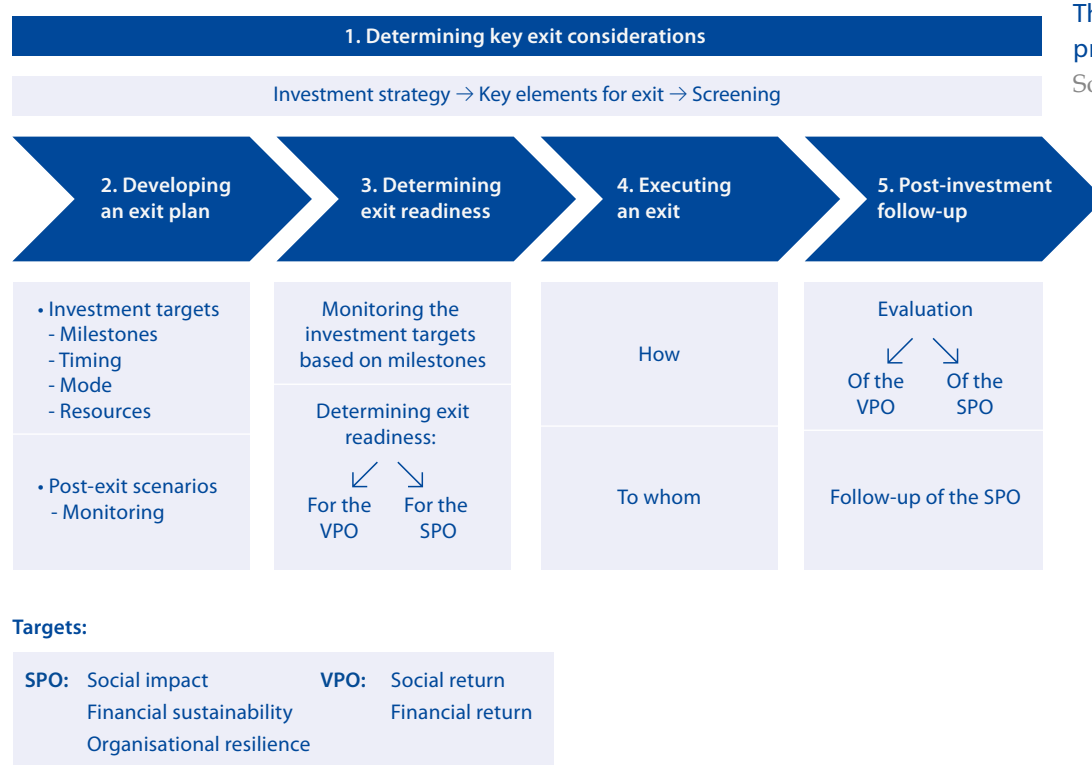


Figure 8:
The five step exit strategy process

Source: EVPA

Step 1: Determining key exit considerations

The first step of the exit strategy process is the determination of the key exit considerations. Starting from the investment strategy, the investor considers the key elements of its overall investment strategy that will influence its exit strategy. These elements of the investment strategy will condition how a VPO will plan for and implement an exit.

The main principles set out in this step will guide the investor in screening potential investment deals, and will influence all the next steps of the exit strategy process.

Step 2: Developing an exit plan

The second step in the exit strategy process is the development of an exit plan for a specific investment. This means that the VPO has already identified an investment opportunity and is in the process of closing the deal. Before investing, the VPO should consider when, how and to whom it will exit, and develop an exit plan together with the SPO. Specifically, the VPO needs to work with the SPO to determine the investment objectives related to the three dimensions of exit readiness, i.e. social impact, financial sustainability and organisational

INTRODUCTION AND OVERVIEW

resilience and set specific milestones for when each will be achieved – that allow the VPO to achieve its own social and financial return goals.

The exit plan must be matched with the deal structuring, and it is normally developed during the due diligence phase and formalised as part of any type of contract or Memorandum of Understanding (MoU) between the investor and the investee.

Step 3: Determining exit readiness

During the investment period, the VPO monitors the investment and holds evaluation meetings with the investee to assess the achievement of the goals set for the investment. Based on the results of the interim evaluations, the VPO judges at which point “exit readiness” is reached.

“Exit readiness” is defined as the moment in which the goals set for the SPO and the VPO are reached, and therefore the VPO can exit. Different scenarios can be envisaged which may lead to early exit, continued support, revision of the exit plan, or the decision to proceed to exit execution, i.e. step 4.

Step 4: Executing an exit

Step 4 of the process constitutes the execution of the exit plan. The two most important considerations that emerge at this point are how to exit and whom to exit to. How the exit is executed depends mostly on the type of financing instrument used, whereas considerations on “whom to exit to” will also be linked to the characteristics of the SPO (including the stage of development, the sustainability of the model, etc.) and the degree of involvement in the SPO that the VPO wants to keep after having exited. The VPO should execute the exit so as to maximise the long-term social impact of the SPO post exit.

Step 5: Post-investment follow-up

The fifth and last step in the exit strategy process is the post-investment follow-up. This step includes two parts: the final evaluation and potential follow-up activities.

It is important to evaluate the success of the exit both at the investor’s and the investee’s level, and to analyse returns. The success of an exit refers to the achievement of the goals of both the VPO and the SPO.

Follow-up activities include maintaining contact post exit and continue monitoring the investment.

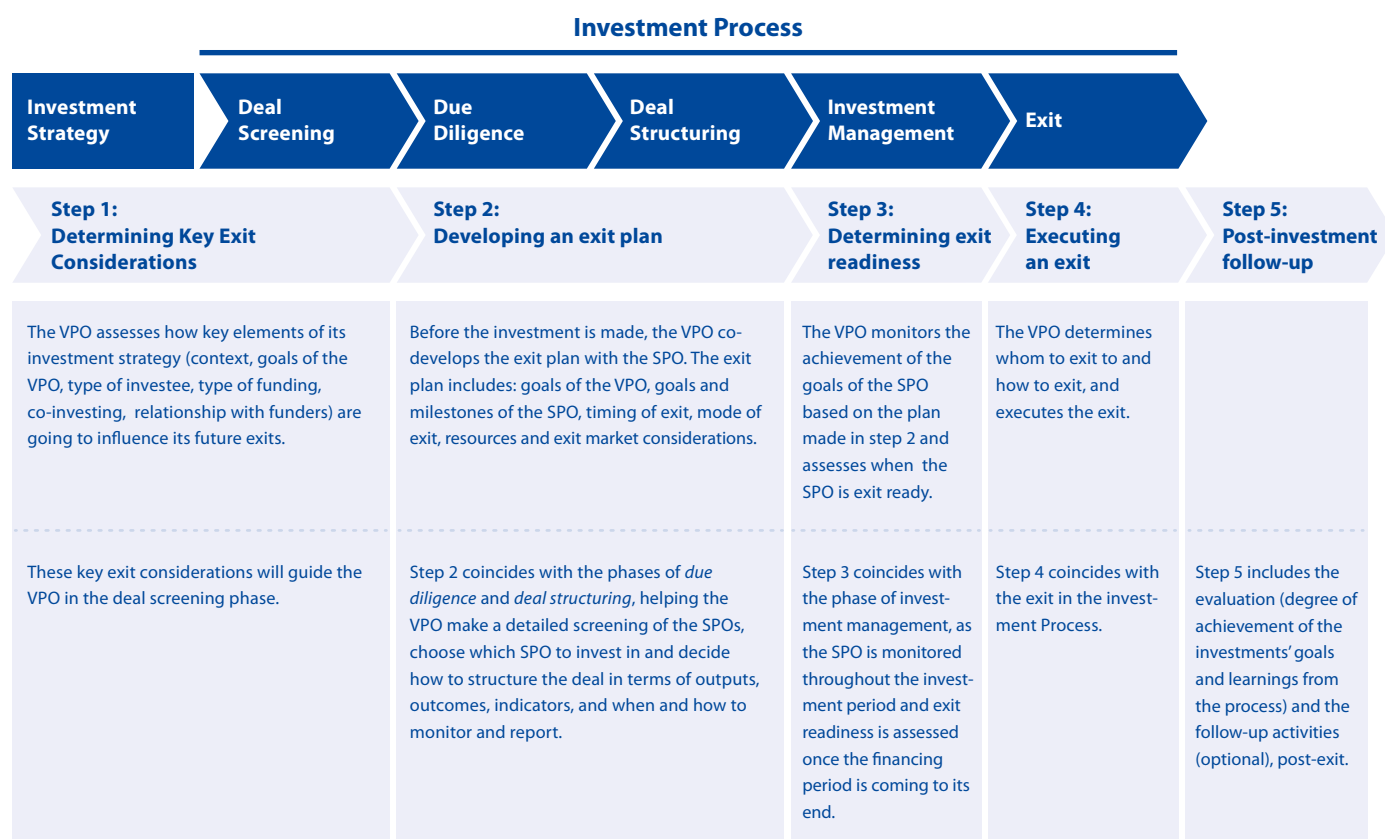
Integrating the exit strategy in the investment process

The exit strategy process is an integral part of the investment process. It is helpful to consider when in the investment process the different parts of the exit strategy process are developed.

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Figure 9: The investment process and the exit strategy process

Source: EVPA



The key exit considerations, step 1 in the exit strategy process which involves designing the exit strategy, are derived from the investment strategy. When screening for new investments, it is important for the VPO to consider potential exit as a criteria upfront. The VPO together with the SPO starts developing the exit plan (step 2) during the due diligence process, and finalises the plan in the deal structuring phase. During the investment management phase, the VPO monitors the achievement of the goals by the SPO and assesses when exit readiness is reached (step 3) so that the exit can be executed. The “exit” part of the investment process is what we refer to as the execution of the exit (step 4). The post-investment follow-up (step 5) takes place after the investment is exited and therefore after the investment process is completed.

Part 2:

The Exit Strategy Process

STEP 1: DETERMINING KEY EXIT CONSIDERATIONS

In this part of the report, we go through the different components of the exit strategy process, from designing the strategy, to developing a detailed plan, implementing the plan and executing the exit, as well as conducting possible post-investment follow-up. The exit strategy process is an integral part of the investment process.

Step 1: Determining key exit considerations



The clear goal of each investment is to enable the investee to establish or grow its business on a financially sustainable and long lasting basis.

Johann Heep, Erste Foundation and Erste Group Bank AG

The moment of exit puts an end to the financial involvement of the VPO with the SPO. As the exit constitutes the endpoint of the investment, the exit strategy needs to be aligned with the investment strategy.

In order for this alignment to happen, the VPO must first reflect upon its investment strategy, and determine the main elements that will influence its exit strategy. These elements of the investment strategy will condition how a VPO will plan for and execute the exit, while the context and type of investee will determine whom the VPO can exit to. We call these elements “key exit considerations”. Key exit considerations are the main principles that guide all VPO’s exits, and for this reason they are positioned on top of the other four steps of the exit strategy process. The main principles set out in this step will guide the investor in screening potential investment projects, and influence all subsequent phases of the exit strategy process.

Important considerations will be the prioritisation between financial and social return, the investment model in terms of how the VPO plans to achieve its return objectives and sector and geographic focus.

STEP 1: DETERMINING KEY EXIT CONSIDERATIONS

As shown in figure 10, six elements of the investment strategy will influence the exit strategy process: the context, the social and financial return goals of the VPO, the type of investee, the type of funding, the policy of the VPO in terms of co-investing and the relationship of the VPO with its funders (the investors, donors or trustees that finance the activities of the VPO).

Context	<ul style="list-style-type: none"> • Market/sector and country in which investee(s) (and investor) operate • Geographical focus of investor • Sector focus of investor
Type of investee	<ul style="list-style-type: none"> • Organisational structure of SPOs financed (linked to return expectations and types of funding) • Development stage of investees (at which stage of development does VPO invest?)
Social and financial return goals of the VPO	<ul style="list-style-type: none"> • Definition of VPO's social objectives • Level of financial return VPO wants to obtain (vs. level of social return that VPO wants to achieve)
Type of funding	<ul style="list-style-type: none"> • Grants • Debt • Equity/quasi-equity • ...tailored to the needs of the investee
Co-investing	<ul style="list-style-type: none"> • Define roles and responsibilities • Lead investor or not? How will things change after exit? • Analyse the co-investors well
Relationship with VPO funders	<ul style="list-style-type: none"> • Fixed time periods • Obligations towards funders

Figure 10:
Elements of the investment strategy that determine key exit considerations

Source: EVPA

Context. The investment strategy includes choices as to the geographical and the sector focus of a VPO. This focus determines the context in which both the SPO and the VPO operate and therefore influences the exit strategy especially in terms of whom to exit to and how to exit. In some cases, choosing to operate in a certain sector will reduce the exit options: a good example is Ferd Social Entrepreneurs (Ferd SE).

Ferd SE is a VPO based in Norway, a country with few social investors as to date, meaning that Ferd SE can only exit by making sure the investee is able to carry on its work without external support, or alternatively to the public sector or to a corporation operating in the same industrial sector as the investee.

A good understanding of the context in which the VPO and the SPO operate is crucial for the development of an exit plan for an impactful exit. As Johann Heep from Erste Foundation put it: "you need to understand the universe of your clients".

STEP 1: DETERMINING KEY EXIT CONSIDERATIONS

When IKARE, a UK-based VPO, invested in “SOS Uganda”, for example, it had a double mission to (i) mass treat and spray cattle in order to avoid a geographic merger of two streams of sleeping sickness and (ii) teach farmers in five districts to spray cattle themselves. However, at the end of the first phase of the initiative IKARE and its partners realised they had not reached the second objective because they had not understood deeply enough the context in which they were operating. This called for the need of having a better understanding of the existing veterinary services infrastructure, NGO activities in these territories as well as farmers’ needs and challenges. Thus IKARE and its partners undertook a mapping exercise in phase 2 of the investment project.

According to the findings of the Mission Alignment Working Group to the Social Impact Investment Taskforce established by the G8, the national context influences the opportunities for “profit-with purpose business”, i.e. social enterprises. In particular, the working group identifies specific cultural and institutional issues, including the level of acceptance of using business approaches and models to tackle social issues and the relative trust of business, government and civil society. Additionally, legal issues including the range of existing legal forms and the experience with these at local level play an important role in determining the scope of action of profit-with-purpose business; some countries require businesses to generate a financial return, which pushed the emergence of new legal forms to specify the social purpose¹². Understanding these context issues is crucial for the VPO in order to plan, manage and execute an exit.

An example of a VPO having issues when exiting an SPO due to legal restrictions is Erste Foundation, based in Austria. Erste Foundation invested through good.bee (Erste Bank Oesterreich), its social inclusion instrument, in a company called “Repair”, which had a hybrid structure, partly for profit and partly not-for-profit. In order to separate the profit from the non-profit activities a limited liability company was created (LTD) to cover the for profit operational activities of “Repair”, whereas the not for profit association was processing purely social activities. This set-up generated a system of “cross-subsidization” from the LTD company to the non-profit structure, which posed some legal concerns: the atypical structure of the SPO was not completely in line with the Austrian legislation.

Social and financial return goals. Some VPOs have a social sector focus and many have developed specific social impact objectives they would like to achieve in the social sectors where they operate. EVPA’s Practical Guide to Measuring and Managing Impact¹³ provides guidance and case examples of how impact objectives can be set for a VPO.

Erste Foundation focuses on financial inclusion in Central and Eastern Europe, using its banking background and skills. The impact it wants to achieve is to have more people having access to banking in areas where a lack of financial inclusion is highly perceived as an issue.

12. Mission alignment working group to the social impact investment taskforce established under the UK’s presidency of the G8, (2014). “Profit-with-purpose businesses”. Subject paper of the Mission Alignment Working Group.
13. Hehenberger, L., Harling, A-M. and Scholten, P., (2013). “A Practical Guide to Measuring and Managing Impact”, EVPA.

STEP 1: DETERMINING KEY EXIT CONSIDERATIONS

Ferd SE focuses its efforts on increasing the opportunities for children and youngsters. Its social impact goals focus on increasing the opportunities and the social inclusion of children and youngsters.

Financial return goals express the preference of the VPO in terms of achieving a return on investment (ROI) in the SPOs that make up its portfolio of investments. A pure grant making VPO accepts a total loss of its financial investment, thus generating a -100% return, whereas VPOs using debt and equity may expect repayment of the investment and sometimes a positive financial return. The VPO needs to assess whether the financial return objectives are independent/secondary to the social return objectives or as important as the social return objectives. The choice of which objective is the priority will influence the exit strategy. Some VPOs only invest if there is a possibility of obtaining a financial return, while others consider different types of investments, which do not necessarily generate a financial return.

Oltre Venture, for example, has as its financial objective the repayment of the capital to its investor, who have to accept that Oltre Venture's aim is to return the invested capital with – in some cases – a small return on the investment. Since Oltre Venture's priority is social impact, the investors don't look for higher IRR and the financial return goals are secondary to the social return goals.

As shown in figure 11, the results of the EVPA industry survey show that in terms of investment priorities, the majority of the VPOs surveyed consider social return as the priority, and only 28% consider social and financial return on equal footing.¹⁴

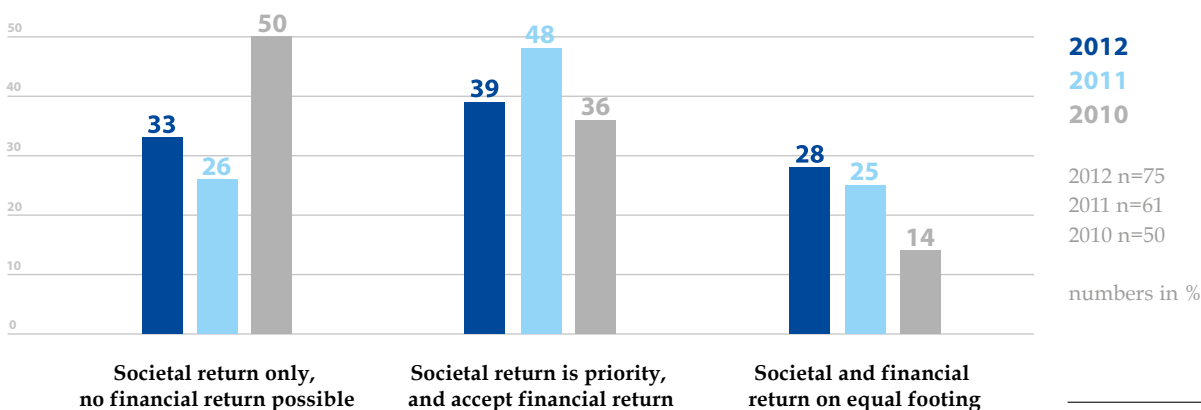


Figure 11:
VPOs' return priorities

Source: EVPA

14. Hehenberger, L., Harling A.-M., (2014). "European Venture Philanthropy and social investment 2012/2013 – The EVPA Survey". EVPA.

STEP 1: DETERMINING KEY EXIT CONSIDERATIONS

Return prioritisation will guide the screening process when seeking new investment opportunities. Some impact investors that seek a financial return as first priority often pick investments in specific sectors or regions that are considered to generate social impact at an intrinsic level, e.g. microfinance or deprived or poor regions. Once the investment fulfils the initial impact criteria, the investor invests to maximise financial return.

D. Capital focuses on investments to SPOs that operate in specific sectors such as agriculture and food security, energy, waste management and education, but that may not have reached financial sustainability yet.

Similarly, IKARE invests in initiatives or companies and projects aimed at solving a specific societal problem. IKARE selects SPOs that can contribute to these overall goals and then carries out the due diligence and/or develops a business plan to make sure that the SPO has the potential to turn into a sustainable company.

Alternatively, the VPO can screen for financial return, for example focus on SPOs with the potential to become financial sustainable and repay a debt with an interest thus generating a financial return, and then focus the detailed screening on finding the investment opportunities that may generate the maximum social impact.

Ferd SE for example looks for social entrepreneurs who have a financial model that makes the business sustainable and ready for growth. Then it looks for maximising the social impact by selecting SPOs that have innovative solutions to society's challenges and are driven by the social results.

PhiTrust Partenaires, a VPO based in France, considers social impact and financial return objectives to be on equal footing. PhiTrust aims to receive regular return from its debt investments (comprising 30 - 50% of its portfolio), with the remaining investments in equity and quasi-equity. To achieve this, PhiTrust's investment strategy is to provide financial and technical support to economically viable for-profit SPOs that have an identified business plan and a defined social mission at the time of investment, with the objective of helping them to achieve long term financial and organisational sustainability.

The structure of the deal and the timing of exit will also be influenced by the priorities of the investor and will aim to maximise either the social return or both the financial and social return depending on the strategy the VPO has chosen. The VPO needs to determine the exit timing that matches its expected return, both generally and for the specific investment.

STEP 1: DETERMINING KEY EXIT CONSIDERATIONS

For D. Capital the financial and social impact goals are both important and the financial sustainability of the SPOs it invests in is usually crucial. Therefore it often uses self-liquidating instruments¹⁵ and royalty-based instruments, which have a pre-defined investment horizon. In this case, the timing of exit is set not only to coincide with the repayment of the debt by the SPO, but also with the achievement of the goals of the SPO.

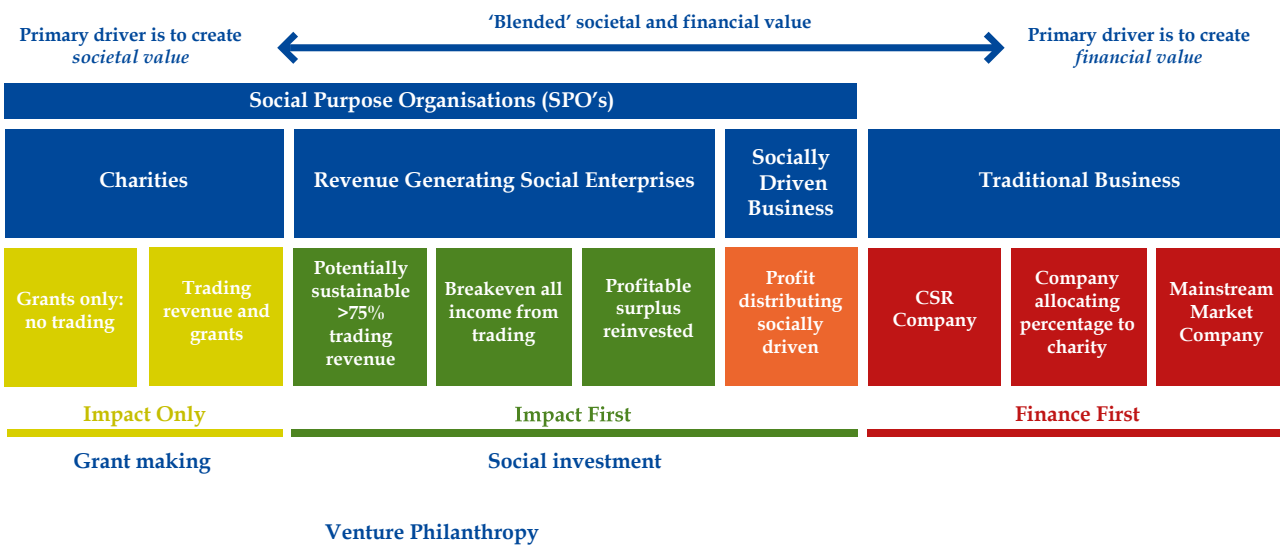
The prioritisation of the social return over the financial return (or the equality thereof) will also impact the exit readiness considerations: the VPO that prioritises the social return goals will privilege the achievement of the social impact goals whereas the VPO that considers the social and financial goals as equally important will base its exit decision on the achievement of both the social and financial objectives.

The strategic decision over the prioritisation of return objectives might lead to social mission-related challenges. If there are both financial and societal return objectives connected with the investment and if these objectives are considered to be equally important, finding the balance will be more challenging for the VPO.

Type of investee. The social and financial return goals will influence the type of SPO the VPO decides to invest in, ranging from charities with no trading activity that will give a pure social return to social enterprises that may generate a combination of social and financial return. Figure 12, the so-called investment spectrum, provides an overview of the different types of organisational structures of the SPOs, related to the investment strategy of the VPO. An investor that is not seeking a financial return will position itself more towards the left end of the investment spectrum, whereas an investor seeking a social return but accepting a financial return or seeking both social and financial return will position itself in the centre.

15. A self-liquidating loan is a type of short- or intermediate-term credit that is repaid with money generated by the assets it is used to purchase. The repayment schedule and maturity of a self-liquidating loan are designed to coincide with the timing of the assets' income generation. These loans are intended to finance purchases that will quickly and reliably generate cash.
16. **Balbo, L., Hehenberger, L., Mortell, D. and Oostlander, P.,** (2010). "Establishing a venture philanthropy organisation in Europe". EVPA.

Figure 12:
Investment spectrum in VP/SI and organisational structures of SPOs¹⁶
Source: EVPA



STEP 1: DETERMINING KEY EXIT CONSIDERATIONS

The VPO may also decide to invest at a particular stage of development of the investee, whether at seed/incubation stage, start-up, growth or maturity of the SPO.

The type of investee funded and the stage of development of the investee influence how the VPO exits, whom the VPO can exit to and the milestones the VPO and the SPO use to define exit readiness. Investing in an SPO in start-up phase, for example, means that at the end of the investment period it is unlikely that the SPO will be financially self-sustaining. As a result the VPO having – for example – an equity share in such SPO will be unlikely to plan the exit by selling its stake to a for-profit investor (let alone considering an IPO). Investing in an SPO that is planning to scale up might open up scenarios of selling the shares to a for-profit investor.

NESsT, a VPO operating in Central and Eastern Europe and South America, has developed a three-phase process. According to this process an SPO goes through three phases: planning, incubation and scaling. Exit can happen at the end of each phase. On average 40 to 50 companies apply yearly for NESsT support, and of these 40 about 15 enter the planning phase, four to six will be incubated and one or two will go for scale. However, the majority of exits take place after the incubation phase. Some social enterprises do not wish to grow, but become sustainable in the incubation phase, and they are therefore exited from the NESsT incubation portfolio. Having these three scenarios helps NESsT define whom to exit to: SPOs in each step are fairly uniformly grouped in terms of stage of development, and this helps having a common portfolio exit strategy.

Key exit considerations related to the goals of the VPO and to the type of investee do not necessarily need to be “positive”, but can also be “negative”. During step 1 the VPO needs to determine which are the “deal breakers”. Deal breakers are negative criteria which will guide the SPO through the deal screening phase, helping it to identify the investment not to pursue, but also when deciding to opt out early while determining exit readiness. For example, in the latter case, the VPO may focus on a specific social sector, and the SPO decides to change course and move into a new sector, meaning that the VPO may opt out of the investment.

Type of funding. The type of return sought and the type of organisation the VPO invests in determine the type of financing instrument used, ranging from pure grants to different types of debt and equity. When defining its investment strategy the VPO defines which instruments it will use to invest in the SPOs. Each investment modality (variations of debt, equity and grants) will have different benefits and place different constraints on the exit strategy. Some investment structures will simplify exit, while others will pose additional challenges for both the investor and the investee at the time of exit. The investor needs to perform an overall assessment of the instruments it uses to finance the SPOs in its portfolio and how they influence the exit.

STEP 1: DETERMINING KEY EXIT CONSIDERATIONS

“When using a grant it is fairly simple to define what you mean by exit. When moving to different instruments, such as debt and loan, things change and a lot of different practices emerge, posing a number of challenges”

Eva Varga – former NESsT

What are the challenges? In general terms, grants have a pre-defined duration, although a grant can be renewed, which facilitates the identification of the timing of exit, whereas the sale of an equity stake is not subject to a precise time limit (it depends on whether a follow on investor makes a good enough offer). However, despite the fact that the exit can be easily defined in the case of grants, exiting a grant can still pose challenges for the VPO. Similarly to other instruments grants raise the issue of the continuation of the impact after exit. When the grant is over it might be complex for the VPO to monitor the continuation of the pursuit of the social impact by the SPO. After the exit (and therefore the end of the financial support) the VPO has no more right to ask the SPO for data on how it is pursuing the impact.

A debt contract normally will have a predefined duration, but it may be extended and grace periods are sometimes given. Conversely, equity can generate issues at the time of exit. If, for example, the SPO is not performing according to plan and has liabilities, the VPO might have to postpone the time of exit to avoid putting additional pressure on the SPO. D. Capital, for example, has often used self-liquidating instruments because they facilitate the exit, in terms of identification of the timing of exit and definition of the milestones.

Co-investing. An additional element of the investment strategy that influences the exit strategy is the existence and influence of co-investors. Having co-investors has clear advantages: co-investors help increase the total pool of resources available to the SPO and bring complementary non-financial skills. Co-investors with a broad network that can be leveraged are a very important asset, especially at the time of exit.

D. Capital’s clients usually seek other co-investors, for three reasons. First, by having co-investors they avoid bearing all the risks of the investment. Second, having co-investors guarantees a higher viability of the project. Third, co-investors are – in the long term – potential investors to exit to. When choosing co-investors, D. Capital’s clients prefer to work with co-investors with a broad network that can be leveraged, especially at the time of exit.

STEP 1: DETERMINING KEY EXIT CONSIDERATIONS

Ferd SE launched Unicus together with two co-investors that Ferd SE found through its network. Being more than one professional investor on the board helped develop the company better than Ferd SE could have done alone since both of the investors had complementary skills compared to Ferd's skills. According to Øyvind Sandvold, none of the co-investors could have developed Unicus to what it is without the other.

However, co-investors also bring along challenges. Coordinating actions with co-investors generates additional management costs. At D. Capital these costs are covered on top of the money invested and are closely monitored, as they inflate the total cost of the investment. However, D. Capital considers this deeper, closer and more costly approach to be preferred, as it ensures a smoother investment process for all parties involved.

Before engaging with co-investors the VPO needs to assess co-investors' investment strategy and objectives, financial/impact trade-offs and exit plans, to make sure they are compatible and aligned. A misalignment in the investment strategy of the co-investors can generate issues throughout the investment period and at the time of exit. In order to minimize the "cost" of potential exits in the future, D. Capital learnt that it is critical to spend time ensuring that co-investors' strategies are compatible (ranging from time horizon to return expectation and involvement in the company). By building strong relationships with co-investors before investing, D. Capital ensures that investor misalignments are avoided and issues at the time of exit are minimized.

Even if the co-investor coming in at a later stage does not have a majority share, in order to avoid trouble at a later stage it is key to check that the mission and values of the investors are aligned.

Sometimes the VPO invests in SPOs that are also receiving a grant from a pure grant making organisation. Donors providing funding and grants are very important for small start-up SPOs and other small-size organisations that address development and social impact. However, some donors do not strategically think about exit and what happens after they have discontinued their grants and may be less concerned about the sustainability of the SPO. In such cases, when grants are coupled with private capital and other types of financial instruments, it is often the VPO who has to take care of the exit strategy.

Moreover, some co-investors might have issues with the VPO maintaining contact with and still having influence on the SPO after the exit. Therefore, it is important to define at the outset of the relationship the roles and responsibilities of each co-investor, whether the VPO is the lead investor or not, and how the situation will change after the VPO exits.

Issues with co-investors can arise at the moment of exit. Deidre Mortell from One Foundation, made a concrete example of this. An organisation that One Foundation invested in was up for re-financing. When the three year follow on plan was presented to the investment committee, however, it was not approved. This did not just generate issues for the future of the

STEP 1: DETERMINING KEY EXIT CONSIDERATIONS

SPO, but also led to a difficult relationship issue with the co-investor One Foundation had found for the second round of investment: One Foundation had brokered a deal with the co-investor and then could not follow through itself.

Relationship with VPO funders – The way in which the VPO is funded impacts the investment strategy and as a result the key exit considerations. Broadly speaking, social investment funds may be set up as evergreen (meaning there is no set maturity date) or fixed-term funds, where the investors will require their money back – with or without a financial return after a fixed time period.

Having to achieve social impact goals within a fixed time span puts pressure on the VPO and consequently on the SPO to achieve results fast, and sometimes short-cuts are taken. Additionally, the possible obligations in terms of financial return that the VPO has towards its funders can oblige the VPO to steer the investments towards achieving financial returns at the expense of the social impact. Funders need to understand that venture philanthropy requires long-term investment horizons and patient capital willing to take risks.

Oltre Venture, for example, is currently facing similar challenges, as it is raising its second fund, Oltre II, targeting a wide pool of investors, including institutional investors, public companies, banks, high-net worth individuals and private foundations.

If funders have a strong influence on the investment strategy of the VPO, issues may arise also for the exit strategy. For example, in the case of a family foundation, if the family changes the mission of the foundation the investment strategy will need to be completely revised resulting in the need to develop new key exit considerations. Sometimes having a single family or person funding the VPO can have advantages, as having one unique centre of decision reduces the negotiations necessary to make choices, as in the case of Ferd SE.

The determination of the key exit considerations constitutes the first step in the exit strategy process and guides all subsequent steps. However, this does not imply that key exit considerations are immutable. Internal as well as external events can alter the key exit considerations and the VPO needs to allow for some flexibility to respond to the circumstances, such as a change in the context in which the VPO operates or a change in the funders' goals.

Key recommendations

Figure 13 provides a summary of the main exit considerations that can be derived from a VPO's investment strategy and that provide the guidelines for the development of an exit plan.

The considerations developed in this phase are the result of an internal analysis within the VPO without the involvement of the SPO.

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Context	<ul style="list-style-type: none"> Exit execution (How to exit; Whom to exit to)
Type of investee	<ul style="list-style-type: none"> Development of the exit plan (milestones to define exit readiness) Exit execution (How to exit; Whom to exit to)
Social and financial return goals of the VPO	<ul style="list-style-type: none"> Development of the exit plan (Choice of milestones for SPO and VPO; Structure of the deal; Timing of exit) Determination of exit readiness Exit execution (Whom to exit to; How to exit)
Type of funding	<ul style="list-style-type: none"> Exit plan (Timing) Exit execution (How to exit)
Co-investing	<ul style="list-style-type: none"> Roles and responsibilities → consider the co-investors' investment strategy when planning for an exit Does the co-investor have an investment strategy? How will things change after exit?
Relationship with investors/donors/trustees	<ul style="list-style-type: none"> "Spending pressure" Need for patient capital

Figure 13:
Key exit considerations
Source: EVPA

Key exit considerations guide the subsequent steps in the exit strategy process. The context in which the VPO has chosen to operate influences the execution of the exit strategy in step 4, and needs to be taken into account when considering how to exit and whom to exit to.

The social and financial return goals of the VPO and their prioritisation influence the development of the exit plan in step 2, especially for what concerns the definition of the specific impact objectives of the VPO and the SPO, the structure of the deal and the decision around the timing of exit.

The social and financial return goals determine the type of investee the SPO will finance, including its stage of development, and as a consequence the type of financing instrument used. These two elements influence the determination of milestones and exit timing in step 2 (exit plan) and also the exit execution in step 4 (in terms of both how to exit and whom to exit to).

The decision on whether or not to co-invest needs to be taken consciously of the advantages it brings (such as complementary skills) and of the challenges it poses (for example in terms of determining exit readiness in step 3, executing the exit in step 4, and continuing the relationship post-investment in step 5). Co-investors must be carefully analysed in terms of interests, mission and strategy. Only by aligning on these three elements will ensure a smooth relationship between the VPO and the co-investors and a smooth exit process.

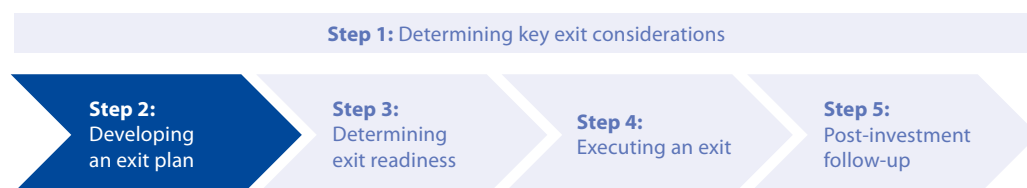
The relationship with the VPO funders and the influence they exercise on the investment strategy of the VPO will have an impact not only on the investment process but also on the exit strategy process. Fixed time periods for investments pose constraints on the activities

STEP 1: DETERMINING KEY EXIT CONSIDERATIONS

of the VPO and may force it to strive for quick results at the expense of sustainable social impact. The key exit considerations will guide the VPO in the screening of investment projects and will need to be the cornerstone of each exit plan developed for any of the VPO's investments. By determining the key exit considerations the VPO determines the key elements of its exit strategy and clarifies what it can bring to all future SPOs it will invest in. By knowing its strengths and by keeping them in mind when developing any exit plan in step 2, the VPO will make the phases of the exit much more manageable.

STEP 2: DEVELOPING AN EXIT PLAN

Step 2: Developing an exit plan



The second phase of the exit strategy process consists in the development of the exit plan. At this stage the VPO has screened the various investment projects and selected an SPO to invest in, based on its investment strategy. Therefore it is ready to develop an exit plan together with the SPO, using the key exit considerations developed in step 1.

As of this stage the SPO is involved in the exit strategy process: the VPO and the SPO co-develop the exit plan. It is recommended that the VPO starts to develop the exit plan as part of the due diligence process.

The development of the exit plan is a crucial step because it includes building the business case for the SPO, thus preparing the investee for the exit and making it attractive for potential follow-on funders. Through the exit plan the VPO thinks ahead about the interests of potential future funding parties and tries to anticipate them, thus facilitating the future step of the exit strategy process, and particularly step 4, the exit execution.

Having an exit plan that is realistic is crucial and ideally it will take into consideration more than one scenario. An example of this was given by Deirdre Mortell of One Foundation¹⁷. A start-up SPO One Foundation invested in had a three year business plan fully financed by One Foundation. Though the SPO was not performing up to the expectations on a number of dimensions, it could not be considered either a complete success or a failure. However, at the time of exit it was clear that the SPO needed refinancing. One Foundation was open to another three years of funding subject to the implementation of a tight performance measurement system, but when presented to the investment committee, the proposal for renewal of funding was not approved. This was a problem as suddenly the SPO found itself not having a fall-back plan for follow-on funding. As usually proposals that come to the investment committee don't fail, no other exit plan had been made: the SPO had not built an exit plan because One Foundation had indicated it would continue as a funder.

Having an exit plan in place is also a useful instrument for the VPO to fundraise and to avoid speculations on the reasons for exiting at a later stage.

17. Source: Interview with **Deirdre Mortell** at "EVPA Gathering of Leaders" in Venice May 23–24 2013.

STEP 2: DEVELOPING AN EXIT PLAN

The key elements of an exit plan

In step two of the exit strategy process the investor and the investee co-develop a detailed exit plan, in which they set out the details of the exit. The exit plan should include all the relevant elements necessary to reduce as much as possible the uncertainty concerning the exit and to best prepare the investee for the day when the VPO is no longer funding it. Figure 14 summarises the key elements of an exit plan.



Figure 14:
Key elements of an exit plan
Source: EVPA

The shared experience of practitioners indicates that exit plans tend to include variations of the following six elements: the investment targets of the VPO, the goals of the SPO and the milestones to monitor them, the timing and mode of exit, the resources and the – exit market scenarios.

Investment targets of the VPO and targets of the SPO

First of all the plan should include the two main dimensions of the investment's goals:

- The investment targets of the VPO for the specific investment
- The goals for the SPO and the milestones to monitor them

VPO's investment targets

The investment targets of the VPO are the social and financial return goals as derived from the investment strategy in step 1. The VPO needs to explain upfront to the SPO which are its social and financial return goals and explain how it prioritises them, as per assessment during step 1. Setting the financial return goals consists in defining the expected financial return goals for the specific project (for example, in case of an equity investment, how much the valuation of the investee needs to increase by the time of the exit). Setting the

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social return objectives consists in assessing the degree to which the investment is expected to contribute to the overall social impact goals of the VPO set in step 1.

Oltre Venture, for example, has set as financial objective for Ivrea 24 the repayment of the capital to its investors. Oltre prioritises the social return, but a financial return (which corresponds to at least the repayment of the capital invested) must be given by each investment.

In the case of PhiTrust Partenaires, financial and social return objectives are on the same footing. Consequently PhiTrust invests in for-profit business in sectors that promote positive social impact and sustainable development. PhiTrust has a long-term investment and mentoring horizon and is involved in 'patient capital', but the organisation still expects returns from all of its investments (30 to 50% regular return via debt instruments, the remaining in equity and quasi equity). PhiTrust strongly believes that an investee and investor should fully understand each other's social and financial motivations from the onset. Prior to any investment, clear expectations are discussed, objectives are defined, and the organisation is transparent about how it sees each investment fit in with its overall portfolio and long-term investment strategy. Since PhiTrust invests in a diverse range of social sectors, social performance milestones are tailored for each investment, and results are aggregated at portfolio level with a weighting system according to the size of each investment.

Goals of the SPO

The goals of the SPO relate to what the SPO is expected to achieve during the investment period while supported by the VPO, and belong to the three dimensions of "exit readiness": social impact, financial return and organisational resilience objectives. The specific goals set for the SPO will be influenced by its field of activity and the type of investee, whether it is a for-profit social enterprise or a non-profit organisation, and the stage of evolution of the investee.

The goals of the VPO and the SPO are interconnected: when setting the goals for the SPO, the VPO should ask itself where it wants the investee to be at the time of exit – to achieve its own social and financial return goals. These expectations must be weighed against the current state of the investee, the investee's own objectives and the resources and time available to implement the changes required to achieve the objectives. The VPO needs to set the minimum standards and communicate clearly the expectations to the SPO. According to one of the social entrepreneurs interviewed, an exit strategy is successful when it clarifies expectations from the very beginning. Communication in this respect is key, as it puts the investor and the investee on the same page. "We knew very well what would happen and when" said one investee, pointing out that having a clear, open relationship based on open dialogue is the most important ingredient for a successful exit strategy.

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The VPO must take the time to understand the investee's capabilities, motivation and know-how. Another investee interviewed pointed out that "one size fits all" does not exist. Despite the fact that the development of exit plans is guided by common key exit considerations, the VPO must tailor each exit plan according to the needs of the single SPO. When it comes to exit plans, too much standardisation can have negative consequences on the success of the exit.

It is important to keep in mind that the three categories of objectives (social impact, financial sustainability and organisational resilience) are equally important and should all be considered when developing an exit plan for the SPO, because often the capability of the SPO to achieve its social impact goals is very much dependent on it having a business plan that is sustainable in the long term, and because strengthening the SPO organisational structure is part of building the business case that facilitates the exit execution in step 4.

When Oltre Venture set up its first fund, Oltre I, Luciano Balbo – Oltre Venture's Founder and CEO – pointed out to investors that the goal of Oltre was to build stronger SPOs capable to meet not only the social impact goals, but also the financial sustainability and organisational resilience objectives, thus building strong organisations. If all goals were met, then there would be institutions and businesses interested in taking over the SPOs, which would be at that point, a less risky investment.

In terms of including impact as a metric, in the case of D. Capital investing in Waste Co., the impact the SPO can achieve is very much embedded in the whole model: according to the business plan, if the company performs, it will be possible to convert ten tons of waste per day into animal feed protein. This measurable result is very much linked with the impact milestones that D. Capital wants to measure and monitor.

VPOs should take care to provide guidance and advice to the SPO in developing SMART objectives for each dimension:

- Specific – target a specific area for improvement.
- Measurable – quantify or at least suggest an indicator of progress.
- Attainable – how the goal can be achieved.
- Realistic – state what results can realistically be achieved, given available resources.
- Time-related – specify when the result(s) can be achieved.

Sometimes it is hard for the SPO to articulate its needs, so it is important that the VPO supports the SPO in assessing its goals. Additionally, sometimes it is not so easy for the VPO and for the SPO to be specific about the goals in the plan when working in a changing environment.

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In the experience of Ferd SE, sometimes plans are not clear from the beginning, but they become clear as you go along. In the case of the SPO Unicus, the first objective was to maximise the number of people with Asperger syndrome to train to become consultants. No specific number was set, because the sector is so unique and the project was so ground-breaking that it was almost impossible for Ferd and Unicus to associate a clear, measurable objective to this goal.

In what follows, we will look at each dimension of SPO objectives and how each of them is defined.

Social impact is technically defined as the social change on the target population resulting from an SPO's actions¹⁸. The social impact objectives of the SPO should be derived directly from its own "theory of change" rather than imposed by the VPO and can be derived by asking the following questions:

- a. What is the social issue that the SPO is trying to solve?
- b. What activities is the SPO undertaking to solve the issue?
- c. What resources or inputs does the SPO have and need to undertake its activities?
- d. What are the expected outcomes?

For each outcome, specific indicators to measure progress towards or deviation from the objectives should be defined.

An example introduced by the case studies in the expert group is KKB, a German SPO, which builds care centres for children and provides flexible child care close to the workplaces. The key social issue that KKB is trying to solve is the difficulty of families with children to find affordable and convenient day care that allows them to combine work and family. KKB activities offer special features such as long opening hours, special arrangements, and a larger number of people taking care of the kids compared to other care centres, allowing parents to better reconcile pursuing a career with raising children.

In terms of resources to reach the social purpose KKB has three lines of revenue. The first line of revenues is the fee the families have to pay for the childcare, the second is the public contribution of the city to the SPO and the third is the subsidies paid by the Government to the families sending their children to the kindergartens. At the moment in which BonVenture decided to invest in KKB, the SPO had six state-of-the-art nurseries located in some German cities employing about a hundred employees caring for 350 children. The SPO only employs experienced, tenured teachers who support children individually.

18. Hehenberger, L., Harling, A-M. and Scholten, P. (2013). "A Practical Guide to Measuring and Managing Impact", EVPA.

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The expected outcomes for the investment are as follows:

- i. to have an increase in the number of centres that offer flexible day care for parents who work (from 6 to 42 centres);
- ii. an improvement in the condition of working parents; and
- iii. the maintenance of high quality day care.

When deciding to finance the SPO BonVenture set up a number of indicators to check that the social objectives of KKB would be reached, and linked them to milestones to monitor the implementation of the work plan. For example, KKB had 6 day nurseries with about 100 employees, caring for 350 children in 2007 and set as a measurable outcome having 42 day nurseries with about 450 employees serving for 1,735 children by the end of 2013.

Another interesting example is the investment of D. Capital into Waste Co., an early stage company based in South Africa that aims to build and operate the first full-scale commercial plant producing animal feed protein from waste streams in sub-Saharan Africa. Waste Co. wants to achieve four long-term impact goals:

- Food Security: The technology, when widely adopted, could influence supply and have stabilising influence on prices
- Environmental: Addresses both the negative effects of overfishing and waste dumping
- Community development: Job creation and community development programs through involving local communities in waste collection
- Industry development: The company has the potential to radically change the animal feed industry as well as how we think about nutrient recycling
- Based on these far-reaching long-term impact goals D. Capital and Waste Co. set the specific goals for the specific financing period, which include, for example, turning ten tons of waste per day into animal feed protein.

Based on these far-reaching long-term impact goals D. Capital, the co-investor and Waste Co. set the specific goals for the specific financing period, which include, for example, turning ten tons of waste per day into animal feed protein.

At the moment at which each new investment is being structured, PhiTrust works closely with the social entrepreneur in question to define relevant impact criteria directly related to the social mission of each organisation, some of which are to be assessed annually and some every six months. Longer term (5 year horizon) objectives are also defined for each criterion. The investee is then asked to report on the indicators chosen, providing qualitative explanations to support the understanding and analysis of the quantitative outputs. In the case of PhiTrust investing in AlterEco, for example, the SPO's activities were linked to measurable results that led to the expected long-term effects, as shown in figure 15.

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Figure 15:
Impact objectives and social value chain of the PhiTrust Partenaires-AlterEco investment

Source: PhiTrust Partenaires

Financial sustainability is the assessment that an SPO will have sufficient resources to continue pursuing its social mission, whether they come from other funders or from own revenue-generating activities.

In terms of financial sustainability, when planning the exit the VPO needs to consider how the SPO will finance its activities post-exit. One of the possibilities is that the SPO generates sufficient revenues to cover its costs. Some SPO activities may not easily generate revenues from sales but can be combined with activities that do so. Care must be taken that there is no mission drift. When an investee is not capable of generating enough revenues to become self-sustaining whatever the source the VPOs should look at the cost side of the operations and help the SPO reduce the costs (e.g. invest in a building that helps save expenditures on office / meeting / work space).

Specific financial sustainability objectives may involve for the SPO to reach its break-even point, having a fundraising strategy in place, or any other goal related to the financial situation of the investee.

In the case of KBB, BonVenture and KBB set in the plan that the company was to become independent and financially self-sustaining. The measurable outcomes linked to these goals were for KKB to have a stable cash flow and getting close to break-even with strong growth rates.

For its investment in the social housing project Ivrea 24, Oltre Venture established the achievement of break-even as the financial resilience goal for the SPO.

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In the case of Ferd SE, the end of Ferd’s support to Unicus was set conditional on the SPO having achieved the financial sustainability necessary to be able to grow the business.

Financial resilience at The One Foundation.¹⁹

We defined ‘financial resilience’ for an individual organisation as follows:

- Having at least three months’ operating costs held as free cash reserves;
- Having a level of flexibility in the application of its income;
- Having a level of flexibility (fixed versus variable costs) in its expenditure;
- Having a diversity of funding sources established;
- Having the assurance of a good degree of security in relation to future income streams.

Organisational resilience is the assessment of the degree of maturity of an SPO, in terms of the degree of development of the management team, the organisation and its governance.²⁰ Specific organisational resilience objectives may include building a solid management team or ensuring that the board is independent and well-balanced.

To support the SPO reaching organisational resilience, the VPO provides capacity building support to generate the revenues and manage the assets needed for a strong organisation. Capacity building support is provided in areas such as management and staff, operations, financial accounting systems, technology and management information systems. Achieving organisational resilience contributes to the long term pursuit of the SPO’s social impact goals and to the survival and growth of the organisation after the exit. The VPO needs to ensure that at the time of exit the SPO is more mature than prior to the investment. In terms of organisational resilience, the goals need to be commensurate to the status of development of the SPO. The extent of the VPO’s involvement with the SPO during and after the investment, in terms of training provided to the management team, and in general of non-financial support provided needs to be defined as part of the exit plan.

In the case of BonVenture and KKB, maintaining the highest quality standards was identified as the way to ensure the longevity of the SPO. In order to maintain the highest standards and service quality, KKB had to define internal processes and put in place a quality control system, set up an IT and a reporting /controlling-system and set up a formal training system for the employees. Having these systems in place was included in the plan of KKB as goals to be reached by the SPO to be considered exit-ready.

19. **The One Foundation**, (2013). “2004-2013 Impact Report”. The One Foundation, Dublin, Ireland.

20. **Balbo, L., Hehenberger, L., Mortell, D. and Oostlander, P.**, (2010). “Establishing a venture philanthropy organisation in Europe”. EVPA.

STEP 2: DEVELOPING AN EXIT PLAN

Summary of the qualities of a social purpose organisation with strong organisational capacity²¹

1. Good leadership and management, including the ability to plan strategically and respond to its markets
2. Solid organisational infrastructure
3. A track record of meeting short-term objectives on a consistent basis
4. Positive social outcomes and evidence of progress toward meeting the mission
5. A clear vision for the future
6. A well-developed and diverse network or partners and allies
7. Systems and practices that make the SPO accountable to its stakeholders
8. A culture of learning and sharing internally and externally

Heather Baser and Peter Morgan identify five core capacities or capabilities of a strong organisation:

- to commit and engage,
- to carry out functions or tasks,
- to relate and attract resources and support,
- to adapt and self-renew, and
- to balance coherence and diversity

If these five elements are present an organisation will be in a strong position to access new funding sources and have good chances of long-term success.²²

The three groups of goals are very much interrelated, and it would be unwise to think that the social impact goals are to be considered more relevant than the organisational resilience and financial sustainability goals. Upon exit, the VPO wants to make sure that the SPO can continue pursuing its social mission. In order to do so the SPO needs to be capable to attract additional resources or finance itself (financial sustainability) and to manage the operations (organisational resilience). It is necessary to think ahead of time about how to build a sustainable organisation instead of just focusing on social impact and potentially “missing” the financial or organisational piece. Therefore, one can say that the three dimensions should reinforce each other for optimal results, although in practice there is sometimes a trade-off to be made.

Impact Invest Scandinavia found that the social impact provided by the SPO it financed (providing weather forecasting services for poor farmers in Western Africa) was strongly embedded in the way the company ran its business, i.e. its business model. The SPO chose to target the poorest farmers instead of targeting the largest commercial farmers, including the big cocoa farmers. Therefore, the choice of the SPO to target the harvest segment had certain implications on the SPO’s business model, including the way the organisation was structured and its sources of financing. For instance, it had to

21. Source: Alter, K., Shoemaker, P., Tuan, M. and Emerson, J., (2001). “When is it time to say goodbye? Exit Strategies and Venture Philanthropy Funds”. Virtue Venture, Social Venture Partners and The Roberts Foundation.

22. Baser, H. and Morgan, P., (2008). “Capacity, Change and Performance – Study Report”. Discussion Paper No 59B. European Centre for Development Policy Management (ecdpm).

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work with intermediating actors such as farmers' associations and input providers, as many in the target segment for the SPO's activities were not capable to pay for the services offered. Therefore the SPO's goals in terms of social impact, financial sustainability and organisational resilience were highly interdependent and had to be solidified.

As illustrated in figure 16, in the exit plan the social impact, financial sustainability and organisational resilience goals of the SPO (investee) need to be balanced with the social return and financial return objectives of the VPO (investor).

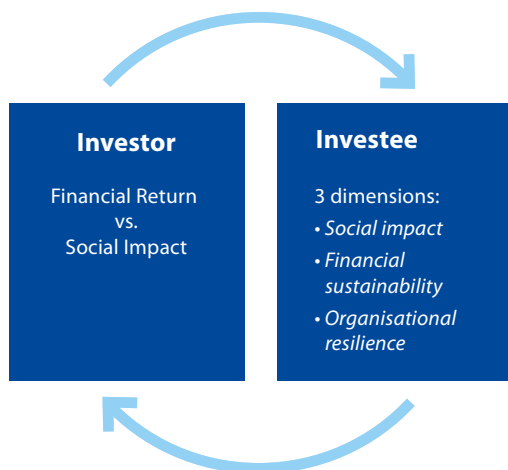


Figure 16:
Investor's goals and
investee's exit readiness
Source: EVPA

Impact Invest found that the social impact provided by the company is strongly embedded in the way the company does business, i.e. by going to the poorest farmers instead of targeting the largest commercial farmers, the big cocoa farmers and so on. They chose the harvest segment to penetrate, so the business model is highly dependent on that.

As explained above, the VPO selects the SPO(s) to invest in based on its financial and social return goals, then the objectives for the SPO are set according to the three dimensions of exit readiness. The VPO evaluates the alignment between the SPO objectives and its own social and financial return goals at portfolio level and evaluates how the investment contributes to its overall social and financial goals.

The success of an investment will be measured – in step 5 – as a combination of the social, financial and organisational performance. However, some investors prioritise one or the other element based on the key exit considerations developed in step one.

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The strategy of D. Capital's clients is to play a catalytic role through supporting early stage successful businesses and to be able to recycle their capital upon exiting their investments. Therefore, they put a strong emphasis on the financial sustainability of their investees. This does not imply that they do not care about the SPO achieving social impact goals, but it implies that they will only consider exiting the SPO when financial sustainability is achieved.

Setting the goals is also crucial to determine the boundaries of the VPO's responsibility at time of exit and beyond. At the moment in which the exit plan is developed the boundaries of the investor's responsibility have to be drawn. The question that arises is how much responsibility is placed on the investor, for example to help the organisation find follow-on financing that will enable financial sustainability and maintain the social mission, or if this should be the responsibility of the entrepreneurial team. These discussions need to be held during the second step, when the exit plan is developed and the goals are set.

Milestones

The exit plan should include the specific milestones that will be used to monitor the achievement of the goals by the investee and consequently assess the exit readiness of the investee in step 3. By milestones we mean the time-bound targets defined for each investment along the three dimensions (social, financial and operational). Together with the SPO, the VPO needs to determine when the SPO should have made progress towards achieving its overall social impact, financial sustainability and operational resilience objectives. The milestones are check-points to determine if the project is on track to achieve the overall objectives. Milestones can be placed throughout the duration of the investment, so that corrective actions can be taken if problems arise, and so that the deliverables can be completed on time. In VP/SI, disbursement of funding is often subject to achievement of milestones - to provide concrete incentives for the SPO to work towards achieving those.

Erste Foundation expects exit-strategies (e.g. repayment plans of loans) to be set-up before financing the SPO, at the outset of the relationship with the investee. At this stage the VPO must exactly define and agree with the investee on the targeted investment impact (organizational, financial, social). The VPO must understand what the goals of the SPO are and what are its own goals both in the short and in the long term along the three dimensions of organizational, social and financial sustainability.

D. Capital advised on a USD 1.5 million investment in Waste Co., an early stage company based in South Africa that aims to build and operate the first full-scale commercial plant producing animal feed protein from waste streams in sub-Saharan Africa. The investment was made in two tranches: one tranche of convertible loan and one tranche of matching conditional deferred loan. This means that the second tranche of the loan is paid only if a certain number of predefined KPIs and milestones are reached.

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A long time was invested into the definition of the operational and sales milestones. Each disbursement was conditional on having reached certain targets. The first tranche was conditional on, for example, having the MOU secured, the CFO in place and a sales contract for the first three months of production according to the business plan. The second tranche was conditional on more “advanced” milestones, such as securing the long term supply contracts with waste supply companies and additional sales contracts. D. Capital usually tries to link the operational and sales milestones to the impact metrics in order to facilitate impact assessment post exit. In this case, production inputs and outputs are linked to environmental impact metrics (e.g. tons of waste streams processed, ton of animal feed produced).

The milestones are directly derived from the goals set for the SPO.

For BonVenture’s investment in KKB, the setting up of a stable organisation with the introduction of a quality management system and IT and reporting /controlling tools were part of the conditions to be fulfilled by KBB in light of BonVenture’s exit. Financial and organisational resilience goals were linked to milestones.

As the goals and milestones of the investment are such an important part of the exit plan, several expert group members recommend to include the investment’s goals and milestones in the official document (i.e. in a Memorandum of Understanding). In table 2, we provide examples of such milestones, or specific indicators that can be used to measure whether the SPO has achieved the objectives.

VPO investing	SPO	Impact goal(s) of the SPO	Specific investment goals for the SPO	Milestones
IKARE	“SOS Uganda” (the PPP)	Emergency intervention to avoid territorial merger of the two strains of human sleeping sickness in Uganda	Mass treatment of 85% of cattle in area to clear them of infection + three free sprayings of cattle with insecticide (RAP methodology) provided to avoid reinfection, after which enabled farmers would do it for themselves	Social impact milestones: <ul style="list-style-type: none"> • Massive reduction in the prevalence of parasites in cattle as a direct result of massive 8 week intervention • Continued reduced prevalence of Rhodensiense sleeping sickness parasite in cattle 6, 12 and 18 months post treatment as a result of regular (monthly) spraying by farmers of cattle in the five SOS districts

Table 2:
Examples of social impact, financial sustainability and organisational resilience milestones

Source: EVPA

STEP 2: DEVELOPING AN EXIT PLAN

VPO investing	SPO	Impact goal(s) of the SPO	Specific investment goals for the SPO	Milestones
IKARE	“SOS Uganda” – the three veterinary practices	Provide the necessary veterinary services infrastructure to help farmers keep sleeping sickness under control	Deliver sleeping sickness and general veterinary products to the community in a self-sustaining way	Financial sustainability milestone: <ul style="list-style-type: none"> • Veterinary practices reaching breakeven point within 12 to 18 months
NESsT	Alaturi de Voi	Employ youth infected with HIV/AIDS in several social enterprises	Develop the social enterprise Util Deco and turn it into a self-sustaining social enterprise	Financial sustainability milestone: <ul style="list-style-type: none"> • Util Deco reaching self-sustainability within 2 years
Ferd SE	Unicus	Employ people with Asperger syndrome	Build a self-sustaining organisation that provides consultancy services employing people with Asperger syndrome	Organisational resilience milestone: <ul style="list-style-type: none"> • Have a good mixture of coaches/test managers based on the number of consultants with Asperger syndrome hired by the end of the financing period

Milestones also constitute the way to develop opt-out options in case of underperformance of the SPO.

In the case of D. Capital investing in Waste Co., setting milestones was done at the very early stage and was very much linked with the development of the exit strategy, as it was a way for D. Capital to build in exit options in the investment plan. The exit strategy was developed throughout the term sheet negotiation and legal due diligence process. D. Capital considered both scenarios of exiting with Waste Co. performing and with them not performing.

- In case of underperformance: D. Capital structured the investment in 4 tranches (2 tranches for the convertible loan and 2 tranches for the deferred loan) and set operational and sales milestones to be met for each of the tranches. These KPIs allow D. Capital to exit (i.e. ask for immediate repayment)/ not pursue the investment (i.e. not invest further) should Waste Co. not perform. This gave D. Capital a number of exit options along the route. D. Capital also negotiated usual minority rights (e.g. tag along rights, voting rights).
- In case of performance: D. Capital invested alongside co-investors with stated interest to invest in follow-on rounds if the company does well.

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Setting goals and milestones also implies setting the monitoring system that will be used to monitor the investment and assess the achievement of exit readiness.

Timing

The goals for the VPO and the SPO need to be assessed against an appropriate and realistic exit timeframe. The investor needs to consider how much time and investment is required before the exit is feasible and set an approximate date for its exit. This makes the overall exit process more transparent for both the investor and the investee and clarifies that the VPO will not be there forever. Timing also means setting clear deadlines for the achievement of the goals, which always need to be time-based.

In the experience of the members of the expert group, the VPO is often too optimistic on timings for exit: it is important to keep in mind that patient capital is often needed to see results. Timing considerations have strategic relevance, because not all investors can tailor the exit timeframe according to the needs of the investee. Some VPOs (such as grant making foundations) have pre-defined investment horizons, which influence the way in which the investor looks at exits and develops its overall exit plan. Having a pre-determined funding duration can lead to issues: if the SPO does not reach the milestones set in advance in the pre-defined time limits there is less flexibility to extend the duration of the support (unless a completely new grant is given). However, grants can be renewed if the goals have not been reached and the payback time of a loan can be extended.

In the case of Erste Foundation investing in “Light”, during the investment period the investor and investee had to revise the exit date and plan for a new exit due to difficulties in re-designing the team structures of the investee and designing new approaches to attract additional clients. As the mid-to long term planning looked promising and realistic the grace period was extended. This extension of the debt enabled the company to first stabilize its business without risking its own liquidity. Using a debt made it relatively easy for Erste to revise the exit date.

Equity investments have more flexible exit timings than grants and debts, but they are more complex in terms of whom to exit to: finding a follow-on investor that is interested in buying the share of an SPO at a fair price and in continuing with the pursuit of the social mission without diluting the social mission is complex.

According to some of the social entrepreneurs interviewed, setting an exit date implies imposing rigid deadlines to achieve pre-set goals. Tight deadlines risk hindering the long term sustainability of the SPO both from a financial and organisational sustainability point of view and in terms of long term achievement of the social impact goals.

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Mode

The exit plan should also include possible modes of exit, including how and whom to exit to, considerations that will be crucial when the exit is executed in step 4.

The choice of the financial instrument will impact the exit mode. Debt facilitates the choice of exit modes: exit is executed through the repayment of the debt. However, sometimes it is not easy to enforce the payment of the loan from the investee. As a social investor, it can sometimes be hard to be taken seriously when asking the debt back. Additionally, there is a reputation risk connected to enforcing an SPO to repay a debt, especially if the SPO is small and resource-strapped. In such cases it might be useful to involve a third party and put it in charge of being the intermediary that enforces the repayment of the debt on the SPO.

BonVenture's €750 thousand investment in KKB was made through a mezzanine loan, and it was decided in the exit plan that BonVenture would exit at the repayment of the loan (estimated in 2016). Using debt financing implies that in step 2 the VPO and the SPO plan a repayment schedule, which determines the modality through which the investment is exited.

Equity investments have exit modes that are very similar to those of VC/PE: mergers and acquisitions, sell of the equity share to follow-on investors, management buyouts or, rarely in VP/SI, IPOs. PhiTrust, for example, exited its equity investment in the fair-trade and organic food product company Alter Eco by selling its shares to Wessanen Distriborg, a European leader in the organic sector, subsequent to several rounds of negotiations and interest from a number of potential follow-on investors.

A grant is exited by passing on the financing role to a follow-on funder, creating an endowment for the SPO, or simply letting go, as the SPO might be able to continue on its own.

NESsT exited Alaturi de Voi (ADV) when the grant period finished, passing the SPO to a specialised lender that provides loans for social enterprises. There are innovative forms and uses of grants that may incentivise the success of the exit plan. Challenge grants can be used to incentivise the success of the exit plan. Atlantic Philanthropies includes requirements for matching support in its concluding grants, to help its investees replace Atlantic's funding where possible, and to adjust gradually to lower levels of support when a full replacement isn't available.²³

When co-investors are involved it is important that the investor decides whether it is taking the lead – i.e. coordinating all the co-investors involved. Having one investor coordinating all the co-investors is highly appreciated by the investee, as it avoids unpleasant situations. Co-investors need to be involved in the development of the exit plan, but it is important to keep in mind that those that are minority shareholders or funders may need to conform to the rest of the investors and agree on the type of exit that the majority is looking for.

23. Proscio, T., (2014). "Harvest Time for The Atlantic Philanthropies. 2012–2013: Decline and Rise". Center for Strategic Philanthropy and Civil Society. Stanford School of Public Policy. Duke University.

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When dealing with co-investors with different interests and especially in the case of an equity investment it is important to agree on the exit mode through shareholders' agreements. A suggestion is that the VPO sets the minimum price at which it would sell its equity shares upfront (floor price estimate) and shares it with the co-investors. This would prevent issues and surprises when the exit is executed.

Some instruments can facilitate or incentivise exit. VPOs are exploring the use of innovative financing instruments that incentivise exit, such as hybrid debt and loans linked to the milestones, e.g. if the milestones are reached the SPO only needs to repay the debt and does not have to pay interests.

Another way to incentivise exit is by establishing "challenge funds" which foresee support for SPOs that provide matching capital.²⁴ Having to raise own resources can incentivise the SPO to become self-sustaining.

According to the expert group and the workshop participants, guarantees are an underexplored instrument in VP/SI. Providing a guarantee so that a financial institution offers a loan to an SPO not only provides the SPO with the necessary financial resources, but also builds necessary relationships with more traditional financial institutions and the social enterprise sector. An example in the case study section is when NESsT uses a guarantee to "exit" their investment in Alaturi de Voi where a financial institution then provides the necessary follow-up funding.

VPOs can consider mechanisms to build the exit in the investment deal. The provision of decreasing support for example is a mechanism that can be used to embed the exit in the investment process.

In the second phase of the investment of IKARE in S.O.S. Uganda, the VPO financed the set up of veterinary practices in underserved towns in Uganda. By giving a decreasing fixed salary to the veterinary practices, the VPO conveyed the message that the veterinary practices were expected to become self-sustaining by the end of the financing period, and that the veterinaries were expected to get their business working and be able to live on the variable pay.

For as much as the VPO and the SPO can plan how and whom to exit to, it is important to keep in mind that at the moment of developing the exit plan the date of exit is far away in time. Therefore the VPO and the SPO will need to be flexible, and see what happens during the course of the investment and at the time of exit, as exit negotiations (for example to find a buyer for the VPO's share in the SPO) might take longer than expected.

24. For a review of challenge funds see: **O'Riordan A.-M., Copestake, J., Seibold, J. and Smith, D., (2013), "Challenge Funds in International Development"**. Research Paper. Triple Line and the University of Bath.

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PhiTrust began serious discussions about a potential exit strategy for its investment in exit Alter Eco in 2011, although the divestment did not occur until 2013. Given an increasingly difficult fair trade market in France and the fact that several equity investors in Alter Eco were reaching their fund maturity dates, several negotiations were necessary with companies that were interested in either a minority or majority stake in AlterEco before the most appropriate follow-on investor to secure the social impact and continual development strategy of the organisation was identified.

Resources

In the exit plan, the VPO and the SPO must also allocate the necessary resources to monitor the investment and roll-out the exit plan. From the very beginning of the investment project a portion of the investment should be diverted to the creation of a monitoring system and capacity-building so that the SPO is capable of reporting to the VPO on the developments of the investment.

Additionally, the VPO needs to provide sufficient liquidity to be able to react to deviations. Early and late exits, additional funding requirements, funding delays and management changes happen more often than one might think and need to be considered when developing the exit plan.

The role of the investor is defined and formalised in the exit plan, based on the assessment made in step 1. The VPO defines the role it wants to have and the influence it wants to exercise on the SPO, which will largely depend on the financing instrument used for the specific investment.

Once responsibilities are defined, the VPO and the SPO estimate the resources necessary to reach the objectives. The VPO and the SPO allocate the necessary resources, both financial and in terms of capacity building, to move forward towards the milestones. The provision of capacity building is important because it strengthens the SPO and helps building exit readiness in the SPO. Allocating the necessary resources to build the SPO's capabilities is particularly crucial for charities and SPOs which do not have the potential to becoming self-sustaining, and thus risk becoming dependent on the support of the VPO, especially if the VPO has been supporting them for a long time.

Capacity building can also be provided in the form of transfer of best practices among SPOs: as the number of investments of the VPO increases, the VPO can leverage the knowledge developed by "old" investees to support "new" investees.

Exit market scenarios

At the moment of developing the exit plan, the VPO and the SPO should jointly discuss possible exit market scenarios. This implies identifying possible scenarios upon exit, especially in terms of the attractiveness of the SPO as an investment case for follow-on funders. In the exit planning phase the VPO tries to identify the potential follow-on investors, which

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will largely depend on the financing instrument used and the type of investee. In the case of an equity investment, for example, the VPO will try to assess the most appropriate acquiring party, whereas in the case of a grant financing the VPO will try and identify potential sources of matching support after exit. The VPO needs to “start with the end in mind” and ask itself what the company will look like when the planned exit date arrives. Assessing exit market scenarios also means assessing where “markets” will be at the time of exit, i.e. in 3 to 5 years’ time.

As for the other elements of the exit plan, the exit market scenarios need to be flexible and are subject to revisions, due to potential disruptive events that can happen in the context where the VPO and the SPO operate.

Key recommendations

The following recommendations can help the VPO and the SPO going through step 2 and provide solutions to some of the challenges raised.

- **Clarify expectations, agendas and strategic aims** – the VPO and the SPO need to clarify their respective expectations when the exit plan is developed. By being transparent, open and honest, the VPO and the SPO can build a solid relationship based on trust that can lead to a good exit plan and execution. Don’t let the exit plan be a taboo!
- **Co-develop the exit plan** – The SPO needs to be included in the process of development of the exit plan, as this will increase the transparency between the two parties and reduce the risk of issues arising at a later stage of the investment process.
- **Formalise goals and milestones** – The investment goals and the milestones set to check the achievement of the objectives by the SPO should be formalised and included in official documents, such as a memorandum of understanding.
- **Don’t be too optimistic in terms of timing of the exit** – patient capital is needed to see results.
- **Stay flexible and be aware that you cannot plan for everything** – When the exit plan is developed, the exit date is far away in time. Anything can happen in the course of the investment, so the VPO and the SPO need to be flexible, not allowing the exit plan to limit actions, and allocate the resources necessary to allow for changes which might occur during the investment period. The exit plan should include a provision for sufficient flexibility (and liquidity) to be able to react to deviations from exit plan (early/late exits, additional funding requirements, funding delays, management changes, know-how support).
- **Be holistic** – The three categories of objectives set for the SPO (social impact, financial sustainability and organisational resilience) are equally important and should all be considered when developing an exit plan for the SPO, because the capability of the SPO to achieve its social impact goals often depends on having a business plan sustainable in the long term.

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- *Develop the investment case early* – Developing the exit plan involves building the business case for the SPO, thus preparing the investee for the exit and making it attractive for potential follow-on investors.
- *Develop and use financing instruments that incentivise exit* – VPOs can consider financing instruments and mechanisms to build the exit into the investment deal and incentivise exits, such as hybrid debts, challenge funds, decreasing support and guarantees.
- *Communicate* – the VPO and the SPO need to keep an open communication throughout the investment and the VPO must make sure it clearly explains any “investment jargon” to the SPO.
- *Be rational* – all investments are emotional, but getting too attached can cloud one’s judgement.

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Step 3: Determining exit readiness



“Where there is mutual consent that the VPO can no longer add value, the investor should exit.”

Anne Holm Rannaleet, IKARE

During step 3 the investment is monitored based on the goals and the milestones set in the exit plan in step 2. The outcome of the monitoring is needed to assess the exit readiness and see if the exit is feasible at the planned exit date. “Exit readiness” is defined as the moment in which the goals set for the SPO and the VPO are reached, and/or the VPO cannot add any additional value. Our definition of “exit readiness” largely coincides with the definition of “impact readiness” proposed by the UK National Advisory Board to the Social Impact Investment Taskforce established under the UK’s Presidency of the G8: “We propose a new term: ‘impact-readiness’. This would capture an organisation’s capacity to produce its outcomes (e.g. to reliably secure sustained employment for the long-term jobless) and indicate its suitability for scaling (such as expansion to new locations), once outcomes had been proven”.²⁵

Once the SPO is “exit ready”, the VPO needs to assess to which extent it is also “investment ready”, i.e. if the SPO is able to access to the resources necessary to continue in the next steps of its development, for example by attracting new investors.

25. **Impetus PEF**, (2014). *“Building the Capacity for Impact – A report on the capacities needed by the social sector to deliver the aims of the social investment market”*. Report prepared for the UK National Advisory Board to the Social Impact Investment Taskforce established under the UK’s Presidency of the G8.

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Figure 17 provides a schematic overview of the process a VPO and its investee goes through in step 3, as described below. Five general scenarios are possible when the planned exit date arrives:

1. In scenario 1 the SPO has achieved the goals set in the planning phase to an extent that is considered satisfactory, so it can be considered exit ready. Additionally, if the SPO either is self-sustaining or is attractive to a follow-on investor, investment readiness is achieved. Once exit readiness and investment readiness are achieved and the VPO considers it can no longer add value to the SPO, the VPO can proceed to exit.
2. In scenario 2 the SPO has achieved the goals set in the planning phase to an extent that is considered satisfactory (i.e. has achieved exit readiness), and the VPO considers it can no longer add value to the SPO, but the SPO is not investment ready, because it is not self-sustaining and there is no follow-on investor ready to take over. At this point the VPO has two options:
 - a. Invest the resources necessary to bridge the gap between exit readiness and investment readiness.
 - b. If there is no foreseeable market for the SPO, the VPO may decide to let go.
3. In scenario 3 the SPO has achieved the goals set in the planning phase to an extent that is considered satisfactory, so it can be considered exit ready, but the VPO still feels it can add value, and the SPO agrees to continue the relationship. In this case the VPO and the SPO develop a new partnership and with an associated, new exit plan (returning to step 2).
4. In scenario 4 the goals have not been reached, or have only been partially reached, but the VPO considers it can still add value to the SPO and that the SPO has high growth potential, so it may decide to continue investing and then needs to revise its exit plan (returning to step 2).
5. In the fifth and last scenario the goals have not been reached, and the VPO considers that its resources can be at better use elsewhere, so it may decide to let go.

The monitoring is needed not only to determine the progress towards exit readiness, but also to avoid wasting resources. If the VPO realises during the investment period that its financial and social return goals cannot be reached, the SPO is not on track according to the milestones set and that there are serious issues that jeopardise the entire investment, making it a waste of resources, it might consider opting for an earlier exit. The VPO resources are limited, and need to be spent where they are needed the most.

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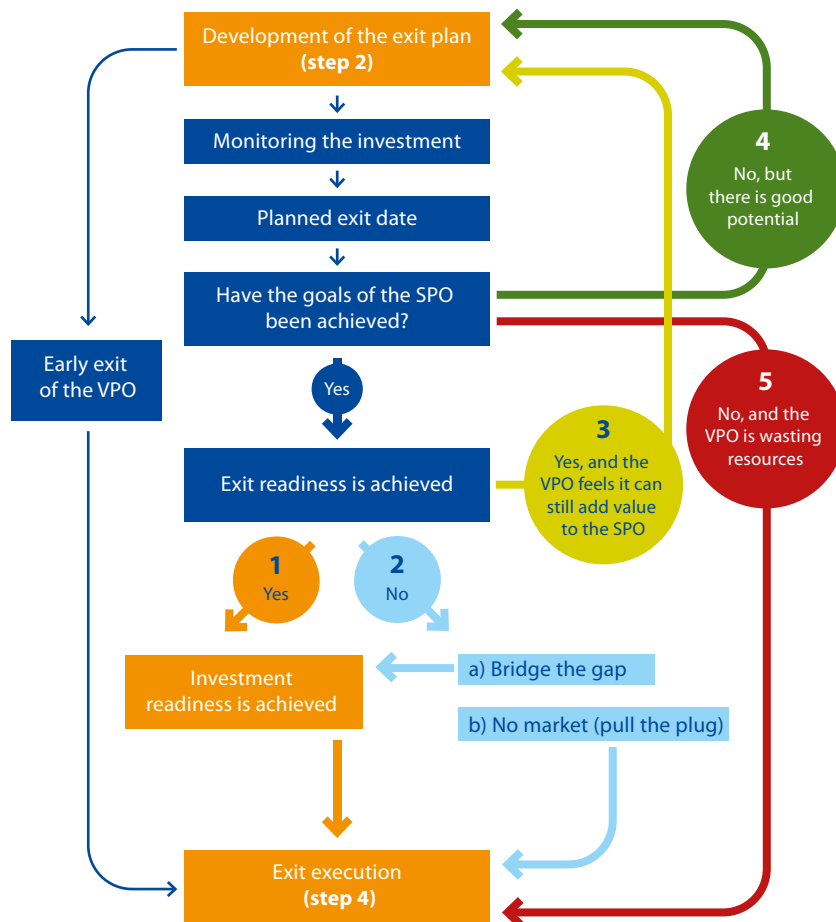


Figure 17:
Step 3: Determining
exit readiness

Source: EVPA

Monitoring the investment

In step 2 the VPO and the SPO have co-developed the exit plan. During the investment period the VPO and the SPO roll-out the plan, monitoring the indicators to assess if the milestones have been reached and – eventually – revising the goals during the investment period.

“Exit strategies lead to a better cooperation between Social Entrepreneurs and Investors and should be discussed regularly.”

Erwin Stahl, BonVenture

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For a grantee, the exit of a funder is always bad news, even when it's planned in advance. A grant maker can set a positive tone by communicating consistently over the course of the grant and as the end approaches. When everyone at the foundation sends the same message, that's even better.²⁶

NESsT monitors all investments based on a standardised Performance Management Tool (PMT) and holds yearly performance management assessment meetings with the investee, to assess whether the SPO is meeting the goals and is on track, how the investee is doing with respect to its own goals but also how the investee can be compared with the rest of the portfolio. The annual assessment is a joint exercise with the investee and determines whether the investment should continue and what the next steps for the investment should be. It can also include a recommendation for a further amount to invest, another form of investment (for example after two years of grant investment the investee might be ready to take a loan), additional capacity building and the areas that this additional capacity building should address.

The monitoring of the indicators can be a burden for investees, but may also help them identify areas of improvement: some investees proudly reported having worked hard to prove themselves and that they reached goals that went beyond the expectations of the VPO.

Angela Achitei from Alaturi de Voi explained that: "Each quarter we made a monitoring report for the activities to be sent to the investor. These reports were not a mere formality, but they were also useful for us [the investee] to self-monitor our achievements, as the milestones set were linked with the business plan. We definitely saw the value of the exercise of monitoring the achievement of the goals, and appreciated the fact that the investor stayed close: we did not see it as supervision but as a support. The monitoring and revision of the investment indicators was very important also for us as it helped assess how we were developing."

Setting goals and milestones requires a monitoring system that will be used to monitor the investment and assess the achievement of exit readiness. The VPO needs to be strict but fair on deadlines and have a proper documentation system that allows monitoring the investment and assessing if the SPO is on track with the achievement of the goals.

A good piece of advice with respect to the monitoring system is to be realistic about the amount of operational company information that will be sent by the SPO in relation to the size of the investment: as pointed out by a member of the expert group "if you are investing small do not expect updates more than a couple of times a year".

Additionally, it is important to consider the stage of development of the SPO: early stage SPOs might not be ready to implement a complex monitoring system. For this reason it is important that the VPO diverts part of the investment to the professionalisation of the

26. Jaffe, J., MacKinnon A., (2007). "The effective exit: Managing the End of a Funding Relationship". GrantCraft Guide.

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organisation in terms of reporting skills as this will improve the flow of information from the SPO to the VPO.

Last but not least, the monitoring system should serve the purpose it was developed for: VPOs should not ask for information that will not be used. EVPA's Practical Guide on Measuring and Managing Impact provides guidance and case examples on how to develop an impact-centric monitoring and reporting system.²⁷

In order to be effective, exit plans need to be flexible and should be revisited along the relationship, because things will change both in the business environment (i.e. new actors coming into the arena, maybe addressing the same causes) and in the overall context, with, for example, new policies coming into force, country and sector/market contexts changing, but also internally in the SPO.

IKARE invested in High Heights Services Limited and the 3 V vet practices (jointly the SPO) as a result of its initial investment in the Public Private Partnership (PPP) "SOS Uganda", an initiative that aimed to stamp out (or at least control) sleeping sickness in humans. This was to be achieved through the use of insecticide sprayed cattle as "live bait" attracting and killing tsetse flies, the vector which transfers the sleeping sickness parasites. In the first investment, the financing of an emergency intervention with the aim of preventing a geographical merger of two strains of sleeping sickness, IKARE was a partner in the PPP. At some point, however, IKARE realized that due to earlier years of civil war the structures for delivering veterinary services in the same region where it was active had collapsed. This implied that sustainability in the control of sleeping sickness through farmers being able to procure the necessary curative drugs as well as the insecticide (and drugs) to undertake regular spraying themselves would be very difficult to achieve. But the mapping exercise subsequently undertaken by IKARE and its local partner and subsequent SPO, High Heights Services ("HHS") showed that there was a huge potential for establishing commercially viable private veterinary businesses, offering not only the insecticides and drugs needed to protect cattle against sleeping sickness, but also a wider range of veterinary products and services. Consequently the exit plan was revised and new goals, milestones and exit target dates were set for the young veterinarians mentored (and indirectly financed) by the SPO.

The revision of the exit plan helps adjusting the course of the investment according to the changing internal and external conditions and helps both investor and investee keep potential exit opportunities in mind. It is advisable to review and revise exit plans at least annually, or at least somewhat regularly.

27. Hehenberger, L., Harling, A-M. and Scholten, P., (2013). "A Practical Guide to Measuring and Managing Impact". EVPA. Pp. 74-81. (Step 5 - Monitoring and reporting).

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At PhiTrust, for all SPOs the exit plan is revisited regularly with the entrepreneurial management team, on a formal or informal basis, as necessary. These regular revisions help shape the strategic direction and allow PhiTrust to better monitor the financial and social impact objectives of each investee. Quarterly portfolio reporting includes the financial development of each company, with social impact progression is provided on a bi-annual or annual basis. The SPOs progression towards the achievement of these objectives are discussed during Investment Committee meetings, and help inform continued development of the SPOs, including the exit plans if necessary.

In the experience of Erste Foundation, maintaining a certain level of flexibility is crucial, because all investees are different. Being able to react to deviations is also crucial: there will be early and delayed exits, additional unplanned funding might be needed by the investee during the investment phase, there will be delays in debt repayments and management changes and many organizations will need more support than expected to build the know-how needed (i.e. in terms of HR management).

Ideally, during the investment period the VPO and the SPO frequently interact and exchange information to prepare for the exit. It is important to keep in mind that in the course of the project the relationship between the VPO and the SPO needs to be close enough to guarantee a continuous flow of information useful for monitoring the status of the investment but not too close, as being too close can hinder the exit. As stressed by Johann Heep of Erste Foundation, it is very important to keep the trade-off between having a close relationship with the SPO based on trust and understanding and keeping a healthy and “objective” distance from the SPO.

Johann Heep at Erste Foundation, an Austrian based banking foundation, stresses the importance of “being very close to the investee [...] to be able to see when these issues arise”. In the case developed in part 3 of the report, although Erste Foundation was probably not close enough to the investee at the beginning of the investment, the foundation was capable of rerouting in due course and also fairly quickly realized that involving volunteer work from the bank to support the investee proved very useful.

During the investment period it is also very important to keep an open dialogue with the co-investors. The exit considerations are not just relevant to guide the relationship between the investor and the investee, but they also affect co-investors. Keeping an open dialogue avoids problems at the time of exit if not all co-investors decide to exit at the same time.

Misalignment with co-investors – a practical example

A VPO with a social impact first approach co-invested in a social enterprise together with a couple of finance-first investors. After two years and the realisation that the organisation was not achieving its objectives as quickly as anticipated, a decision had

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to be made whether to inject additional capital or simply letting the organisation die. The VPO thought it was worth it to invest more money as the potential social impact was so great, but the finance-first investors did not want to follow suit. This meant that the VPO had to let go of the investment and write it off. Relying on the “brand” of an investor is not sufficient. It is good practice to get to know the co-investors well, although this requires much more time.

The importance of exiting at the right moment

Although VP/SI involves a medium- to long-term investment horizon and requires patient capital, there are concrete risks also in staying on too long. Many investees would like their investors never to exit, and, if the relationship is too close, the VPO might give the SPO the impression that the exit, though planned, will never happen.

Staying for too long can be highly negative for both the investee and the investor.

First for the investee, who may become complacent as it knows it can always count on the financial support of the investor. Such a situation may remove the incentives for the investee to work towards its goals in terms of resilience, sustainability and independence. According to Nicholas Colloff of Argidius, sometimes exiting can be good for the investee. The shock of withdrawal can have a positive effect on the recipient, incentivising it to improve its business plan to make it more attractive to potential funders.

Staying for too long can also be detrimental for the investor, as it could be putting its financial and human resources to better use pursuing other, more impactful opportunities. However, sometimes the investors do not want to let go of their favourite investees, as they are proud of the results achieved and they enjoy working together. Some VPOs would prefer not to exit successful investments, because they look good in their portfolio and can be used to showcase and fundraise for the VPO. In other circumstances, the VPO might be forced not to exit, and to keep supporting the SPO, for example by means of a shareholders' agreement that imposes the VPO to wait even after exit readiness is reached. If exit readiness is reached but investment readiness is not reached and the VPO decides to stay on board to bridge the gap, there can be the risk that the time between the achievement of exit readiness and the actual exit just keeps expanding, and that the VPO stays on board for too long. This is for example the case of SPOs with a reduced number of exit options, such as charities that do not generate revenues. In such cases the SPO might be exit ready, but the lack of follow-on investors will force the VPO to stay longer than originally envisioned, with the risk of wasting resources that could be better used for other, more impactful investments.

All investments that involve social impact will also be done with the heart. A way to try and be rational about how to assess when to exit is to think about optimising “return on time”. The time of the VPO is a limited resource, so it is important to carefully assess on which investments it is best allocated.

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Determining the right moment to exit is therefore a difficult exercise that needs to be done carefully, following the guidelines outlined in the next paragraphs.

Determining exit readiness: key factors

“Exit readiness” is defined as the moment in which the goals set for the SPO and the VPO have been reached, and/or the VPO cannot add any additional value and should exit.

The assessment of whether the VPO can still add value to the SPO is based on the goals set in step 2 and the monitoring performed throughout the investment.

PhiTrust’s investment in AlterEco is a good example of how the progress towards the achievement of certain objectives set in the exit plan can play an important role in the determination of ‘exit readiness’. PhiTrust Partenaires’ 2012 Annual Report shows that while AlterEco was meeting its sales goals and social return expectations, PhiTrust felt that the company’s financial growth and overall development was not progressing as quickly as had hoped, in large part due to headwinds in the fair trade market in France. These results were instrumental in PhiTrust’s decision on when and how to proceed in terms of exit execution, as well as in informing the type of follow-on investor chosen.

Faced with the fact that several equity investors in Alter Eco were reaching fund maturity and would soon need to sell their shares, and given the stagnant demand for fair trade products in France, it became increasingly clear that new investors were needed to provide the capital necessary to open up follow-on markets for the company. Thus began a two-year process of discussions with potential new investors (led by the Executive Board, chaired by a member of PhiTrust’s Investment Committee). PhiTrust Partenaires had decided that the market context and the need for an influx of new capital meant that its value-add to the SPO was increasingly diminished, and that a strategic exit to an appropriate follow-on investor would be the most beneficial decision for both PhiTrust and Alter Eco.

The exit of NESsT, a VPO operating in Eastern Europe and South America, from ADV (as described in more detail in the case study in Part 3 of this report) was planned and executed using a process NESsT follows for all the investments in its portfolio. An annual assessment was performed and the exit was executed when both parties asserted that they had met their goals and ADV could continue on their own. NESsT realized that this particular investee did not have a significant scaling potential, which meant that NESsT could not add much additional value to the SPO.

In step 2 the VPO and the SPO have jointly developed the specific objectives for assessing under which conditions the VPO can exit and have planned an approximate exit timeline. When the exit date approaches, the VPO needs to make a conscious assessment of the

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exit readiness of the investee based on the criteria that have been established during the planning phase. To make an assessment of whether or not additional added value can be generated the investor must have a clear view of the value it wants to add at the outset of the relationship, which clarifies the importance of step 2 and its relationship with step 3.

This assessment implies taking stock of all the information gathered during the monitoring phase to assess the degree to which the goals (both for the SPO and for the VPO) have been reached. Based on this assessment the VPO will then decide whether the SPO is exit ready, whether the exit plan needs to be revised and a new exit time line set or if the goals are not achievable and the VPO simply needs to let go.

At NESsT, the assessment of exit readiness is based on the annual evaluation of the SPO based on the performance targets, as well as the prospects and scaling potential of the SPO. The evaluation process occurs in February of the relevant year with exit occurring in December so leaving enough time for preparation (including diversifying funding sources).

Assessing readiness is done on a case by case basis following the three dimensions of exit readiness: social impact, financial sustainability and organisational resilience. Sometimes at the planned date of exit, readiness is not reached on all dimensions, due to discrepancies in the relative importance the VPO and the SPO give to the three dimensions. It is sometimes helpful to engage third party experts to help assess exit readiness, especially when the VPO and the SPO have different views on whether exit readiness is achieved. By asking someone external to “audit” the claimed achievement of impact by the SPO, the VPO can better justify the exit and ensure that it is the right time. Such an audit should involve beneficiaries and other key stakeholders and take place before the exit is executed to allow for potential revisions.

Sometimes the VPO and the SPO can give different importance to the three dimensions of exit readiness. Erste Foundation invested in the SPO “Repair” through its financial inclusion company good.bee using senior debt with a twelve months grace period. Regardless of the grace period, it took much longer for the investee to be able to start repaying the loan. The management of the SPO was strongly socially-oriented, having a rather limited interest in the business perspective and had therefore focussed on achieving the social impact goals rather than the financial sustainability and organisational resilience goals. When Erste discovered this discrepancy, it invested quite some time in analysing in detail the business plan and the financial statements, to be able to better support the management, and highlighting the importance of coupling the social activities with having a viable business.

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Exit readiness considerations can be divided into two broad groups: the considerations on the SPO side and the considerations on the VPO side.

The **investee's exit readiness** is measured along the three dimensions of social impact, financial sustainability and organisational resilience set in the exit plan developed in step 2. Balancing these three perspectives is difficult, especially in light of the fact that different investors place more/less emphasis on one or more of the three dimensions, as highlighted in step 1. However, it is recommended to consider all three dimensions when determining exit readiness. In VP/SI as in VC/PE an organisation (an SPO in the case of VP/SI) is to be considered exit ready when it "has the capacity to move to the next stage of development and when it has demonstrated the ability to make appropriate use of additional capital"²⁸, e.g. when both organisational resilience and financial sustainability are achieved. In VP, the social impact is an integral part of the equation. For D. Capital, for example, to be considered exit-ready the SPO needs to reach not only the social impact goals, but also the financial sustainability goals set in the exit plan.

Assessing the achievement of the social impact goals can be done by checking the achievement of the indicators set in the planning phase.

In the case of BonVenture investing in KKB, the goal of the investment was to scale up the activities and offer the care centres for children, reaching an increasing number of families. From 2007 to 2013 KKB increased the number of nurseries from 6 to 42 and the number of employees from 100 to 450. This increase translated in a tangible social impact reach: from the 350 children KKB cared for in 2007 it went to a total of 1.735 children cared for in 2013.

The VPO considers the achievement of the financial sustainability and the organisational resilience goals by asking questions such as: how viable are the operations? What is the governance structure in place? Is it strong? Is the leadership capable of managing the operations? Has the planned development stage of the investee been reached? A simple way of checking whether financial resilience has been reached is the achievement of break-even point, as in the case of Ivrea 24, the SPO Oltre Venture invested in. Other more refined indicators include having a strategic plan or a long-term financial plan, such as in the case of BonVenture. The VPO can also assess to which extent the SPO has reached organisational resilience. BonVenture, for example, considered the introduction of an IT and a reporting/controlling system to be the proof of KKB having reached the needed organisational maturity stage.

Business model sustainability is crucial because it ensures the longevity of the organisation and the long-term scale-up of the social impact. An investee interviewed underlined the fact that the financial sustainability of the SPO is instrumental to the achievement of the social impact goals and the development of the SPO, as it helps sustaining the social impact achieved. Therefore when assessing exit readiness the VPO needs to perform an

28. Alter, K., Shoemaker, P., Tuan, M. and Emerson, J., (2001). "When is it time to say goodbye? Exit Strategies and Venture Philanthropy Funds". Virtue Venture, Social Venture Partners and The Roberts Foundation.

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assessment of the status of the SPO's financial sustainability and define what is needed in terms of follow-on funding, and possibly additional mentoring, training and support.

When Impact Invest Scandinavia was exiting the Weather Company it realised that its business plan was so strongly interlaced with the social impact it wanted to obtain that any follow-on investor would have had to be capable of strengthening the business plan if the business were to scale up. As mentioned previously, the social impact provided by the Weather Company was strongly embedded in the way the company does business. Therefore the mid-term priority for the SPO was to develop a second customer segment to provide better margins than the poorest farmers. This scale-up made it necessary to find a follow-on investor for The Weather Company with the capability to help the company become sustainable in a commercial fashion, instead than a more "traditional" impact investor focusing only on supporting the SPO achieving the social impact goals. Finding a traditional investor that would accept and endorse the social mission of the company turned out to be easier than finding an impact investor who would accept the commercial risks and expansion plans into other segments to secure the financial sustainability.

In some cases, at the planned exit date, the investee may be exit-ready on only one of the three aspects. In such cases different considerations come into the picture. For example, the investor needs to assess whether that poses a risk and whether the follow-on investor is ready to take up such risk. In case no follow-on investor is taking over, it is necessary to assess whether the investee is ready to continue operating in light of the fact that it might not be ready either from a financial or from an organisational point of view.

The exit readiness of the SPO must be also considered with respect to the overall portfolio of investments of the VPO. At NESsT, for example, the exit-readiness decision is made by the NESsT investment committee during an annual benchmarking process. In this process the portfolio members are assessed and compared to each other, in order to assess which projects constitute the best use of NESsT's resources.

At the moment of assessing exit readiness the VPO also assesses the achievement of its own return objectives, in terms of both social return and financial return. As the exit date approaches, the potential trade-off between financial and social return objectives will need to be considered. If there are both financial and social returns connected with the investment, finding the right balance might be challenging for the VPO. Sometimes there can be the temptation to take the short-cut of financial return at the expense of social impact, and exit before the impact objectives of the SPO are reached, because the financial return objectives of the VPO are met. Or, in the opposite situation, a VPO might end up exiting too late with the result that SPO survives even when it should not.

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The achievement of the financial return goals of the VPO is very much dependent on the return expectations of the VPO and on the financing instrument used, as outlined in table 3.

Financing instrument used	Key questions to assess achievement of VPO's return goals	Financial Return expectations
Grant	When investing by means of a grant the VPO expects no financial return.	- 100%
Debt	Is the SPO on track with the repayment of the debt? Will the SPO be able to repay the debt by the end of the financing period?	SPO able to pay back debt, possibly with an interest
Equity	Will it be possible to realise a good sale by the exit date? Are there potential investors for the SPO? Will the VPO be able to repay the capital/generate the return it promised to the investor by the exit date?	Positive return if (Price the stake was sold for + any dividends) > (Price the stake was purchased at + management costs)

Table 3:
Assessment of potential financial returns

Source: EVPA

When assessing the exit readiness of the investee, the investor also asks itself if it will be able to achieve its financial return goals at the time of exit. For example, in the case of debt, the SPO will assess whether the SPO will be able to repay the debt by the exit date, or in the case of equity it assesses to which extent it will be capable of realising a good sale when the exit date will come.

Oltre Venture concentrates its forces during the investment period on developing the start-up and making it sustainable. The idea is that if a project is well executed, satisfies concrete market needs and generates profits, by the time exit readiness is reached it will surely raise the interest of follow-on investors who will evaluate taking over from Oltre Venture, allowing it to realise its expectations in terms of financial return.

If there is a follow-on investor, exit readiness will very much overlap with what the future of the business will be. In other terms, sometimes the investee is ready for exit when it is "investment ready", i.e. when it becomes attractive to other investors. Obviously, this is a discussion that needs to take place between the existing investor and the follow-on investor, but it should also include the investee. The three parties need to assess when the investee is ready to proceed to its next stage of development and move from an investor's portfolio to another's.

Each case has its unique different dimension. The people factor, for example, is a very important dimension to consider, together with the context (including the country) in which the investee operates. The context can introduce elements of uncertainty: a key challenge, for example, consists in the difficulty of predicting the market and the general economic context at the anticipated exit date.

The VPO must accept that step 3 is primarily its responsibility. Transparent and respectful communication with the SPO is key, but the final decision is with the VPO. Therefore the

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VPO should not keep the SPO 'hanging', suggesting that the SPO can influence the exit readiness decision.

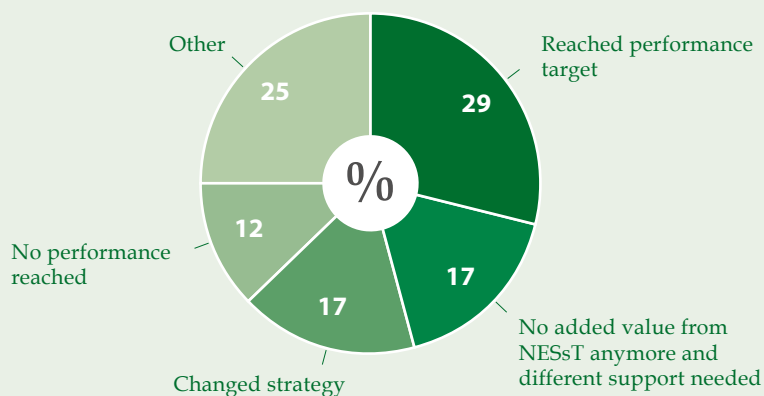
At the planned exit date the VPO and the SPO need to assess exit readiness. Five scenarios are possible (see Table 4):

Scenario	Action
1. <ul style="list-style-type: none"> Exit readiness is reached/partially reached Investment readiness is reached The VPO can no longer add value to the investee 	Go to step 4 → EXIT
2. <ul style="list-style-type: none"> Exit readiness is reached/partially reached Investment readiness is NOT reached 	a) Bridge the gap → Achieve investment readiness → Go to step 4 → EXIT b) Pull the plug → Go to step 4 → EXIT
3. <ul style="list-style-type: none"> Readiness is reached / partially reached, The VPO feels it can still add value to the SPO 	The VPO stays with the SPO and the two parties move on together → Go to step 2 → Develop a new exit plan!
4. <ul style="list-style-type: none"> Readiness is not reached or only partially achieved The VPO feels it can still add value 	Go to step 4 → EXIT
5. <ul style="list-style-type: none"> Readiness is not reached The VPO cannot add any more value to the SPO 	The VPO lets go → Go to step 4 → EXIT

Table 4:
Determining exit readiness
– Four scenarios

Source: EVPA

Of all the SPOs NESsT exited from, 29% were exited because they did not reach the performance targets and 12% because no performance was reached at all. About 17% were exited because NESsT did not see the possibility to add any additional value and the SPO would have benefitted from a different support, which NESsT was not in a position to give, such as in the case of Alaturi de Voi presented in part 3 of this report.



Reasons for exiting an
investment at NESsT

Source: NESsT

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First scenario: Exit readiness is reached/partially reached, and the VPO can no longer add value to the investee: the VPO can exit the investment

A completely successful investment is the most desirable scenario for a VPO. Although rare, it can happen that the performance indicators show that the investment has achieved all its goals and the SPO is ready to go to the next stage in its development. Good scores on performance indicators are a good time to exit especially if there are other VPOs waiting in line, ready to take over the business and scale it, but also for the investor's resources. If the SPO has reached all its goals and the VPO can no longer add value, it is a good moment for the VPO to move on and invest in other SPOs that need its commitment more.

In the case of Alaturi de Voi (ADV), everything went according to plan – or even better. NESsT and ADV had set social impact indicators that ADV was meant to reach by the end of the financing period, together with organisational resilience and financial sustainability goals. During the monitoring phase both VPO and SPO realised that the goals were going to be achieved as planned and by the time NESsT was meant to exit ADV was ready to enter a new phase of its development: the growth phase, for which a follow-on investor was needed. Although very rare, this perfect situation in which all seems to fit into place at the end of the financing period is a possibility, though remote.

More often, exit readiness is only partially reached, in the sense that only one or two out of the three dimensions of exit readiness are perfectly achieved. In such cases the VPO might consider giving more time to the SPO, as it might be that the goals are not far from being achieved. In other cases the VPO still decide to exit, even if the goals have only been partially reached. This was for example the case for Ferd SE investing in Unicus, a consultancy company employing people with Asperger syndrome.

Ferd SE invested in Unicus with the purpose of help making the core business sustainable and increasing the total number of employees. The end of Ferd's support was conditional to Unicus reaching its social impact goals, becoming self-sustaining and becoming capable to continue building a healthy business by hiring people with Asperger syndrome. However, at the exit date, the social impact goals set at the beginning were not completely reached. Unicus had originally planned to hire a larger number of consultants, but had then to revise its plan. As a result, the impact in terms of training and development of each consultant was reached, but the overall impact of Unicus was lower than expected, since the SPO employed fewer consultants than planned. Still, the business had reached financial sustainability and organisational resilience at current size, so Ferd SE still considered the investment ready to proceed to the next phase in its development. One important learning for Ferd SE was that more emphasis should have been put on the sales part of the SPO – perhaps hiring a key account manager – in order to boost sales and by that be able to hire more people, reaching the goals set for the SPO.

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Second scenario: managing the gaps between exit readiness and investment readiness.

Once exit readiness is achieved the VPO is ready to let go of the SPO. However, in some cases the VPO is not capable of exiting from the SPO, because there might be no follow-on investors ready to take over the SPO and the SPO might not yet be self-sustaining. In such cases the VPO has two options:

- a. “Bridge the gap” - the VPO can decide to invest resources in making the SPO investment ready, for example by providing additional support to strengthen the pitching capabilities of the social entrepreneur, CFO-support to help the SPO reach financial sustainability, etc.
- b. Pull the plug - if the VPO does not have the additional human and financial resources to invest in bridging the gap, it might be forced to let go of the SPO, even if investment readiness has not been achieved. The decision to pull the plug is not an easy one to make, as the emotional bond that is created between the VPO and the SPO during the investment period is usually strong.

Third scenario: Moving on together

When defining the investment strategy, the VPO can choose at which level of development

“Exiting is defined in advance and usually includes three years’ worth of capacity building support. Continued additional funding depends on the grantee’s ability to move to new levels of performance as a result of our engagement with them and on their ability to strengthen their own staff and board as measured against targets for impact and capacity-building goals” .²⁹

of the SPO it wants to invest. Some VPO choose to invest only in SPOs in the start-up phase, while others support SPOs in more than one phase of development. Some VPOs choose to stay on move along with the SPO to the next phase. The reason can be found in the high potential shown by the SPO.

Impetus-PEF³⁰ believes the most promising SPOs should receive continued support by Impetus-PEF to build a really impactful SPO, capable of reliably producing transformative social outcomes. After joining forces, Impetus and PEF decided that the best strategy for them was to stick longer with organisations that have the potential for high impact and, long-term, for growth. The ultimate purpose of Impetus PEF is to find the “Google” of the social sector in the UK rather than work with a wider range of smaller organisations that could never deliver on a large scale.

Impetus PEF behaves like a VC, knowing that not every organisation funded is a “Google”, but when they do identify a potential “Google”, they stick with the organisation to make it better, then bigger. the aim is to put increasing resources into organisations which deepen their impact.

29. A foundation interview in **Jaffe, J., MacKinnon A.,** (2007). “The effective exit: Managing the End of a Funding Relationship”. GrantCraft Guide.

30. Interview with **Nat Sloane** of Impetus PEF

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As an example, in 2007 Impetus invested in “IntoUniversity”, which focuses on how to support young people from disadvantaged backgrounds into university. The SPO started working with two church-based community centres in West London, then scaled up to nine centres by 2012, and now send hundreds of kids to university. Thanks to Impetus PEF long-term support the SPO has now the potential to scale to a national level and to work with major universities across England.

Another example is IKARE’s investment in the SPO “SOS Uganda”, aiming at stamping out sleeping sickness. After having successfully financed two phases of development of the SPO and based on the encouraging development seen in the first phases of development, a decision was taken to undertake a new investment project aimed at scaling up the achievements of the first project: the mass-treatment of another 200 thousand cattle and the empowerment of farmers in two adjacent districts in 2010/2011 in parallel with the roll-out of additional veterinary practices.

Some organisations use instruments that facilitate the continuation of the relationship with the investee after exit. Convertible loans – for example – give the opportunity to the VPO to convert the loan into an equity stake at the end of the financing period. This can be done – for example – when the VPO sees potential for scaling in the SPO right from the outset, and realises that there is potential after the first phase – funded through a loan – to finance the subsequent step through equity. VPOs that have a minority share in an SPO can decide to stay on board and take the SPO to the next step in its development by increasing from a minority to a majority stake.

In the case of BonVenture investing in KKB, in 2011 BonVenture bought shares (through the conversion of its convertible loan), when the organisation turned from a pure non-profit to a hybrid structure. An interface was built so that purely for-profit investors could invest in real estate and bring extra financing. Finally, a sale of the shares to the organisation or the social entrepreneur or to a third party is planned when the mezzanine is paid back completely.

Although less common, convertible grants also exist. Similarly to convertible loans they give the option to VPOs to convert their grant into an equity stake.

Fourth scenario: What if exit readiness is not reached? Going back to step two

At the planned time of exit it might be the case that the SPO has not been capable of reaching the goals and milestones as set in the exit plan. This situation is more common than one might think.

If after the initial years of funding (typically 3 to 5) the SPO has not been able to consolidate to such a level that it is either self-sustaining or attractive enough for another investor, the VPO needs to ask itself whether it is worthwhile to continue investing in it. Two

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considerations come into the picture at this point. One is the resources and priorities of the investor, and whether it makes sense to continue investing in the SPO or if it would be more efficient use of resources to invest in something else. The other consideration is whether the SPO has the potential to reach the goals if provided with some additional time and support.

If the VPO sees a possibility to continue adding value to the SPO, and if the VPO sees that the SPO has the potential to reach the goals, a new exit plan will need to be developed, assessing the new terms and conditions of the involvement of the VPO in the SPO (including the timeframe). It is important to stress that each time a new relationship is established or an existing relationship is revised, whatever forms the relationship takes, the SPO and the VPO will need to go again through the development of a new exit plan.

The situation in which things do not go according to plan is quite frequent; so many VPOs take this into consideration when developing the exit plan.

At the Erste Foundation, there is always a plan for exit. However, sometimes things do not necessarily follow that plan and adjustments are necessary in due course. For example, in the case of Erste investing in the social enterprise “Light”, during the investment period it soon became clear that the planned exit had to be re-structured due to difficulties in re-designing the former team structures and developing new approaches to attract additional clients.³¹ In this case, Erste decided to go back, revise the exit plan and stay longer than originally foreseen. Erste could see a way to still add value to the social enterprise and help it strengthen its organisational structure. Due to the financing structure of the SPO, Erste could renew the debt provided to Light and extend the grace period from 6 to 12 months. This enabled Light to first stabilize its business without risking its own liquidity, grow and become exit ready.

Sometimes the goals of the project can only be partially reached, and additional “sustainability gaps” that the investor can help filling are identified when the exit date arrives.

In the case of IKARE financing “SOS Uganda”, the first phase of the investment had two objectives, a short-term one and a long-term one. The short-term objective was reducing the impact of sleeping sickness by using insecticide treated cattle as “live bait” for tsetse after first having cured them of the parasites. The long-term objective was to teach farmers how to spray cattle themselves on a regular basis. However, when the time to exit came, IKARE realized that one of the objectives had not been reached. The sampling showed that the intervention as such had been a huge success as the prevalence of parasites in the cattle reduced by more than 70%. As the goal was achieved, exit was then possible. IKARE could have left it at that and exited, but due to various unforeseen circumstances (delay in import licenses, lack of delivery structure, etc.) the uptake by farmers of regular spraying activities did not happen. This resulted in the number of

31. Johann Heep, Erste Foundation

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parasites measured after the intervention to increase again: the planned sampling undertaken 9 months post treatment showed an increase in parasites, especially in villages close to animal markets.

As VP/SI is highly engaged in the SPO, IKARE realized it could not leave the situation as it was. The objective, at the end of the day, was to achieve sustainability. However, not only could IKARE not see signs of any real sustainability, it also saw the risk of the initial investment being “wasted”. IKARE identified this to be a “sustainability gap” and decided to discuss how to best fill it with some of the project partners. Following the discussion a decision was taken to go into phase 2 of the project (the mapping study). This implied a complete revision of the investment plan and of the exit plan. IKARE saw the opportunity in the revision of the plan: “SOS Uganda” had potential and IKARE could still support it in the pursuit of its social impact goals. Since IKARE prioritises the achievement of the social impact goals over the financial goals it decided to extend its commitment and continue investing and to revise the timing of exit from the SPO. IKARE decided to continue with the investment despite the achievement of the financial return goals because it realised that by staying longer it would have maximised its social impact.

Sometimes the VPO realises that the objectives will not be achieved and the organisation will not become self-sustaining unless a radical change is made: as a VPO put it, it might be the case that some “serious surgery” is needed in the organisation. Such drastic moves may be needed, for example, in the case where the CEO needs to be replaced, because he or she is jeopardising the sustainability of the organisation. Replacing such an important part of the organisation means that further revisions of the exit plan will be made together with different people, and this will have both strategic and practical implications for the investment.

Fifth scenario: Letting go

The fifth scenario is the least desirable one: the case of complete failure. It is possible that the VPO realises that the SPO cannot reach its goals (and, as a consequence the VPO’s goals cannot be reached) and that even going back to step 2 and developing a new exit plan cannot solve the issues.

In this scenario, after the initial years of funding, the SPO has not been able to consolidate to such a level that it is either self-sustaining or attractive enough for another investor, the VPO does not see any opportunity to add additional value and the social impact potential is not substantial enough to compensate for the other short-comings. In this case it is important for the investor to accept the failure and let the investment go.

As stressed earlier, staying for too long can be detrimental for the investor, as it may not be the best use of resources. There will be other more worthy SPOs to invest in, so it is important for the investor to accept failure, and exit from an investment that shows no growth prospects. NESsT, for example, uses an impact and financial performance tool to assess

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right time to exit so as to avoid becoming too subjective with regards to timing of exits and potentially holding on too long.

A VPO invested in an SPO that was about to launch a brand new product. The SPO believed strongly in the future marketability of the product, but as the future developments were only based on the SPO's assessments, this investment was highly risky for the VPO. Additionally, the due diligence process highlighted an organisational risk whether the management and board truly embraced the VP approach and would share, collaborate and grow. Therefore the project was risky on two different fronts. Unfortunately the project delivered very poor results. After three years the VPO chose to exit. The VPO could have stayed and continued trying to make the project work, but it assessed that such a high-risk project yielding such negative returns was not the appropriate use of its resources.

Early exiting of the VPO

In some cases it can happen that the VPO exits before due time.

The VPO can opt for an early exit if during the course of the investment it realises that there are issues in the relationship with the SPO.

A first signal that the relationship with the investee should be ended before time is that the investee is too complaisant and doesn't respond as well anymore to the VPO. If the communication between the VPO and the SPO becomes less regular, or less meaningful and if the investee is not responsive to suggestions and challenges anymore the investor should consider exiting. A situation in which the SPO reduces the quantity and quality of the communication with the VPO can be aggravated by the underperformance of the investee. If the situation persists and the SPO continues to avoid communicating with the VPO and hides its poor results it is a good idea for the VPO to exit the investment.

In other cases it may happen that the investee does not use the funding in the way it was supposed to be used. The investee could be using the funding as a safety cushion and not to actively pursue its social, financial and organisational goals. For example, as noted in the case study of d.o.b Foundation (now known as DOB Equity) in EVPA's publication on VP strategies for Foundations³², if the SPO suddenly receives a grant from another funder when it is on track to become financially sustainable to pay back a debt from the VPO, the new grant funding can "hinder the process because an organisation will take the free money" to pay back the loan. In the extreme case the SPO might not be using at all the financing provided by the VPO due to, for example, internal management and/or organisational reasons. In both such cases the VPO should consider exiting the investment as there might be other SPOs waiting to be financed and capable of better using the VPO's resources.

In other circumstances the SPO might not have proven its concept, and the VPO might decide to exit the investment because the business model of the SPO is not working.

32. Metz Cummings, A. and Hehenberger, L., (2010). "Strategies for Foundations: when, why and how to use Venture Philanthropy". EVPA. Pp. 39-44.

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Some VPO consider that it is very important to correctly allocate their resources and therefore perform a benchmarking exercise of the investments in their portfolio and decide to exit the least successful ones. NESsT stressed that underperformance as compared to portfolio benchmarks was a reason for them to exit in the past.

Sometimes the VPO is forced to exit against its will. This is for example the case of equity investments with drag-along rights. Drag-along rights assure that if the majority shareholder sells his stake, minority holders are forced to join the deal. In such case the VPO who is in a minority shareholder position is therefore forced to exit the investment before the planned exit date. The risk of being forced to exit in such a way is reduced if the objectives of co-investors are aligned with the ones of the VPO. In all cases it is important to stress that early exits can be identified only if the investment is closely monitored. Additionally building in exit-options in the exit plan (see D. Capital case example in step 2) adds transparency around early exits and gives a more solid ground for the VPO.

Sometimes the investor has to exit before the planned exit date for good reasons. For example, the VPO might get approached by follow-on investors before the foreseen exit date, and it realises that exiting to such investor is in its own interest and in the interest of the SPO.

Whatever the reason to opt out, the VPO must try and act as rationally as possible, though it can be a challenge because exiting a social investment can harm the final beneficiaries, as well as the employees of the SPO.

Key recommendations

In step 3 the VPO monitors the investment based on the milestones set in step two and determines with the SPO when exit readiness is achieved, based on the exit plan. "Exit readiness" is defined as the moment in which the goals set for the SPO and the VPO are reached, and the VPO cannot add any additional value and should exit. Exit readiness should be assessed along the three dimensions of social impact, financial sustainability and organisational resilience.

Step three is central to the exit strategy process. It is the turning point in which both the VPO and the SPO have to assess their own work and their relationship.

For this step to be effective, collaboration between the VPO and the SPO is crucial. As all steps in the exit strategy process, the monitoring process and the assessment of exit readiness have to be characterised by openness, transparency and honesty. Several challenges are associated with step 3, including the following:

- How to decide whether to give the SPO another chance (scenario 4 or 5) without jeopardising the relationship based on trust?
 - When you decide to go for scenario 3 and go back and revisit the exit plan, how do you ensure delivery?
-

STEP 3: DETERMINING EXIT READINESS

- How do you assess if the VPO can still add value?
- How to choose whether or not to move on together (choice between 3 and 4 once readiness is achieved).

The following recommendations can help the VPO and the SPO successfully go through step 3.

- **Monitor the implementation of the plan regularly** – things can change, both in the business environment, in the overall context and inside the SPO. Regular revision helps:
 - identify changes and act in case they threaten the success of the investment.
 - shape the strategic direction of the investee
 - prepare the investee for the exit – there should be no “surprise” exits!
 - identify potential exit opportunities during the course of the investment
- **Be close but not too close** – a close relationship guarantees a continuous flow of information necessary for the monitoring, but being too close can hinder the exit. The VPO needs to keep a close relationship based on trust and understanding and at the same time keep a healthy and objective distance from the SPO.
- **Keep an open dialogue with the co-investors** – keeping an open dialogue avoids problems at the time of exit if not all co-investors decide to exit at the same time.
- **Be realistic** – the amount of money invested, the stage of development of the SPO and the reporting requirement for the SPO need to be aligned. Be efficient – and do not ask SPOs to share information that will not be used. Be rational – sometimes the emotional bond is strong but a decision needs to be made.
- **Carefully determine the right time to exit** – Exiting at the right moment is crucial, as staying too long can be detrimental for the investor and for the investee. The investor could be wasting its resources by staying too long, whereas the investee might have less incentives to pursue its social impact goals.
- **Assess readiness case-by-case** – Assessing readiness is done on a case by case basis and depends also on how exit-ready the investee feels on the three dimensions of exit readiness: social impact, financial sustainability and organisational resilience.
- **Consider all three dimensions of social impact, financial sustainability and organisational resilience when determining exit readiness** and do not let social impact goals overshadow the importance of the achievement of long-term sustainability of the business model.
- **Benchmark** the exit readiness of the VPO against the overall portfolio of investments of the VPO.
- **Accept failure** – Staying for too long can be detrimental as it may not be the best use of resources. There will be other more worthy SPOs to invest in, so it is important for the investor to accept failure, and exit from an investment that shows no growth prospects.
- **Get third party input to establish exit readiness** – especially when the VPO and the SPO have different views on whether ER is achieved. By asking someone external to “audit” the claimed achievement of impact by the SPO, the VPO can better justify the exit and ensure that it is the right time.

STEP 4: EXECUTING THE EXIT

Step 4: Executing the exit



Exiting can be good for the grantee: the certainty of a foundation's exit brings healthy discipline to an enterprise and forces everyone to think more rigorously about the sustainability of a project.

GrantCraft Guide – Effective exits³³

The fourth step is the moment in which the exit strategy is executed in practice, but it naturally overlaps largely with the other steps of the process. The exit execution is based on the decisions taken in the planning phase and formalized in the exit plan in step 2, and follows the assessment of exit readiness of step 3.

An exit can happen for different reasons: either because the investee is ready or because it is not meeting its goals or because the investment is not worthwhile to pursue anymore. Whatever the reason for exiting, there are several considerations to keep in mind around the execution of an exit strategy. Each case has its own specificities, but this chapter will provide some best practice recommendations in terms of the execution of the exit strategy.

One important point to keep in mind is that the VPO needs to start thinking about the exit execution before the actual exit date. At Ferd SE, for example, the execution of the exit from Unicus started one year before the end of the financing period originally planned.

Two elements are crucial in step 4:

- How to exit
- Whom to exit to

Both elements of “how to exit” and “whom to exit to” stem from the same “key exit considerations” developed in step 1 and therefore highly overlap.

33. Jaffe, J., MacKinnon A., (2007). “The effective exit: Managing the End of a Funding Relationship”. GrantCraft Guide.

STEP 4: EXECUTING THE EXIT

BonVenture, a German social venture fund, exits in different ways depending on the type of organisation supported and the financing instrument used. For for-profit organisations, the exit will be executed through the pay back of a mezzanine or loan, the buy-back by the company or the funders/social entrepreneurs, a trade-sale or an IPO. For hybrid organisations, the exit is executed through the pay back of a mezzanine or loan facility and the buy-back of shares. For non-profit organisations, exits occur at the end of a donation, when the organisation proves to be financially self-sustaining, through mergers, or external financing by new donors or strategic partners (for- and/or non-profit), or simply the end of project.

All along the execution of the exit strategy the VPO needs to keep in mind that its decisions in terms of how to exit and whom to exit to need to be guided by the impact, and how it is assessed. The execution of the exit represents the moment in which the future of the SPO is defined, and therefore all decisions need to be guided by impact considerations and the investor needs to keep in mind that the impact is the focal point of the entire investment. Throughout the exit execution it is important to keep in mind that exiting can take considerable time from the point of entering discussions with the new investor/s (or alternative) until the VPO has exited completely, even once terms are agreed this is no guarantee that the exit will be executed according to plan.

How to exit?

The topic of how to exit an investment has been largely studied in the VC/PE sector. In VC/PE, the investor exits by selling its stake in the investee with the purpose of maximising the financial return on the investment. However, also in VC/PE the long-term sustainability of the investee is considered when executing the exit. In VC/PE the exit strategy is the “plan by which the investors hope to receive financial returns on their investments and managers of the company hope to secure long-term capitalisation of their enterprise”.³⁴

Once exit readiness is achieved, there are four exit options for the investee of a VC/PE:

- Merging with or being bought by a larger organisation (M&A)
- Initial public offering (IPO) – Stock market flotation
- Management buyout
- Liquidation

Mergers and acquisitions (also referred to as trade sales) are the most common exit option in VC. In this case the investee is sold to an industrial investor that can benefit from the competences developed by the company during the incubation period financed by VC. Often, in the case of an M&A, the follow-on investor is active in the same industry or in a related market.

If the business plan of the investee and its organisational structure are developed enough, the exit can be completed through an initial public offering (IPO), whereby shares of the company are sold on the stock market to raise capital and allow the original investor to exit.

34. Alter, K., Shoemaker, P., Tuan, M. and Emerson, J., (2001). “When is it time to say goodbye? Exit Strategies and Venture Philanthropy Funds”. Virtue Venture, Social Venture Partners and The Roberts Foundation.

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Alternatively, additional capital to repay the investor can be raised internally by the management team. As pointed out in a recent report by EVCA – The European Venture Capital Association – “the repurchase of a company by its management team is becoming more and more successful as an exit strategy” in VC/PE. However, it is a viable strategy only “if the company can guarantee regular cash flows and can mobilise sufficient loans”³⁵, meaning that the company needs to be financially self-sustaining and have a strong organisational structure at the time of exit.

Liquidation is the route VC/PE investors follow when the investee hasn’t a viable business plan and needs to be disbanded. Recent reports show that currently in VC/PE strong emphasis is put on understanding which sectors and which exit modes generate a larger return on investment, with a specific focus on the performance and methods of exit in VC/PE.³⁶

Venture Philanthropy is about “matching the soul of philanthropy with the spirit of investing”. In VP/SI the VPO does not only sometimes want to achieve financial return goals but also – and more importantly – social impact goals. Exits in VP/SI focus on the future of the SPO, by emphasising long-term impact considerations. Therefore, the exit modes of VC/PE need to be adapted to allow for the specific characteristics of VP/SI that make it different from VC/PE.

As the exit implies the end of the financial relationship between the VPO and the SPO, how the VPO exits will largely depend on the financing instrument used, as illustrated in table 5.

Funding	Grant	Debt	Equity
Exit mode	Find matching support (follow-on grant sought)	Find matching support (follow-on grant sought)	
	Endowment creation for the investee		
	Follow-on loan sought	Follow-on loan sought	
			Buy-back, sale or hand-over of equity stake
			Strategic sale or merger of the SPO to an industrial partner
			Non-profit IPO
	Let go (self-sustainability)	Let go (self-sustainability)	Let go (self-sustainability)
	Franchise	Franchise	Franchise

Table 5:
Modes of exit in VP/SI
Source: EVPA

35. EVCA (2007), “Guide on Private Equity and Venture Capital for Entrepreneurs – An EVCA Special Paper”, pp. 33-35.

36. See – for example – E&Y (2012), “Branching out: how do private equity investors create value? A study of European exits”.

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Grants

A grant is a “funding in the form of a cash allocation that does not establish rights to repayments or any other financial returns”.³⁷ Usually grants have an end date. Therefore, simplifying, we can say that the execution of the exit strategy in terms of “how to” involves terminating the grant.

However, the exit of a grant making VPO can be harmful for the SPO. For some SPOs (also referred to as the grantees) the end of the support of the VPO (the funder) might translate into serious issues in terms of cash flow, especially if the funder was financing a large part of the grantee’s operations.

Atlantic Philanthropies (AP)³⁸, an Irish grant making foundation, is approaching the end date of its operations: in 2002 the Board of AP formally decided that AP would commit all of its assets by 2016. Since AP is one of the largest Irish foundations, as the end date approached it started being increasingly concerned about the large number of SPOs that depend on its financing and their need for matching support. For some of the grantees AP’s exit could translate into serious cash flow issues, as most of their operations were financed by AP. AP requires grantees to find other support to match its concluding grants. By doing so, AP hopes to help grantees replace its funding to the extent possible, and to adjust gradually to lower levels of support when a full replacement isn’t available.

In fact if the grant given by the exiting VPO cannot be completely matched, the SPO might need to operate organisational adjustments and shrink, reorganise or even alter its service model after the VPO has exited.

The end date of the grant does not necessarily translate into an abrupt conclusion of the cooperation between SPO and VPO. The VPO can support the SPO finding a new source of funding. Follow-on funding can be a new grant or debt, depending on the stage of development of the SPO.

In the case of NESsT investing in Alaturi de Voi (ADV), after the financing period was over, NESsT helped ADV obtaining step-up financing in the form of a loan. ADV was not capable to find follow-on financing alone and therefore turned to NESsT for support. Not only did NESsT help ADV find the follow-on financing, but also provided a guarantee for the loan, which was vital for the deal to work.

Another way in which the VPO can continue supporting the activities of the SPO is by creating an endowment. A financial endowment is a donation of money or property to a not-for-profit organisation for the ongoing support of that organisation. Usually the endowment is structured so that the principal amount is kept intact while the investment income is available for use, or part of the principal is released each year, which allows for the donation to have an impact over a longer period than if it were spent all at once. An endowment may come with stipulations regarding its usage, to guarantee that the SPO

37. **Balbo, L., Hehenberger, L., Mortell, D. and Oostlander, P.,** (2010). “Establishing a venture philanthropy organisation in Europe”. EVPA.
38. **Proscio, T.,** (2014). “Harvest Time for The Atlantic Philanthropies. 2012-2013: Decline and Rise”. Center for Strategic Philanthropy and Civil Society. Stanford School of Public Policy. Duke University.

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uses it for achieving the social impact goals and to avoid any misuse. To avoid the risk of mission drift the VPO can exit by creating a Foundation with an endowment and a specific and unchangeable mission. Though fixing the mission is a good solution to avoid mission drift, it can generate issues because there will be less flexibility for the SPO, if in the future revisions and adaptation of the mission will be needed. Alternatively, the VPO can decide to stay with the SPO for another round of financing or convert the grant in an equity stake (see “Second scenario in step 3 – Moving on together”).

Debt

In the case of debt financing, the exit will depend on the type of debt used (whether it is a direct loan, a collateralised loan, a convertible loan, etc.). A loan with a pre-defined duration can have a rather obvious exit process, as the exit will coincide with the repayment of the debt. For a convertible loan, when the exit date arrives, the VP/SI can either ask for a repayment of the debt or decide to convert the debt into equity and consequently become an owner, changing the relationship with the SPO. Loans can also be repaid in fractions during the duration of the contract, with a final payment due at the end of the duration.

As mentioned in step 3 (“Third scenario: What if exit readiness is not reached? Going back to step two”), there are cases in which the debt cannot be repaid. In such cases it can happen that the VPO and the SPO decide to go back and completely revise the plan. In other cases, however, the VPO could be realising that a simple extension could help the SPO. In such cases the VPO can opt for an extension of the grace period. The Erste Foundation, for example, decided to extend the grace period of the “Repair” SPO it financed. Erste thought the potential social impact was more important than the financial loss generated by an extension of the grace period.

Equity

An equity investment is exited by selling the shares the VPO has in the investee.

In the case of an equity investment, the discussions on how to exit and whom to exit to largely overlap, and assessing whether or not a follow-on investor will continue the original/intended social mission is a key challenge for the VPO. When the VPO acquires an equity stake in the SPO it has more decision making power (reinforced by taking a board seat), and this has an influence on the exit execution. However, since investing through equity implies more engagement with the SPO (i.e. as the VPO can ask members of the investment committee to be on the board of the SPO) exiting can be more complex. At the time of exit the VPO will focus on assessing the ‘fit’ of potential new investors who are willing to take over its stake to assure lasting social impact.

Similarly to VC/PE, the VPO has three options for exiting an equity investment:

- Buy-back, sale or hand-over of equity stake
- Strategic sale or merger of the SPO with an industrial partner
- Non-profit IPO (although very rare still)

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Buy-back, sale or hand-over of equity stake – A VPO can exit an SPO by passing on the equity shares to a follow-on investor, or to the SPO itself.

Oltre Venture executed the exit from its investment in social housing by selling its share in the building and reimbursing the shareholders (OV realized a multiple equal to 1x the initial investment). In parallel Oltre Venture negotiated the exit from Sharing (the company created for managing the building). Oltre Venture will with sell its shares in Sharing as of 2015. Oltre Venture participation in Sharing Srl will be sold to Cooperativa Doc scs through the exercise of a put option at nominal value (in line with Oltre Venture's expectations).

Selling an equity stake can present some challenges. First of all, for as much as the VPO has tried to assess exit market scenarios in step 2, by the time the exit is executed market factors will have changed, and the VPO might not be able to find a buyer for the SPO. The VPO needs to perform a very careful valuation of the SPO because setting the price too high will reduce the number of potential buyers. If a single buyer is found, the VPO might risk depending on a single follow-on investor, which will decrease the negotiation power of the VPO, which will risk selling at a price much lower than what it had envisaged. To avoid depending on one single follow-on investor, it is ideal to identify more than one buyer early on and to keep an open dialogue with all the parties. If the negotiations get too difficult, the VPO can always involve a third party negotiator to avoid deadlocks. Selling at too high a price can be risky, as the follow-on investor may be tempted to focus on the most commercial activities to generate strong revenue growth so as to be able to sell at an even higher price at exit. Such a situation poses a risk of mission drift for the SPO.

Strategic sale or merger of the SPO with an industrial partner – The shares of the SPO can be sold to an industrial partner who can help the SPO scale (or who can add more value to the SPO in a certain context than the VPO).

A clear example of this type of exit is PhiTrust Partenaires' divestment from AlterEco – an SPO involved in the sale of fair-trade and organic food products in France that originated from cooperatives in several Latin American countries. In late May 2013, subsequent to several rounds of negotiations with potential follow-on investors, PhiTrust's shares (and indeed all shares of AlterEco) were sold to Wessanen Distriborg, a European leader in the sale of organic food products. Those who exited felt strongly that this additional support was necessary to enable AlterEco to continue developing in an increasingly difficult fair trade and organic food market. The buyer offered to maintain the existing business model (allowing small producers in developing countries to access Western European customers) in addition to providing access to other European markets, particularly in Northern Europe.

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Merging with an industrial player may provide the SPO with access to new clients and business development options that can help the SPO scale its business.

Non-profit IPO – As IPOs are becoming an increasingly important exit mode in VC/PE, immediate public opportunities are increasingly important in the VP/SI world.

By going public the investee can raise the capital it needs to grow faster after the start-up phase and secure the funds needed to really scale the business. As stated by the Capital Good Fund, a non-profit tackling poverty in America, which has recently introduced an “immediate public opportunity”, the non-profit version of the for-profit IPOs: “only a fundraising paradigm shift will enable [the Capital Good Fund] to become a national organisation”.³⁹

The idea of non-profit IPO is very recent, as it was first launched in 2006. Buying a “social innovation share” gives the right to a vote in the annual meeting on a board of director seat and access to financial and impact reports and shareholders meetings. However, IPOs also present risks. As in for profit sectors, the IPO exposes the investee to the risk of being forced to appeal to the shareholders, which may deviate the organisation from the original purpose. For the moment few experiences of non-profit IPOs exist, as the concept still needs to be fine-tuned to clearly differentiate it from a donation.

In order to mobilize private capital for public good, recently a number of “social stock exchange” platforms were created, places where people can buy shares in social businesses. Most SPOs are not developed enough to be tradable on traditional stock exchanges. However, as of today only one real public stock exchange in existence is the Singaporean “Impact Exchange”. Launched in June 2013, IE has a huge potential, still largely untapped, as at the moment it does not have any social enterprise issuer.

Other social stock exchanges created are not real places where stocks are exchanged, but membership-based platforms that aim at playing a matchmaking role between private capital and SPOs.

An example is the UK Social Stock Exchange. Created in June 2013, this membership-based platform aims at providing information to investors on companies that have met a certain number of requirements and that can demonstrate that social or environmental impact is a core aim of the venture and that are listed on public stock exchanges. The idea is to channel private investors (most of which are high net worth individuals) towards social-oriented ventures. Though independent, the UK SSE is strongly backed by the UK Government. Other examples are the Canadian “Social Venture Connection”, an online portal that connects capital-seeking social enterprises and accredited investors, and the US-based “Mission Markets”, an online private capital marketplace open to accredited investors who want to finance social enterprises.

39. Posner, A. and West, M., (2014). “The New Nonprofit IPO – A unique funding model goes beyond donations and offers funders a tangible stake in organizations they support”. Stanford Social Innovation Review.

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Self sustainability. If after the financing period the SPO is capable of pursuing its social impact alone, the VPO will simply exit the investment. Self-sustainability implies that the SPO has a business plan that is self-sustaining in the long term and capable of generating and scaling the social impact foreseen in the SPO's mission. To continue on its own the SPO must be financially viable, which implies it must be capable of either generating revenues through own activities or finding follow-on funding on its own. The SPO can "go alone" if it proves to have a strong organisation with – for example – good leadership and management, a solid organisation infrastructure, sound operations and information management and accounting systems.

In the case of the SPO reaching self-sustainability, exiting will coincide with the end of the financing period for the grant and the debt financing and with the sale of the equity stakes to the management team in the case of equity.

Other factors

Other factors that need to be considered when determining how to exit are the context in which the investment is made, the organisational structure of the SPO and the stage of development of the SPO. In different countries the exit process is implemented differently according to the possibilities for an investee to find new sources of funding.

In the case of Erste Foundation investing in the company "Repair", the hybrid nature of the SPO made the exit more complicated. In order to separate the profit from the non-profit activities a limited liability company was created (LTD) to cover the for profit operational activities of "Repair", whereas the not for profit association was processing purely social activities. This "cross-subsidization" makes the structure of the SPO atypical. Due to the legislation in Austria the creation of a limited liability company to perform social activities posed some issues when having to find follow-on investors. Moreover, the existence of two organisations made the process less transparent.

Different stages of development call for different exit modes. Accessing new funders, for example, is a viable exit strategy whatever stage of development the SPO is in – as in the case of NESsT discussed above, provided that the SPO fits the investment priorities of the follow-on investor.

The sale of equity stake is facilitated if the VPO is part of an active ecosystem of like-minded social investors. The ecosystem increases the visibility of the SPOs at the moment of exit and increases the number of follow-on investors. The seller has always more information on the growth prospects of the SPO than the buyer. Building an ecosystem can help because the follow-on investor can be involved at a much earlier stage (and can help identifying the lemons, thus financing only the worthy SPOs). This is also beneficial for the SPO as it ensures long-term finance (and long-term growth prospects). As stressed by Felix Oldenburg of Ashoka, early stage investors (often donors) should engage later stage

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investors before they invest in order to ensure that the organisation has a more interesting perspective other than coming back to the donor.

Whom to exit to?

When an exit is executed, the second key question is whom to exit to. Whom to exit to is determined mainly by the business model of the SPO, the return priorities of the VPO and the state of the market. Additionally, the stage of development of the investee and type of investee will be of crucial importance when choosing whom to exit to: for example, a charity that will never generate revenues will not be attractive to a financial investor, but may be a candidate for a grant from a public funder or a grant making foundation.

There are three main scenarios at the moment of exit, which can be partly overlapping.

1. The first scenario is that the investee needs to find a new funder that can provide better financial and non-financial support. This can happen both in the case of a performing SPO (in need for funding to scale-up) or a non-performing SPO (in such case the VPO and the SPO might want to search together for a follow-on funder that wants to give the SPO a grant to continue).
2. A second option is that the SPO is financially self-sustaining and operationally resilient, and can continue on its own with no additional support.
3. The third scenario is that the investee is not performing, no follow-on financing can be found and therefore it shuts down its operations. This can happen when the SPO shows no scaling potential, has not proved the concept in the incubation phase, or otherwise lacks the potential to attract further funding.

Whatever the choice of whom to exit to, the decision needs to be guided by the objective of keeping the social mission of the SPO going and ensuring long-term impact.

Find a follow-on investor

Investees often value the contribution given by the investor in finding follow-on funding. VPOs can act as an intermediate between the SPO and the follow-on investor, being – for example – guarantors for a bank loan.

Many investees see finding follow-on funding as a responsibility of the exiting investor. This is particularly true in the case of early-stage SPOs. However, the VPO needs to clarify from the outset that finding follow-on financing is a joint effort of the VPO and the SPO.

In the case in which additional investors are sought, the VPO needs to consider whether it is looking for an organisation that brings only financial resources or if it is looking for an investor that can add complementary skills and technical support, alongside financial resources.

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When PhiTrust exited AlterEco in 2013, the follow-on investor sought was one that would provide non-financial support in addition to financial resources, in the form of expertise in the fair trade and organic food sectors and access to new European markets, particularly in Northern Europe.

VPOs are concerned with the assessment of the 'fit' with potential new funders, in terms of sharing the same positions on the importance of sustaining social impact in the long term and the future developments of the SPO. The fit with the follow-on investor(s) is important for the investee, as the final aim is to help the investee achieve its social mission in a long-term, scalable and sustainable way. Matching the mission of the investor and the investee is crucial to reduce the risk that the new investor will discontinue the investee's social mission.

Figure 18 summarizes the different options in terms of whom to exit to, with the opportunities and threats each option entails.

Whom to exit to	Opportunities	Risks
Public funder	Financial capacity Can replicate the model at national level Possibility to influence policy Broader mission/lookout on public welfare	Not capable of supporting long-term financial resilience Might not be engaged Short-term approach depending on electoral mandates It takes long to build relationships
Grant-making foundation	Financial capacity Social sector knowledge Able to achieve collective/systemic impact	May be less capable of supporting long-term financial resilience Might not be engaged Narrow mission
Social Impact Bond (S.I.B.) organisation	Linked to the effectiveness of social innovation	Not widespread enough
Commercial investor	Support on business model Financial capacity	Less focus on social impact
Industrial partners	Provides work and clients	May have little knowledge of social impact May be less inclined to build capacity of SPO
VPO	Highly engaged Scaling Financial capacity	Risk of misalignment of objectives (if additional investor)
The broad public (IPO)	Potential to mobilise (large amounts of) private capital for public good	Still under development / few experiences so far
Let the SPO continue on its own	Self-sustaining/independent	Not fully prepared
No exit options	Continue funding for another round, hoping that options will materialise or the investee will become self-sustaining	Cannot continue forever

Figure 18:
Whom to exit to –
Opportunities and Risks
Source: EVPA

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In case the investment is exited to a new investor there are six main options:

- A public funder
- A grant making foundation
- A commercial investor
- An industrial firm
- A new VPO
- The general broad public

As discussed in step one, the type of investor to exit to depends on the development stage of the organisation and the specific financing needs it has. In any case, each option poses opportunities and threats.

Public funder. SPOs that are purely non-profit, and whose activities are generating little or no revenue may be limited to exit to funders that do not need or are uninterested in generating a financial return. Public funders are increasingly interested in supporting for-profit social enterprises that allow them to recycle their funding and even make a profit. Although some public funders have the capacity to provide substantial amounts of funding, they may not be used to funding core costs of SPOs, rather focusing on specific short-term projects, and often do not provide the necessary non-financial support to help the SPO continue working towards financial and operational resilience. However, the government and more in general public funders may see the potential to replicate the business model of the SPO on a large-scale, which is an attractive option in terms of scaling the social impact. According to Deirdre Mortell who co-founded and directed the One Foundation, a spend-down Irish foundation that operated using the VP principles between 2004-2013, building relationships with government takes time (several years) and the exit strategy should include supporting the investee by facilitating the exchange with government officials from early on in the relationship, if possible.

Grant making foundation. Another type of funder with less interest in financial returns are grant making foundations. Grant making foundations often have a deep knowledge in a particular social sector and can help the SPO develop such skills. The vision of the foundation may be to generate systemic or collective impact by connecting its grantees for greater impact. Similarly to public funders, grant-making foundations have the capacity to provide substantial amounts of funding, but often focus on specific projects and may be less used to strengthening the financial and organisational resilience of the SPO. Some grant makers such as family foundations often have a narrow mission, so they will only invest in very specific projects.

Commercial investor. For SPOs with revenue-generating activities, potential follow-on funders include, but are not limited to, commercial investors. A commercial investor can offer support for the further development and strengthening of the business plan and has the incentive to scale up the commercial activities of the SPO and thus the impact.

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However, this exit option brings along a high risk of “mission drift” – if the SPO and the new investor focus too much on the revenue-generating activities at the detriment of the social return objectives of the VPO and the social impact goals of the SPO become less central or are even abandoned. A way to avoid this – though not always feasible – is to keep a small stake in the SPO. Such an arrangement allows the VPO to keep an eye on the evolution of the SPO and try and prevent potential mission drifts.

A commercial investor is an appropriate choice when the SPO has reached a certain development stage and/or needs support strengthening its business model on the more commercial side.

In the case of Impact Invest investing in The Weather Company, the VPO had initially planned to exit by finding an impact investor for up to 40% of the company, who could help scale up the business in the region. The preference of Impact Invest was to find an impact investor, but it ended up selling its shares to a commercial investor. Impact Invest had trouble finding interest for the project in the impact investment community, so it gave priority to investors with expertise in the region and the capability to help the company become sustainable in a commercial fashion. The follow-on investor could help the SPO scale-up its activities by helping it strengthening its business model.

VPO. Exiting to another VPO – perhaps one of the co-investors – also has its advantages and disadvantages. A follow-on VPO is interested in the social impact and is engaged by definition, and should focus on the long term sustainability of the SPO. It may be capable of scaling up the operations and the social impact, if it has the financial and non-financial resources to do so. However, a follow-on VPO may have financial and social return objectives that are not directly aligned with the ones of the exiting VPO, and this may cause issues in the post-investment phase, especially if the exiting VPO wants to keep contact with the SPO post-exit.

The broader public. Non-profit IPOs are increasingly becoming important as an exit mode in VP/SI. In a non-profit IPO the VPO does not exit to a specific investor but to a broad number of accredited investors or even to the broader public.

Whom to exit to? An example from a grant making foundation⁴⁰

Atlantic Philanthropies (AP) is a large Irish grant making Foundation, which is currently exiting all its investments as it plans to close all operations by 2016. In order to find follow-on funding for the investments it is exiting, AP is actively reaching out to follow-on funders:

“In South Africa and Bermuda, for instance, Atlantic has organized or participated in networks of other funders committed to similar goals, creating pooled funds or funding collaboratives dedicated to sustaining certain fields of work. In Viet Nam,

40. Proscio, T., (2014). “Harvest Time for The Atlantic Philanthropies. 2012-2013: Decline and Rise”. Center for Strategic Philanthropy and Civil Society. Stanford School of Public Policy. Duke University, p.10.

STEP 4: EXECUTING THE EXIT

Foundation staff has forged close working relationships with officials of the relevant government departments at every level to ensure not only a continued flow of public funds, but a commitment to the systemic reforms that those funds had helped set in motion. In South Africa – where most of the human rights sector is especially fragile and has been slow to attract support from private philanthropy – Atlantic employees have negotiated multiyear matching commitments from other international donors. In these arrangements, Atlantic has made grants to one or more of these donors, which will continue to disburse the money in Atlantic’s absence. In exchange, it has received commitments of matching contributions from the recipient institution and from other like-minded philanthropies”.

Let the SPO continue on its own.

If the SPO has reached a state of development where it can continue on its own and a follow-on investor is not needed, the VPO exits to the SPO itself, hoping that it will be capable of being self-sustaining and independent. However, there is always the risk that the assessment of the SPO’s stage of development was wrong and the SPO is not really capable of continuing on its own for a long time.

The case of BonVenture shows that an “interface-company” for for-profit co-investors (who can only invest in for-profit companies) is sometimes a very good way to secure further financing for a (financially self-sustaining) non-profit social enterprise and helps to realize an exit in the future.

No exit option.

In some cases there might be no exit option. In such cases the investor could continue funding the SPO, if it thinks that it can continue adding value and there are no alternative funding sources. Although continuing funding is certainly an option, according to many practitioners, an investor rarely commits for more than a second extensive round of financing. When the VPO has decided to exit it means it has assessed that the SPO no longer meets the investor’s funding priorities and sees no possibility to add more value to the SPO, which is why its resources could be at better use elsewhere.

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Managing the relationship with the investee through the transition period

In IKARE's experience exiting can be a successful and rewarding experience, when the SPO is exited because it becomes financially viable. However, IKARE is now struggling with how to undertake the final exit from the larger cause, "SOS Uganda", it supports, without there being "mission drift".

Anne Holm Rannaleet, IKARE, UK.

When the time has come to exit the key question becomes how to manage the relationship with the investee, especially if it seems to disagree on that the time for exit has come.

No matter how well the exit strategy has been developed and planned during the first two phases of the exit process, it is at the time of exit, when the plan is executed, that considerations about the responsibilities are made.

At this stage it is key to re-define what should be roles and responsibilities of investor and investee during and after exit and who should do what in order to make the exit a successful and rewarding experience. It is clear in the case of an equity investment that the investor (the VPO) will be in the lead to find a new investor to sell the equity stake to. In the case of debt and grants, the responsibility of the funder at the time of exit is less clear. The VP/SI community that was engaged to develop this report was strongly advocating that the responsibility for exit should be accepted also for non-equity investments. The case example of IKARE presented below is very useful to summarise all the responsibility issues faced by the investor when exiting a SPO.

IKARE has invested in creating self-sustaining veterinary practices in previously unserved areas, which, as part of their offering, also provide access to farmers of affordable veterinary services and products aimed at helping to control sleeping sickness, thus reducing the spreading of the disease among cattle and humans. At the moment there are five viable practices, out of eleven originally financed, but all competing in an immature market mainly driven by price. Therefore the issue arises: what if IKARE exits completely?

If IKARE would decide to execute the exit, a number of considerations would need to be taken, mostly linked to the long-term sustainability of IKARE's efforts.

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First of all, IKARE knows that the potential volumes and the margins of the sleeping sickness products are not currently sufficient in themselves to cover the transportation and delivery costs to farmers, (*risk related to continuity of program*). Focusing on sleeping sickness only as a veterinary business will therefore not be financially self-sustaining. However, this risk can be mitigated by including SS products as part of a broader range of veterinary products and services provided to previously underserved communities and farmers – as is currently being done.

Another risk is that the young vets themselves, once financially independent and no longer mentored by IKARE and the local partner, have no incentive or “push” to continue controlling for sleeping sickness (*mission drift*). Even if the vets have been brought up in the SOS philosophy, in the case of a less positive business cycle or just due to the fact of operating in an immature market where focus is only on price and not necessarily on effectiveness of product or additional services provided (value added) they will focus more on the high-margins products and/or easy sells and not on the sleeping sickness control delivery.

Similarly, if another funder comes in to e.g. finance the development of the young 3V vets franchise, it might take a similar view, focusing on the most profitable segments of veterinary services. In other words, if sleeping sickness drugs and control are only a smaller part of a larger ‘package’, a subsequent funder could concentrate only on the high-margin products and services, thereby neglecting sleeping sickness control (*mission drift*). In this case the Ugandan Government could act to mitigate this risk by purchasing/contracting these necessary public good services through a now existing (thanks to private sector – IKARE – funding) delivery channel. This is very similar to what can be seen for the delivery of veterinary services in more developed parts of the world, where the Government would typically contract private vets to undertake vaccination or treatment campaigns (e.g. Foot and Mouth, Mad Cow disease, etc.).

If having a funder focused solely on maintaining financial viability poses risks, also having a funder that is solely focused on short-term sleeping sickness control and impact can be sub-optimal, because it risks to “distort” the market which is beginning to develop, where farmers are currently able and willing to “do it for themselves”. If such funder for example large numbers of so called ‘spray persons’ to massively spray cattle in the area during a few years, without building the critical “back-up line”, it risks also hurting the existing veterinary businesses and self-employed spray persons already active in the SOS area unless they can be involved. A viable distribution system of broader veterinary services is needed to support, in the long-term, better animal husbandry and farming practices in the areas, thus improving productivity which is critical also for food security.

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At the time of exit, when follow-on investors are found, it is the CEO of the SPO who has the conversation with the new investors and therefore needs to be backed up when openly explaining to the new investor(s) the potential of the SPO in terms of social and financial return, and clarify the superiority of the social impact goals over the financial return goals. However, this can be tricky, as the follow-on investors might try and push the company to more revenue-generating activities and the CEO might see the opportunity in the more profit-generating activities, such as focusing on a segment with a higher margin, as such activities can serve to generate funding for financing activities for the poorer people/lower segments. Much depends on the person the CEO of the SPO is. In this respect Ruth Brännvall of Impact Invest recommends that the VPO stays close and gives advice to the SPO during the exit execution, especially if the social entrepreneur is inexperienced with investors and feels insecure about how to handle the negotiations and the investment process.

Exit options are not mutually exclusive: in some cases there can be many options, in others none, depending on a number of factors. There are many possible combinations to match the business model and the stage of development of the investee with the right financing instrument at the time of exit. For example an SPO that has just finished the incubation period might need a loan to move to the next phase of its project (e.g. to make investments into stocks or materials such as the bikes for the veterinaries in the case of IKARE). In other cases the SPO might then need an additional grant to prove the scalability of its operations.

Intermediaries can give a very valuable support in finding follow-on investors. The new Financing Agency for Social Entrepreneurship (Fa-se)⁴¹, for example, helps social entrepreneurs to “syndicate” deals with multiple investors along the entire spectrum from grants to loans and equity.

The Fa-se financing agency was founded in February 2013 from the Ashoka network following the realisation that social entrepreneurs are increasingly in need for someone to guide them through the financing process: having the right skills to attract the right investors and developing the right financing model that allows them to maximise the social impact achieved. Through its “investment readiness program” Fa-se helps social entrepreneurs make their social business idea investment-ready”, and it coordinates the link between the social entrepreneurs and the investors. If the SPO is supported in the process of achievement of the goals, the right use of the grant and/or the repayment of the debt, the exit will be more successful.

Felix Oldenburg from Ashoka believes syndicating will become a major trend over time, as it helps develop the ecosystem which is necessary for exits to work.

41. www.fa-se.eu

STEP 4: EXECUTING THE EXIT

Locking in the social mission

Carefully selecting the follow-on investor can keep the SPO from experiencing mission drift, but there are also other ways to avoid that the SPO is pushed away from its original mission. The VPO can for example stay on board as an external board member or advisor. Alternatively, as mentioned above, the VPO can exit the SPO by means of creating a Foundation with a locked-in mission. The SPO can be passed on from the VPO to the VPO's funder to preserve the social mission. Other VPOs are studying "golden share" systems to avoid mission drift and have control on the mission post-exit.

Many VPOs are also considering whether the social mission of the investee can create tangible value such that the acquirer is de-incentivized from discontinuing the investee's social mission.

One of the social entrepreneurs interviewed pointed out that he found it difficult to understand how it is possible to conciliate equity and exit dates, without the risk of giving too much importance to the financial return over the social return generated.

An SPO is an organisation with the intent to create long-term social impact as the key mission of its business.

As stressed by the report of the Mission Alignment Working Group of the Social Impact Investment Taskforce established by the G8 (the "Taskforce"), "For the field [of social impact investment] to develop, investors need confidence that the profit-with-purpose companies they finance, including social enterprises and mission-driven businesses, will continue to achieve social objectives even beyond change of ownership. The [Mission Alignment Working Group] will examine ways of achieving this through corporate form, governance, and legal protection and make recommendations."⁴²

This statement stresses the importance of the creation of an ecosystem for social business from which social entrepreneurs and SPOs, investors and VPOs and beneficiaries, clients and consumers can benefit. Additionally, it highlights the need to define rules that can help investors confidently identify social businesses in which to invest.

The G8 Mission Alignment Working Group has widely worked on identifying the best legal structure to ensure the continuation of the social purpose of the SPO after the exit of the VPO. In particular, the Taskforce has identified Mission Locked Social Businesses⁴³ as a legal form that catalyses the development of the social impact investment market.

Regulating the social purpose of the SPOs (i. e. by making them "mission locked") is a possible way of ensuring the perpetuation of the social purpose after the investor exits. However, a too strict regulation may hinder SPOs' growth to scale or SPO's attractiveness to potential impact investors.

42. Mission alignment working group to the social impact investment taskforce established under the UK's presidency of the G8, (2014). "Profit-with-purpose businesses". Subject paper of the Mission Alignment Working Group.

43. See, for example, the Community interest company (CIC) in the UK. A CIC is a legal form created specifically for social enterprises. It has a social objective that is "regulated", ensuring that the organisation cannot deviate from its social mission and that its assets are protected from being sold privately.

STEP 4: EXECUTING THE EXIT

However, a loose regulation can also generate a mission drift. The US Benefit Corporation, for example, is designed to enable Directors to pursue a mixed purpose, serving both shareholders and a social mission. However Benefit Corporation status is not permanent, and it can be abandoned if the majority of the shareholders want so. Impact investors seek to be able to trust that businesses that are driven by a social mission will fulfil that mission into the future, including beyond a change of ownership.

Consequently, new legal forms need to be developed, capable of guaranteeing a solid mission-lock while giving the SPO enough flexibility to unpick it in certain circumstances.

An example of an organisation using legal forms and contractual obligations to ensure the SPOs it finances are not dragged towards mission drift is Oltre Venture. Oltre Venture considers its job to be over after it has exited. According to Oltre Venture the impact of the SPO is embedded in the business model and this guarantees that the SPO will continue pursuing its social impact, as changing the business model would mean losing the market share gained.

Alternatively, the continuation of impact can be guaranteed by means of contractual obligations: in the case of Ivrea 24 the SPO signed a binding lease agreement that forces it to allocate the property for the purpose of social housing for 18 years, thus avoiding the risk the building is used for any other non-social purpose.

In parallel to the work on establishing more helpful legal forms, the Taskforce points to more day-to-day mechanisms that can help creating the ecosystem to support what it refers to as “profit-with-purpose organisations”. These may include internal governance structures, accountability to shareholders, contractual undertakings, public reporting, audit, third party accreditation, and public accountability (through the press, social media, etc.). Building the social mission into the organisational culture is more effective than adding it to the company description (or articles of association), but for a non-profit it should be clearly stated in the statutes.

Noaber Foundation realised the need to ensure that their social ventures keep their focus on the social mission. This involved building in remuneration schemes that would link any financial return to investors to the social impact achieved by a portfolio social venture. If the company doesn't meet its impact targets it is not allowed to pay dividends to its shareholders. This also applies to other incentive schemes for e.g. the management. Because of this stricter rule, organisations that started as impact-first, were designed to stay that way. To change, they would have to alter their shareholder agreements.⁴⁴

44. Metz Cumming, A. and Hehenberger, L., (2011). “A guide to Venture Philanthropy for Venture Capital and Private Equity Investors”, EVPA.

STEP 4: EXECUTING THE EXIT

Key recommendations

Step 4 is the moment in which the exit is executed in practice, based on the decisions taken in the planning phase and following the assessment of exit readiness in step 2. In step 4 the VPO determines:

- How to exit – the mode in which the VPO will exit
- Whom to exit to

Some of the challenges identified for step 4 are as follows:

- How does the VPO manage unsuccessful exits where no follow-on funding can be found?
- How to find follow-on financing in a small market and in case of overdependence?
- What if the grantee comes to depend on you forever – to whom should the VPO exit?

Keeping the following considerations in mind can help the VPO and the SPO go successfully through step 4.

- *Start thinking about the exit before the actual exit date* – Exiting can take considerable time from the point of entering the discussion until the exit is completed, so it is better to start thinking about how and whom to exit to long before the planned exit date.
- The decision of how to exit and whom to exit to needs to be guided by impact and by the objective of keeping the social mission of the SPO going. The VPO needs to assess what the SPO will need in terms of both financial and non-financial support to achieve its social impact in the long-term when deciding how to exit and whom to exit to.
- *Define the roles and responsibilities of the VPO and the SPO* during and after the exit and decide who should do what in order to make the exit a successful and rewarding experience.
- *Intermediaries* can be very valuable in finding follow-on investors.
- *Prevent post-exit mission drift* – Mission drift can happen after the investor has exited, but it can be prevented through:
 - carefully selecting whom to exit to;
 - locking in the mission of the SPO, for example by including the mission in the statutes or embedding the mission in the business model, or building the social mission in the organisational culture.
- *Manage the exit process well so it does not become too costly and disruptive* – if it takes too long and takes away too many resources from the SPO team, the business itself may be harmed.

STEP 5: POST-INVESTMENT FOLLOW UP

Step 5: post-investment follow up



The post-investment phase is highly relevant to secure that the social impact will continue after the exit of the VP/SI. During this phase the motivation of the team and the strength of the business model of the organisation are key.

Erwin Stahl, BonVenture

The fifth and last step of the exit strategy process is the post-investment follow-up. This step is composed by two sub-phases:

1. **The exit evaluation:** Once the exit is executed, and in order to determine returns and learn from the investment, the VPO and the SPO complete a final assessment in which both parties evaluate how successful the investment was. The VPO evaluates the success of the project after exit in terms of financial return and social return and the SPO determines how well it has achieved its objectives along the three dimensions of social impact, financial sustainability and organisational resilience.
2. **The exit follow-up:** The execution of the exit ends the financial relationship between the investor and the investee. However, the financial exit does not always mean a complete disconnection between the investor and the investee. There can be ongoing non-financial support, and sometimes the investor remains involved in other ways with the investee, for example by taking a board seat. Additionally, the investor might want to evaluate the achievement of impact in the long term and ask the SPO to provide data on the achievement of the social impact goals after the exit date. The post-exit involvement with the investee constitutes the follow-up stage.

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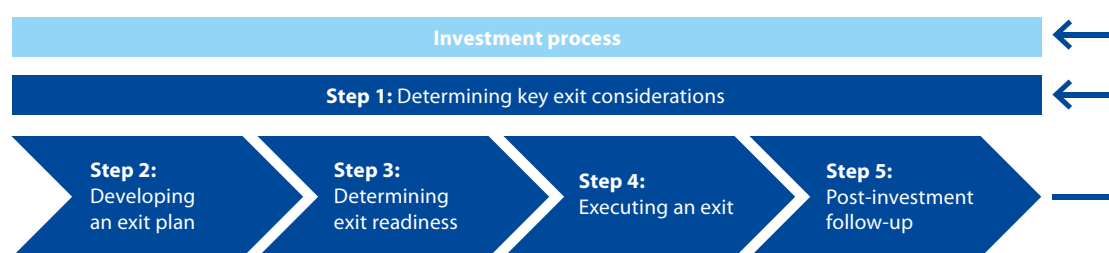
The exit evaluation

The time after the exit is executed is the moment when the investor and the investee have to evaluate the overall achievement of their goals.

At the time of exit, a VPO/SI should aim to measure the achievement of the goals of the investment against initial objectives. EVPA’s Practical Guide to Measuring and Managing Impact⁴⁵ provides guidelines and methods to verify the achievement of the goals at the time of exit. The resulting information will be useful for the VPO/SI to assess its success as a “high-engagement” investor and take away learnings for future investments.

The final evaluation is a crucial moment in the exit strategy process. The results and the lessons learnt from the evaluation inform the exit strategy and the key exit considerations, as shown in figure 19.

Figure 19:
Feedback processes from the evaluation of the investment
Source: EVPA



After the exit the VPO and the SPO evaluate how well the SPO has achieved its objectives along the three dimensions of social impact, financial sustainability and organisational resilience.

In the case of IKARE, for example, the final evaluation of the “SOS Uganda” (both initial PPP and SPO) after the fourth phase measured the impact from 2006 (the date when the project was launched) to 2014.

Dimension	Objectives	Results
Social impact (“SOS Uganda” + 3V vets)	<ul style="list-style-type: none"> 85% of cattle treated and sprayed at intervention Serious reduction of parasites Empowering farmers to “doing it for themselves” Poverty reduction 	<ul style="list-style-type: none"> Prevalence of parasites in cattle reduced by 72% # Rhodensiense sleeping sickness cases in 7seven districts reduced from 257 (2005) to 64 (2012) At 300 USD/treatment this gives direct savings of 411,250 USD. Estimated 5% lower mortality rate among the 400,000 + cattle treated, or 20,000 cattle → saving of 5 MUSD. 5 veterinary practices still standing, each employing also an assistant. [As far as IKARE has been able to make out from various sources, the other 6 vets have either gone into NGO or private employment or established themselves in other businesses].

Table 6:
Example of final evaluation – the IKARE “SOS Uganda” case

45. Hehenberger, L., Harling, A-M. and Scholten, P., (2013). “A Practical Guide to Measuring and Managing Impact”, EVPA.

STEP 5: POST-INVESTMENT FOLLOW UP

		<ul style="list-style-type: none"> • 150+ self-employed spray persons established in the region. → 600 people + lifted out of poverty.
Financial sustainability ("SOS Uganda" + 3V vets)	<ul style="list-style-type: none"> • Financially viable 3V vets in the area • At least 10-15 self-employed spray persons per veterinary practice. 	<ul style="list-style-type: none"> • 5 veterinary practices financially viable today. • 150+ self-employed spray persons
Organisational resilience ("SOS Uganda" + 3V vets)		The vets have started group purchasing to further improve margins. This may over time develop into something more akin to a franchise, expanding also into additional districts.

The evaluation showed the investment was successful on all three dimensions. The social impact planned was achieved, as between 2006 and 2012 the cases of death by sleeping sickness dramatically reduced thanks to the SPO "SOS Uganda". Additionally, financial resilience and organisational resilience were achieved, as the veterinary practices were financially viable at the time of exit, and could continue pursuing their social mission.

In the case of Oltre Venture, the evaluation of the investment in the social housing project Ivrea 24 showed that the exit was a success, as shown in table 7.

Dimension	Objectives	Results	Final evaluation
Social impact	Create 182 flats with 470 beds	<ul style="list-style-type: none"> • 182 flats and 470 beds • 11.000 guests in the 1st year (Sept 2011 – Sept 2012) • 13 new jobs • New services for the district: a cafeteria and a dental clinic • Refurbishment of a building abandoned over 20 years 	Oltre created the expected number of flats and the necessary occupation enabling both Ivrea 24 and Sharing reaching BEP. All objectives have been reached with a good level of quality.
Financial sustainability	Have a minimum occupation enabling Sharing to reach the break-even point.	The property has reached the break-even point.	
Organisational resilience	Sharing up and running providing ancillary services	In 2014 Sharing will reach break-even.	

The social housing project can be considered a success. The building is composed of 182 apartments for 470 accommodations tailored for different users with housing hardship (students, relatives of in-patients coming from different towns, divorced or lonely mothers with children, young couples that cannot afford rent at market level). Besides temporary social housing accommodations other services are offered, such as commer-

Table 7:
Example of final evaluation
– the Oltre Venture /
Ivrea 24 case

STEP 5: POST-INVESTMENT FOLLOW UP

cial activities (a restaurant, a launderette, a dentist centre which offer health services at low prices and excellent quality), social and cultural services (job and legal counselling services, a microcredit and cultural project window). These results largely contribute to the social goals of Oltre Venture, as they address one of the core issues the VPO wants to tackle.

The property has reached the break-even point and – despite the fact that the project has not been completely exited as Oltre Venture still has shares in the company Sharing – the financial return goals have been achieved, as Oltre Venture recovered the capital invested.

Additionally, thanks to this investment Oltre Venture opened a new market for real estate assets dedicated to social housing, as Ivrea 24 has been the first operation of its kind in Italy.

In order to assess the success of the investment, NESsT performs an exit interview after each exit. Performance management is a central part of NESsT's incubation work, and exits are closely tied to achieving impact (or not). NESsT performs the exit interview with all exiting investees, to get their final evaluation of the joint work and the impact, and to ask them for suggestions for improvement. The exit interview provides material that allows NESsT to assess the success of the investment – i.e. evaluate how well the objectives were achieved.

A specific example of an evaluation of the achievement of the social, financial and operational objectives is NESsT's investment in Alaturi de Voi (ADV).

NESsT invested in Alaturi de Voi (ADV) a SPO managing social enterprises that employed youth affected by HIV and AIDS. ADV's first social enterprise was Util Deco, and the financing provided by NESsT was used by ADV to incubate this first social business. Util Deco started out as a project and a specific operational and social goal was to set it up as a sheltered workshop; a special entity by Romanian law, which employs disadvantaged people, and as such receives preferential treatment from the government. As a minimum target, ADV wanted to maintain the level of employment in the workshop (15 people), but preferably increase it to the maximum capacity and open 1 or 2 new workshops in other locations in Romania. ADV was keen to set up a sustainable social enterprise, which would not only cover its costs, but contribute to overall organisational resources. Initially, the contribution was projected to be 20-25% of the total revenues. And finally, an important operational goal for the social enterprise and the investment was to develop the physical infrastructure: buildings as well as machinery.

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At the time of exit, the direct social impact of Util Deco was that the social enterprise employed 30 beneficiaries, had trained 280 people and placed 10 of them in other jobs in the labour market. As a result of the incubation phase, ADV built a model social enterprise, which became sustainable and was replicated by ADV in two other towns in Romania.

At the time of exit ADV had established a mature and bankable business. The social enterprise Util Deco became crucial for ADV in achieving social impact as well as financial resilience. Encouraged by the success of Util Deco, ADV launched a second business providing archiving services.

Thanks to the non-financial support provided by NESsT, ADV's increased its ability and success in obtaining social enterprise development funds (grants as well as loans) based on Util Deco's success, which positively impacted on financial resilience.

In terms of organisational resilience, ADV saw significant organizational developments, mostly in terms of increased enterprise planning and implementing capacity, plus tools to measure and manage performance and impact.

By investing through a grant NESsT had no financial return expectations, but put in place a system to monitor that the SPO was using the grant in the correct way.

A good final evaluation of the extent to which the SPO has reached its objectives, however, is not sufficient to declare an investment a success. The VPO also needs to evaluate the achievement of its own goals, based on the return objectives set by the VPO in step 2 and based on the key exit considerations developed in step 1.

Oltre Venture focuses on fragile socio-economic problems and specifically aims at eradicating problems such as housing discomfort, unemployment, healthcare, solitude and marginalisation. The VPO invests in SPOs that address such problems, and at the end of an investment it assesses whether the SPO has contributed to Oltre Venture achieving its targeted social return. The project Ivrea 24/Sharing, for example, was considered to be a success by Oltre Venture because not only did the SPO achieve its social, financial and organisational goals, but it also contributed to the achievement of the social goals of Oltre Venture, which was to create a temporary social housing player with the following aims:

- host people at low fares helping them during a difficult/changing period of their lives,
- create a point of reference for the depressed surrounding area, share and develop a project with public entities.

STEP 5: POST-INVESTMENT FOLLOW UP

Additionally, based on the execution of the exit the VPO will assess the achievement of its financial return goals. The notion of a financial return comes from the financial investment industry. In simplified terms, the return on investment is calculated as follows:

$$\text{Return on investment (ROI)} = (\text{Value of investment at time of disposal} + \text{dividends} - \text{Cost of investment}) / \text{Cost of investment}$$

The value of the investment for the investor is the price of the shares owned by the investor in the company that is sold. The cost of the investment includes the price paid at the time the investment was made and any costs related to managing the investment.

The share price in private equity will be determined through negotiation between the buyer and the seller. VC/PE investors value a business based on the estimated price of selling the company’s shares divided by the return appropriate for the risk involved, with early stage investment being the more risky. This includes assessing the likely turnover and profits (losses) of the target company at the point of exit and evaluating the recent merger and acquisition (M&A) transactions in the sector or on the valuation of similar public companies.⁴⁶ Most early-stage VC/PE investors look for ten to twenty times the return on their investment within two to five years, and later-stage investors tend to look for 3 to 5 times the return in the same time span.

Return expectations in VC/PE and VP/SI are quite different. The EVPA survey of European VP and SI⁴⁷ shows that the VPOs surveyed were relatively evenly distributed between those VPOs expecting a positive return (33%), those expecting capital to be repaid (35%) and those expecting a negative return (32%). For those VPOs that responded to the survey in 2013 that expected a positive return from their investments, the percentage return expected varied from 1% to 25% (with a peak around 4 to 7%).

46. IPEV Association, (2012). *“International Private Equity and Venture Capital Valuation Guidelines 1st Edition December 2012”*.
47. Hehenberger, L., Harling, A.-M., (2014). *“European Venture Philanthropy and Social Investment 2012/2013 – The EVPA Survey”*. Third Edition. EVPA.

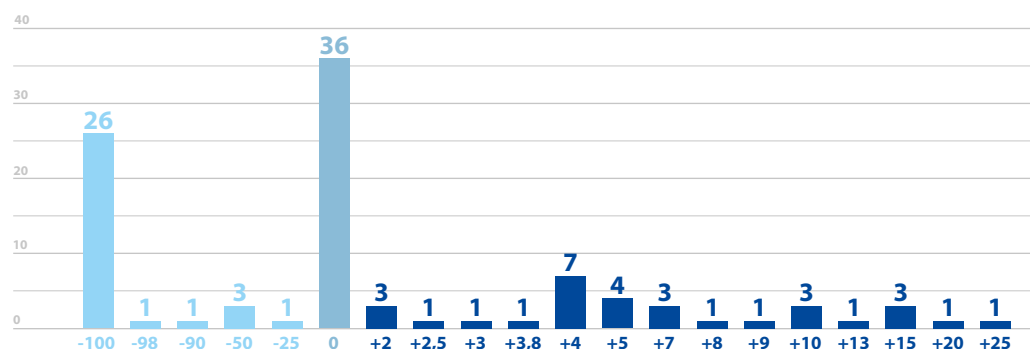


Figure 20:
Detailed return expectations
of VPO respondents
Source: EVPA

n=75
numbers in %

STEP 5: POST-INVESTMENT FOLLOW UP

As evidenced by the EVPA survey, VP/SI investments are not always expected to generate a financial return on capital or even capital repayment.

When investing through a grant, for example, the VPO expects a -100% return on investment: a grant is a cash allocation that does not establish rights to repayment or any other financial return.⁴⁸ Therefore the success of a grant will be evaluated through assessing the achievement of the social impact goals.

In the case of Ferd SE investing in Unicus, €125 thousand were invested by Ferd SE as seed money for supporting the first three years of operation of Unicus by means of a grant. At the moment of exit, Ferd SE evaluated the success of the investment only by evaluating to which extent Unicus had achieved self-sustainability and the social impact goals, as it did not expect Unicus to pay back the grant.

In the case of a debt, the VPO evaluates whether the SPO has been able to repay the debt and the interests obtained (if any). If the SPO repays the debt with an interest, there will be a positive financial return. Additionally, sometimes the VPO can evaluate the investment a success even if not all financial return goals have been reached.

In the case of the Erste Foundation investing in Light, the extension of the grace period that was agreed to the SPO reduced the financial return of the VPO. However, since this reduction in the financial return made the achievement of the social impact goals of the SPO – and therefore of the VPO – possible, the investment was considered to be an overall success after exit.

In the case of an equity investment, the evaluation is performed similarly to a valuation in VC/PE. The VPO considers the price at which the stake was sold, the dividends it obtained and the initial cost of the investment.

Oltre Venture has as financial objective the repayment of capital to its investors, with a return at least equal to the repayment of capital. Oltre Venture invested €1.3 million in equity in the social housing project Ivrea 24. The final evaluation of Ivrea 24 showed the project was a success: once the project was completed the building was sold and the shareholders were reimbursed (i.e. Oltre Venture realised a multiple equal to 1x of the initial investment. This means that Oltre sold the shares obtaining an amount of money equal to the initial investment.). It is important to stress that the result of the sale of an equity stake also depends on the state of the market, and market conditions determine whether it is possible to realise a good sale.

This investment has been the first of its kind in Italy, and thanks to it Oltre has opened a new market for real estate assets dedicated to social housing.

48. Balbo, L., Hehenberger, L., Mortell, D. and Oostlander, P., (2010). "Establishing a venture philanthropy organisation in Europe". EVPA. Pp.32-33.

STEP 5: POST-INVESTMENT FOLLOW UP

The success of the exit execution is evaluated by assessing if “how” the exit was performed and “to whom” the VPO has exited are enabling the SPO to advance in terms of social impact achieved and are strengthening the SPO’s financial sustainability and organisational resilience.

Sometimes it is not easy to evaluate the success of an investment and the exit, especially if the VPO and the SPO have a different perception of how successful the exit was. When the final evaluation looks like a complex exercise, it might be advisable to involve a third party, to receive a full and honest evaluation.

The follow-up

In the last step of the exit strategy process the VPO does not only need to assess to which extent the goals have been reached, but it also needs to carefully think about how to make the impact last post exit and possibly on how to follow up with the SPO.

The SPO follow-up refers to all those activities that the VPO puts in place to keep a link with the SPO after exit (offering additional non-financial support, networking, etc.) too keep contact with the SPO with the purpose of both monitoring and supporting the achievement of the social impact goals after the exit. Post-exit monitoring and support can be another way to try and reduce the risk of mission drift and check that the follow-on funder is continuing the original/intended social mission/impact. Additional reasons to stay involved post-exit include:

- Market building -the involvement with the SPO post-exit supports the creation of the ecosystem by creating a network of VPOs and SPOs.
- Symbolic -keeping contact with the SPO after exit shows that the VPO sees the potential in the SPO for far-reaching impact.
- To showcase and fundraise for the VPO - if the investment was a success and if the VPO sees high potential in the SPO, post-exit follow-up is a way to keep collecting data on impact useful to showcase the achievements of the VPO and fundraise for the VPO.

The VPO that wants to follow-up on the long-term impact of the SPO can keep in touch with the SPO after exit and continue gathering information on the achievement of the social impact goals to add to the existing pool of information on the SPO collected throughout the investment.

Given that the VPO has much less leverage on the SPO after the end of the financial support, the post-exit reporting needs to be based on a lighter version of the reporting tool used to monitor the investment throughout the investment period.

STEP 5: POST-INVESTMENT FOLLOW UP

NESsT uses performance management tools not only to prepare for exit and manage the exit execution, but also to monitor the SPOs after exit by asking exited social enterprises to report key performance indicators for an additional two years. The investee reports to NESsT once a year using flagship indicators that are used by NESsT to track the performance of the portfolio for two years after exit. Once the exit is executed the non-financial support is not over: NESsT remains involved with the SPO and supports it in additional activities it might need to sustain and maximise its social impact after exit. Sometimes there are strategic reasons behind keeping in touch with the SPO that go beyond the assessment of long-term impact. In the case of ADV, for example, NESsT did not stop communication with its investee, but asked ADV to continue providing information on the flagship indicators set during step 2 of the exit strategy process: since NESsT was providing a guarantee for the loan of ADV it was in NESsT's interest to monitor the developments of ADV and check that the repayment happened in due course.

VPOs tend to agree that it is important to continue collecting information after the exit, in order to evaluate the impact, and that keeping a link with the investee is the only possible way to access such information, and add it to the existing pool of data. Monitoring post-exit is important because in some cases the impact of the SPO is not immediately apparent and may need more time to materialise so that the investment might seem to have failed at first sight. Additionally, post-exit monitoring constitutes a way to prove long-term systemic change.

The VPO that wants to monitor the impact post exit will need to manage very well the communication, both with the SPO and with the follow-on funders. This type of monitoring is challenging since the SPO is no longer under contractual obligation to report, and VPOs need to think about incentives to encourage exited investees to submit the data. Such incentives include inviting the SPOs to attend further trainings and events that enable them to learn and network, and branding and recognition which bring prestige and recognition to exited SPOs.

NESsT invites its investees to a number of activities that it organises after the exit, such as networking events and conferences, and it has developed the "NESsT Enterprise" label for all investees that have been part of the NESsT portfolio. The label is a quality stamp for SPOs, helpful when attracting new funders and additional resources, while giving ex-investees an incentive to stay in touch with NESsT. Similarly, all former investees of the Good Deed Foundation, an Estonian VPO, enter the Alumni group. In such a way almost all SPOs the Foundation funded in the past stay connected in some form.

Ferd SE also has an alumni group, for all the SPOs it financed in the past. Membership of the alumni group is not compulsory, but SPOs that want to be members of the alumni group are required to report on impact every 6 months. Ferd SE believes that being part of a network can be a good way to convince SPOs to provide data on impact.

STEP 5: POST-INVESTMENT FOLLOW UP

Another way to convince the SPO to continue reporting on impact measures, is when the investee sees the benefits of having an impact measurement system in place in terms of improving its own management of impact.

The continuation of the support post-exit can include additional non-financial support aimed at strengthening the organisation even further. Capacity building is recognized also by the investees to be important to guarantee long-term sustainability post-exit. One investee interviewed gave the example of the VPO being involved after exit in the organisation of a training the SPO had to give to its beneficiaries.

By keeping the investor informed about the developments of the SPO after the investor has exited additional opportunities to work together may arise. This is also an incentive for the SPO to keep in contact with the VPO post-exit.

In the case of Ferd SE investing in Unicus, Ferd SE is currently exiting the investment to an industrial partner that can help the company scale up its activities. However, Ferd SE stated it might consider re-entry in Unicus in case the SPO would consider a geographical expansion at a later stage of development.

The final evaluation and all the post-exit activities can be very expensive, so it is recommended that the VPO allocates specific resources for the post-investment follow-up.

Some VPOs consider taking a board seat in the SPO after exit, as another way to monitor the impact post-exit and to avoid mission drift. To be able to stay on the board of the SPO, the VPO needs to prove that it will be adding value. A way of showing how to add value is for the VPO to “play the business card”, i.e. show how it can provide capacity-building support and access to its network which can be beneficial to the SPO from a business perspective. NESsT, for example, offers non-financial support post exit and D. Capital access its network. The high quality of the support offered in both cases may incentivise the SPO to proactively ask members of the VPO to stay on the board.

Ferd SE sometimes stays on with a board seat in the SPOs it finances post exit because that role is requested by the SPO and Ferd has access to a relatively large pool of human resources willing to contribute through the Ferd Group.

Not all VPOs keep contact with the SPOs they financed after exit. Some investors are simply happy to move on, so once the financial resources end, the relationship is considered to be formally and informally over. Once the investment is over these investors consider the follow-up and the next phases to be someone else’s responsibility, be it the investee or the follow-on funder. Oltre Venture, for example, does not entertain further relationships with the investees after exit. Some VPOs might decide not to stay in touch post-exit because they do not have enough time and resources (both human and financial) to keep in touch with the investees once the relationship is over.

STEP 5: POST-INVESTMENT FOLLOW UP

Nicholas Colloff from Argidius believes that when exiting an investor should be confident enough about the work it has done to believe the SPO will be capable of continuing to pursue its social impact even after the exit of the VPO and to attract the necessary resources to fulfil its social mission. Building links that go beyond the specific investment may give the wrong incentive structure to the SPO.

The desire or not to keep a connection with the SPO will impact the relationship management between the VPO and the follow-on investor(s). This is very much linked with the choice of whom to exit to performed in step 4: the VPO needs to base its decision of whom to exit to also on the basis of the type of influence it wants to keep on the SPO after exit.

The VPO might find it challenging to convince the follow-on investor to let the VPO keep in touch with the SPO. To avoid such situations it is advisable for the VPO to include the provision for post-investment follow-up in the negotiations with the follow-on investors.

An exit can be an occasion to look back on what was accomplished, distil lessons and disseminate what was learnt.

Key recommendations

The fifth and last step of the exit strategy process is the post-investment follow-up, which should be composed by two sub-phases: the final evaluation and the post-investment follow-up.

Keeping the following consideration in mind can help the VPO and the SPO go successfully through step 5:

- **Perform a final assessment of the investment** – to evaluate the success against the initial objectives, determine returns and distil the lessons learnt.
- **Include a third party in the evaluation** – especially in case the investment has not been successful, to avoid resentment on the SPO side. SPOs are the primary ambassadors for the VPO, so it is best to avoid closing a relationship with harsh feelings.
- **Keep contact with the SPO to:**
 - gather additional information on the pursuit of the social impact goals by the SPO
 - ensure the SPO continues pursuing its social impact post-exit
 - assess whether the high-engaged VPO is achieving its long-term social impact goals.
- **Develop a system of incentives to encourage the SPO submitting data post-exit** – Examples of such incentives are:
 - The organisation of further trainings and events that enable the SPO to learn and network
 - Giving to the SPO access to branding and recognition, for example through an Alumni group

STEP 5: POST-INVESTMENT FOLLOW UP

- *Manage* well the communication with the SPO and follow-on funders.
- *Build joint responsibility to develop the market* – The VPO should make the SPO feel responsible for the development of the market so that it will continue provide data to the VPO post-exit.
- *Close the loop* – The results of the final evaluation inform the investment strategy and the key exit considerations, so it is crucial to take the time to distil the lessons learnt from the specific investment,

Some challenges related to step 5 remain open. Concerning the final evaluation, it is hard to determine when the best moment to evaluate an investment is. For some investments the evaluation can be performed right after exit, whereas in other cases the impact will only be visible after some years. However, the question remains of how to attribute impact: if a follow-on investor has taken over the financing and mentoring role, to whom can the social impact results of the SPO be attributed? If a VPO wants to continue collecting data post exit, given the attribution problem, how should the results be communicated?

THE EXIT STRATEGY PROCESS

Conclusions

The objective of this manual was to provide VP practitioners with guidelines on how to plan, manage and execute an impactful exit. For that purpose we researched the existing approaches in VP/SI, VC/PE and social sector funding, we organised workshops and site visits and we convened an expert group made of practitioners who provided us with practical examples and case studies.

As of today the topic of exit strategies has not been extensively studied in VP/SI. By means of this report we hope we have contributed to fill this existing gap. However, we believe more work is needed to collect case studies and practical examples to build our collective knowledge and understanding on the exit strategy process. As the sector grows and develops, we will be able to collect statistical data to further support and enhance our recommendations in this report. We are also encouraged by complementary research efforts, such as the one led by the Wharton Business School that collects data on specific transactions exited by impact investors.

The five step exit strategy process is meant to help VPOs and SPOs having a more structured way to look at exit strategies. However, as reality often does not go according to plan, the manual also presents case studies and examples throughout, not only to show how exit strategies are planned, managed and executed in practice, but also which issues practitioners have been faced with in each step and how they have found solutions to overcome them.

Our aim is for this manual to encourage more and better work on exit strategies, with the final objective of achieving long-term sustainable impact.

Part 3:

Case Studies

CASE STUDIES

Case studies

Part two has provided the framework of developing and executing an impactful exit strategy including many examples that have been extracted from the case studies presented in detail in this section. This chapter goes through the case studies presented by the members of our expert group on how practitioners have experienced exits in greater detail. It is important to note that the cases are not necessarily to be seen as best practice examples, but rather illustrate the realities of practicing VP and SI; we are all learning by doing!

Each case starts by describing the VPO and the key exit considerations determined in step 1, followed by a description of the SPO. The steps 2 to 5 of the exit strategy process are then discussed. Finally, the key challenges and the lessons learnt from each case are presented.

Grant and Hybrid

NESsT – Alaturi de Voi

NESsT⁴⁹

NESsT mission it to develop sustainable social enterprises that solve critical social problems in emerging market economies. Since 1997, NESsT has pursued its mission through: investment, capacity support and social capital. NESsT operates in Central-Eastern Europe and Latin America and it invests in start-ups as well as established social enterprises.

NESsT supports enterprises that serve low-income communities and help to reduce their vulnerability by providing long-term incubation of early-stage enterprises to launch, sustain, and replicate their impact, supporting enterprises that provide job and income opportunities or deliver technology innovations to low-income groups and by customising incubation and investments for a spectrum of enterprising solutions, from revenue-generating non-profits to for-profit social ventures.

NESsT's has developed a 3-phase process. According to the three-phase process an SPO goes through three phases: planning, incubation and scaling. Exit can happen at the end of each phase. On average 40 to 50 companies apply yearly for NESsT support, and of these 40 about 15 enter the planning phase, 4-6 will be incubated and 1-2 will go for scale. However, the majority of exits take place after the incubation phase. Some social enterprises do not wish to grow, but become sustainable in the incubation phase, and they are therefore exited from the NESsT incubation portfolio. Having these three scenarios helps NESsT define whom to exit to: SPOs in each step are fairly uniformly grouped and this helps having a common portfolio exit strategy.

NESsT provides a diverse package of financial support depending on the phase the SPO is in. NESsT provides funding in the form of grants for organisations and entrepreneurs

49. Source: <http://www.nesst.org/>

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to complete a rigorous feasibility study process to test the viability of their business idea; to implement their business plans for social enterprise; and to develop core systems to improve effectiveness and impact. Additionally, NESsT provides loans and equity investing in social enterprises to help consolidate their operations, develop an appropriate strategy for significant growth, and to secure new infrastructure needed for expansion and/or replication of the operations.

Determining key exit considerations

Table 8: Elements of the investment strategy and key exit considerations at NESsT

Element of the investment strategy	Description	NESsT's strategy	Key exit considerations at NESsT
Context	Market/sector and country in which investee (s) (and investor) operate Geographical focus of the investor Sector focus of the investor	<ul style="list-style-type: none"> Emerging markets in Europe (Hungary, Czech Republic, Slovakia, Croatia, Romania) Latin America 	<ul style="list-style-type: none"> Whom to exit to How to exit
Social and financial return goals of the VPO	Definition of the social objective of the VPO Level of financial return the VPO wants to obtain vs. level of social return that the VPO wants to achieve	<ul style="list-style-type: none"> Develop sustainable social enterprises that solve critical social problems in emerging market economies and support low-income communities 	Exit only if the SPO has achieved the social goals and solved the critical social problem. → Prioritize social impact goals over financial return goals.
Type of investee	Organisational structure of the SPOs (linked to the return expectations and the types of funding) Development stage of investees (at which stage of development does the VPO invest?)	<ul style="list-style-type: none"> Type: Charity without trading, charity with trading, social enterprise Phase: Social entrepreneur without formal organisation, pilot or start-up, established but scaling Early stage 3-phase process (planning, incubation and scaling). 	NESsT invests in different phases of the development of an SPO. Therefore it is important that it defines from the outset which goals need to be reached for the specific company in the specific phase to be considered exit-ready. → Performance management indicators applied consistently at portfolio level to determine exit after each phase → passage to next phase or exit from NESsT portfolio.
Type of funding	Benefits and/or constraints per type of investment VP has a broader set of investment instruments than philanthropy (grant/debt/equity)	Guarantee, loan, equity, grant 3 to 5 years	The exit strategy is particularly important for NESsT, as the investment strategy is mostly based on grant investing coupled with very heavy capacity building executed in several phases.
Co-investing	Define roles and responsibilities Leader investor or not? How will things change after exit?	NESsT invests in projects that might have other financing sources	Manage relationship with and role of co-investors upon exit

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Project background – the SPO

Alaturi de Voi⁵⁰ (ADV) is a Romanian large non-profit civil society organisation, which runs several social enterprises that employ and train on certain skills youth infected with HIV/AIDS. The first social enterprise set up by ADV was Util Deco, a sheltered workshop that provides business support services – such as photocopying and binding – and creates and sells quality hand-made gift products. Since 2007, ADV has expanded the enterprise and now runs it in several Romanian cities, while new social enterprise ideas have also been tested and incubated.

The investment ADV needed was not major in value terms, but it was very important for the investee, because it was the amount needed to start the social enterprise Util Deco, seed money to establish proof of concept and make the company start to work.

In 2007 NESsT invested start-up capital and capacity building in ADV's Util Deco in order to create a viable and sustainable business concept for a pioneer social enterprise, one of the first in Romania. NESsT wanted to support the proof of concept phase and enable ADV to later expand the business by itself, leveraging other resources. The final goal was to turn Util Deco into a sustainable business and to contribute to the overall sustainability of ADV.

During the 4 years ADV was in the NESsT portfolio, the VPO invested USD 23,400 in the social enterprise in the form of grants (therefore in cash), and provided capacity building (non-financial support) worth USD 38,700 in the business planning and incubation phases.

The exit strategy process

Developing an exit plan

When investing in an SPO, NESsT wants to see it grow in the long term. However, NESsT knows not all companies have the same potential and exit can happen at any point of the three-step process (planning, incubation, scaling).

For those SPOs that stay in the NESsT portfolio from the outset to the scaling, each phase constitutes a separate step, so it can be said that there are several exits per investment during the process of NESsT working with an investee, and each of them needs to be planned and executed.

In the “planning” or pre-investment stage (phase 1), the social business concept is worked out and fine-tuned together with the investee. When the SPO exits the pre-investment phase it either enters the NESsT portfolio (step 2 – incubation, which is the first real investment phase) or, in case the business plan shows the idea is not socially and/or financially viable, it is exited by NESsT altogether. The majority of exits take place after the incubation phase, as only a reduced number of investees meet the criteria to enter the scaling portfolio. Investees that are exited after incubation either have no scaling potential or have not proven their concept in the incubation phase. Social enterprises that do not wish to grow,

50. Source and more information:
<http://www.alaturidevoi.ro>

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but become sustainable in the incubation phase are also exited from the NESsT incubation portfolio.

The investment period is normally over a period of three to five years and the conditions of the exit plan are summarised in a memorandum of understanding.

In the case of ADV, the goals in the first 2-3 years focused on turning Util Deco into a self-sustaining social enterprise, which could contribute to the social mission of ADV and to organisational sustainability overall. This meant training, employing and placing as many of their beneficiaries as possible and increasing the contribution of social enterprise revenues to the overall organizational budget to at least 20%. By investing through a grant, NESsT had no financial return expectations, but put in place a system to monitor that the SPO was using the grant in the correct way.

Determining exit readiness

During the investment the achievement of the goals is monitored through performance management indicators that the whole portfolio needs to adopt. The investee measures and reports to NESsT the so-called “flagship indicators”, which cover social impact, enterprise performance and assess the scaling potential of the social enterprise. These indicators are of crucial importance, because the decision on whether the SPO stays in the portfolio after incubation or exits are based on how well the investee is meeting the goals.

In return for the support they are receiving, NESsT investees are expected to sign a partnership agreement, which includes a commitment to market themselves as a “NESsT enterprise” and to use the Performance Management Tool (PMT). The aim of the PMT is monitor the SPO and the overall portfolio of investments to achieve consolidation, i.e. meeting NESsT standards by setting up an effective management system, effective HR procedures, consolidated team, high quality performance etc.

The PMT measures four components:

1. Enterprise performance
2. Social impact
3. Institutional development
4. Financial sustainability

The PMT is tailor-made for each investee, but has some common indicators in order to measure the aggregated impact of the portfolio. These include numbers on how many jobs were created, how many beneficiaries reached, financial break even, etc.

Yearly, NESsT holds performance management assessment meetings with the investee, to assess whether the SPO is meeting the goals and is on track, how the investee is doing with respect to its own goals but also how the investee can be compared with the rest of the portfolio. The annual assessment is a joint exercise with the investee and determines

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whether the investment should continue, what the next step for the investment should be, etc. It can also include a recommendation for a further amount to invest, another form of investment (for example after two years of grant investment the investee might be ready to take a loan), additional capacity building and the areas where this additional capacity building should be focussed.

There can be different reasons for exiting an organisation. For NESsT these are shown in Figure 21.

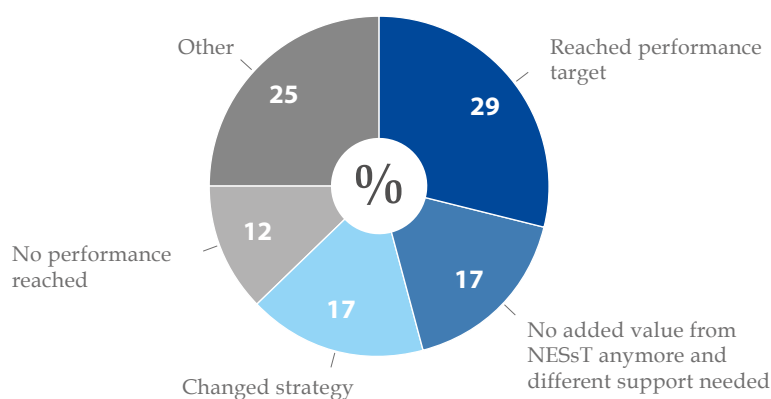


Figure 21:
Reasons for exiting an investment at NESsT

NESsT publishes an annual evaluation report and based on internal benchmarking, where it provides a recommendation to the investee: continue incubation phase, move to expansion phase or exit. NESsT also includes the investee in these considerations, to assess if it feels it needs more time together.

NESsT annual evaluation process

- Based on performance management indicators: flagships
 - Social impact
 - Enterprise performance
 - Scaling potential
 - Entire portfolio: regardless of number of years spent with NESsT
- Determines exit and further incubation decisions
- Recommends investment: amount and form, capacity-building and financing
 - For final year (exit)
 - For further incubation or scaling

(source: EVPA site visit to NESsT – 19 February 2013)

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The assessment of exit readiness is based on the annual evaluation of the SPO based on the performance targets, as well as the prospects and scaling potential of the SPO. The evaluation process occurs in February of the relevant year with exit occurring in December so leaving enough time for preparation (including diversifying funding sources). The exit-readiness decision is made by the NESsT investment committee during an annual benchmarking process. In this process the portfolio members are assessed and compared to each other. The performance and potential of the investees is also assessed against NESsT's overall portfolio impact targets. In fact, this potential is already estimated when the very first investment is made. The committee can recommend exit or continued incubation each year, it can recommend the type and amount of further funding and capacity building investment. The process is inclusive: the investee is an integral part of it. NESsT uses an impact and financial performance tool to assess right time to exit so as to avoid becoming too subjective with regards to timing of exits and potentially holding on too long.

ADV went through both the NESsT planning and incubation stage, so the development prospects of the social enterprise had been monitored closely from the beginning. Work in incubation was based on targets set in the business plan, which were confirmed and jointly agreed in a Memorandum of Understanding (MoU). A performance management tool (PMT) developed by NESsT formed part of each year's MoU and contained annual performance goals and targets. During the annual performance assessments all targets and indicators were reviewed and a decision about exit or continued incubation was made.

By 2011 the concept of Util Deco was proven, most business and social goals had been achieved, so both parties were satisfied. Util Deco was running a sophisticated sheltered workshop, one of the first ones established in the country. It had 3 units in different cities and included a new business branch: archiving services. This has actually become ADV's Social Economy Centre, a model social enterprise in Romania. During the 4 years ADV was a NESsT portfolio member, it managed to train 280 beneficiaries, and provide employment and job placement in the open labour market to 40 people. There was a huge growth in social enterprise revenues, which in some years accounted for as much as 40% of the total, depending on other grant income of the overall organization. At the same time, it became clear that ADV had the capacity and ability to grow/replicate the business, and NESsT's added value was reaching its limits both in terms of additional capacity building and increased financial support, both in terms of additional capacity building and increased financial support, therefore both parties agreed it was time to exit.

Executing an exit

In the case of ADV, at the moment of exit, during the exit discussion, it became apparent that to follow its development plan, ADV needed an additional significant amount of money (EUR 100,000) to test another social enterprise. Although NESsT was not going to provide ADV with this amount of money, it was able to facilitate a deal between ADV and a specialized lender in Poland that provides loans for social enterprises and the third sector in general. NESsT guaranteed the loan, which was vital for the deal to work. ADV used the

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money for the expansion of their social enterprise, adding a new business unit, archiving services. The three-year loan was successfully repaid, and ADV was negotiating a second loan in 2013, involving NESsT guarantees and support for a second time.

Helping ADV obtain a step-up financing was an integral part of NESsT's exit strategy and a way of NESsT to ensure that the SPO could maintain its impact in the long term.

Post-investment follow-up

Evaluation

The investment in ADV and its exit were considered to be successful by NESsT. Most of the goals were met, both on the investor's and the investee's side. ADV is a very strong and sustainable organisation which today has a large number of social enterprises under its umbrella, capable of providing employment and training to an increasing number of beneficiaries.

The direct social impact of Util Deco in 2011 was that the social enterprise employed 30 beneficiaries, had trained 280 people and placed 10 of them in other jobs in the labour market. This was great success compared to the results of 2009, when the social enterprise employed 15 beneficiaries, trained none and placed 9 of them in the labour market. As a result of the incubation phase, ADV built a model social enterprise, which became sustainable and was replicated by ADV in two other towns in Romania. At the time of exit ADV had established a mature and bankable business. The social enterprise Util Deco became crucial for ADV in achieving social impact as well as financial resilience. Encouraged by the success of Util Deco, ADV launched a second business providing archiving services.

Thanks to the non-financial support provided by NESsT, ADV's increased its ability and success in obtaining social enterprise development funds (grants as well as loans) based on Util Deco's success, which positively impacted on financial resilience.

In terms of organisational resilience, ADV saw significant organisational developments, mostly in terms of increased enterprise planning and implementing capacity, plus tools to measure and manage performance and impact.

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Dimension	Objectives	Results	Final evaluation
Social impact		Impact at 2011: <ul style="list-style-type: none"> Util Deco employed 30 beneficiaries, had trained 280 people and placed 10 of them in other jobs in the labour market. 	
Financial sustainability	Break even in year 2 SE revenue makes up 20% of overall budget	<ul style="list-style-type: none"> ADV built a model social enterprise, which became sustainable (mature and bankable business) and was replicated by ADV in two other towns in Romania. Thanks to the non-financial support provided by NESsT, ADV's increased its ability and success in obtaining social enterprise development funds (grants as well as loans) based on Util Deco's success, which positively impacted on financial resilience. Social enterprise as a strategy in achieving social impact and financial sustainability Obtained loan from patient loan fund with NESsT guarantee. Increased capability to attract financial resources (thanks to non-financial support) 	
Organisational resilience	Create SE business plans years 1 and 3 Implement performance measurement and use in management decisions from year 1	<ul style="list-style-type: none"> Significant organisational developments, mostly in terms of increased enterprise planning and implementing capacity Introduction of tools to measure and manage performance and impact. Achievement of the status of mature and bankable SPO. 	

Table 9:
Final evaluation of
Alaturi de Voi

The SPO has become bankable which is an important result as it demonstrates the model works. For NESsT this was also a very good experiment as it was the first of its kind in the NESsT portfolio.

Additionally, this case serves as a very good illustration of the discussion of “whom to exit to”. In the market there were not so many lenders/funders to whom NESsT could exit, which called for a rather creative solution.

The achievements of ADV contributed to the overall social impact goals of NESsT in the Romanian and global portfolio. ADV's social enterprise has a training and employment creation model targeting disadvantaged (HIV infected) people, so the achievements contributed to the specific employment generation goal NESsT had set for its portfolio each year. NESsT had supported ADV in achieving social impact and financial sustainability

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through the development of sustainable social enterprises. Thanks to the incubation of Util Deco, ADV reached financial sustainability and was able to reach a phase, when it replicates the model in other towns of Romania.

In terms of financial return, NESsT invested in ADV by means of a grant, so it did not expect any financial return.

Follow-up

An exit can happen for different reasons: either because the investee is ready or because it is not meeting its goals or because the investment is not worthwhile to pursue anymore. Whatever the reason for exiting, at the moment of exit NESsT puts in place an “exit action plan”, set up to make sure that even if the investment is not continued the results that have been achieved up to the moment when the VP/SI exits remain.

An exit interview is always performed, and NESsT asks each investee to help with future assessments of the impact, using a simplified version of the Performance Management Tool that asks the investee to report once a year using flagship indicators that are used by NESsT to track the performance of the portfolio for two years after exit. This is challenging and NESsT is still thinking about incentives to encourage exited investees to submit the data. Such incentives can include invitation to further trainings and events, plus additional branding benefits, from the “NESsT Enterprise” label, which brings prestige and recognition to exited social enterprises too.

Additionally, investees are involved in a number of activities NESsT organises after the exit, such as networking events, conferences etc. Once the exit is executed the non-financial support is not over: NESsT remains involved with the SPO and supports it in additional activities it might need to perform to maximise its social impact after exit.

In the case of Alaturi de Voi, the SPO planned to scale up after exit. NESsT did not stop providing non-financial support and also helped ADV finding follow-on investment and provided a 20% guarantee for a loan ADV took out.

NESsT did not stop communication with the investee, but asked them to continue providing information on the flagship indicators. Moreover, since NESsT was providing a guarantee for the loan it was in NESsT’s interest to monitor the developments of the investee and check that the repayment happened in due course.

After three years ADV had successfully repaid the loan and was considering applying for a new loan, with NESsT again as a guarantor.

In 2014 Alaturi de Voi Romania runs 12 workshops and 3 social enterprises in three locations – Iasi, Constanta and Tg. Mures. They offer printing services, which was the business of the first social enterprise, but also archiving and document storage. Total social enterprise sales

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revenue in 2013 amounted to approximately 2.5 million euros and was projected to reach 3.5 million euros by the end of 2014. There was a very significant increase of social enterprise revenues in the total organizational income: 66% is now coming from the three social enterprises, 29 % from projects, 2 % from subsidies, 2 % from donations and sponsorships, 1% other. The profit (14,427 euros in 2013) was fully reinvested in developing the service of physical and electronic archiving and document storage. These are not hugely profitable operations, as can be seen, but it's significant to have the surplus after covering all costs, including social costs and the financing costs of the operation and the expansion.

The social enterprises served 500 customers in 2013, which is likely to increase to 800 customers this year.

In 2013, ADV Romania received the ISO 9001 certification – in quality management, ISO 14001 certification – environment management, SR OHSAS – standard regarding the system of health management and of occupational safety and SR ISO/CEI 27001 – management system of information safety.

Alaturi de Voi continues to focus on the beneficiary group of people with HIV/AIDS (75%), but also includes people with other disabilities in their programmes. The direct social impact in 2013 of the organization is reflected in the following indicators:

- 213 young people received qualifications in different lines of work
- 115 specialists have been trained in “Entrepreneur in social economy” and “Manager of a social enterprise”. They will be better positioned to run existing businesses or start new ones in the future.
- 205 people became familiar with the activities developed in the three social enterprises of ADV during visits organized especially to this end
- 115 young people benefited from career counseling and orientation
- 10 new workplaces have been created in the three social enterprises, of which 6 are for people with disabilities
- 3 young people with disabilities have been placed on the open labor market.

Having set up several successful social enterprises, ADV has become an important role model and promoter of this business model in Romania:

- In September 2013 the Util Deco model of sheltered employment was acknowledged and published as best practice on the site of the European Commission, DG Employment <http://ec.europa.eu/social/main.jsp?catId=1030&langId=en&practiceId=155>
- ADV is one of the promoters at national level of the concept of social economy, with three resource centers in the field in Iasi, Constanta and Tg. Mures and an online resource center www.ropes.ro (social economy product made in Romania).
- ADV is an active member of the International Social Economy Association, the North-East Regional Pact for Employment and Social Insertion, founding member of FOND,

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founding member of the NGO Coalition for Structural Funds, the Together Network, AIDS Action Europe, People Living with AIDS, CONCORDE, founding member of RISE Romania – the Romanian Network of Social Enterprises for Insertion through Economic Activity. ADV Romania also has the presidency of the NGO committee within the Council of Economic and Social Development. Following an invitation received from Transparency International, ADV Romania has accepted to become a founding member of the ECOSOC Integrity Pact.

- ADV Romania is one of the promoters of social economy law in Romania, which they hope will be approved by the end of this year.

Thanks to the loan deal facilitated by NESsT in 2011, ADV's bankable status and financial management capabilities have improved significantly, contributing to further sustainability efforts and growth plans. During 2011-2013, the business revenue and the number of customers have doubled every year. This happened also because ADV Romania was able to access European Union funds which have brought capital infusion to the organization. The surplus was reinvested in building a document storage facility, with support from a loan granted by a Romanian bank, which provided 50% of the necessary financing for the investment. ADV has another loan currently, taken out for a 10-year term for the construction of a new document storage facility.

Plans going forward:

- ADV applied to the European Social Fund for funding to establish 10 new social enterprises. They would develop 4 of these themselves, while the remaining ones would be established by the 7 partners on the project. ADV Romania plans to replicate the tailoring workshop from Iasi in Tg. Mures and will establish a new social enterprise specialized in document storage to activate in Iasi, Constanta and Tg. Mures. Other plans exist to launch bakeries.
- In Iasi, ADV Romania bought a piece of land situated near the office building – 2000 square meters – for which they intend to attract financing in order to build another document storage facility and to expand the document storage service in 2015.
- During the next three years ADV wants to expand the service of physical and electronic archiving, document storage and safe document destruction to integrated management of documents for companies.

Lessons learnt from the NESsT case.

This is a case that shows how important incubation and the role of the incubating partner were for the further development of this social enterprise. NESsT was able to leverage funding and thus help ADV move up on the financing staircase towards investment readiness and a more sustainable social enterprise. Capacity building support during incubation was of key importance to prepare ADV for exit and growth. Guaranteeing a loan after exit from the portfolio could be seen as risky, especially because NESsT had stopped providing “carrots” to ADV at that point. All NESsT required from the organisation was to continue

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supplying key performance indicators on a continuous basis, so that the performance of the social enterprise, the source of loan repayment, could be monitored. Collecting this post-exit performance information proved to be rather challenging, but upon prospects of the second loan it became somewhat easier. The exit thus was not a clear cut immediate exit in 2011, the relationship and some form of information exchange definitely continued in order to help the NESsT incubated social enterprise become sustainable and grow.

The following key learning can be derived from the NESsT case:

- Exit does not always mean end of the relationship. In some cases, where impact can only be measured in the long run, it is in fact very important to keep in touch and obtain further information from the investee. One needs to be careful though, so that the investor does not over claim the achievements.
- Continued involvement for years after exit can be important in order to maintain or safeguard the social impact that the investor invested in during incubation.
- Sustainable social enterprises can be a satisfying exit. There is not always a need to exit TO someone. The nature of social return is such that it can take many years to materialise and become measurable, so oftentimes is it the sustainable business that is the best proof of a successful investment.
- Exit needs to be timed well: if communication and demand is reduced from the investee or there are signs of limited value added by the investor, it is healthy to consider exit. At the same time, it is possible to revise an earlier exit decision, if the situation changes. Flexibility and tailor-made approaches are key ingredients of successful exits.

Performance management is a central part of NESsT's incubation work, and exits are closely tied to achieving impact (or not). Therefore the performance management tool is crucial for NESsT also to prepare for the exit.

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Ferd SE – Unicus AS

Ferd SE⁵¹

Ferd is a family-owned Norwegian industrial and financial group that is an active and long-term owner of strong companies with international potential and carries out financial activities through investments in a broad range of asset classes. Through “Ferd Social Entrepreneurs” (FSE), Ferd invests in social entrepreneurs that reflect its vision to create enduring value and leaving lasting footprints.

Ferd’s social entrepreneurs have innovative solutions to society’s challenges, are driven by the social results and have a financial model that makes the business sustainable and ready for growth.

FSE’s portfolio companies target children and youngsters and enable them to face challenges and new opportunities. FSE contribute with both financing, and through its network and expertise in business development and strategy.

51. Source: http://www.ferd.no/en/social_entrepreneurs/social_entrepreneur

Determining key exit considerations

Table 10: Elements of the investment strategy and key exit considerations at Ferd SE

Element of the investment strategy	Description	Ferd SE’s strategy	Key exit considerations at Ferd SE
Context	Market/sector and country in which investee (s) (and investor) operate Geographical focus of the investor Sector focus of the investor	Geographical focus: Norway. Sector focus: Children, youth; Education and research; Social services.	Ferd Social Entrepreneurs is a VPO based in Norway, a country with few social investors to date, meaning that Ferd SE can only exit by making sure the investee is able to carry on its work without external support – alternatively exit to the public sector or to a corporation operating in the same industrial sector as the investee.
Social and financial return goals of the VPO	Definition of the social objective of the VPO Level of financial return the VPO wants to obtain vs. level of social return that the VPO wants to achieve	Support social entrepreneurs who work to help ensure that children and young people can realise their goals and recognise that they do have opportunities. Social return first, financial return accepted.	Social return prioritised → The exit plan is kept flexible to allow revision of the exit plan in case exit readiness is not reached on the social impact dimension.
Type of investee	Organisational structure of the SPOs (linked to the return expectations and the types of funding) Development stage of investees (at which stage of development does the VPO invest?)	Type: Social enterprise Phase: Established but scaling up	Established SPOs → milestones linked to the SPO’s capability to develop a sustainable business Possible exits → Self-sustaining SPO, industrial investor that will support additional scale-up. Ferd performs a pre- investment screening to ensure that the SPO has the potential of becoming sustainable (if not Ferd does not invest) on the basis of the SPO’s business plan and strategy.

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Element of the investment strategy	Description	Ferd SE's strategy	Key exit considerations at Ferd SE
Type of funding	Benefits and/or constraints per type of investment VP has a broader set of investment instruments than philanthropy (grant/debt/equity)	Guarantee; convertible loan; equity; grant Normally 3 to 7 years horizon	Upon achievement of the social impact goals and self-sustainability, primarily Upon repayment of debt (but flexibility, linked to the achievement of the social impact goals)
Co-investing	Define roles and responsibilities Leader investor or not? How will things change after exit?	Yes, as sometimes the additional skills they bring are fundamental	

Project background – the SPO⁵²

Unicus is a Norwegian consulting company focusing on the positive characteristics of the autism spectrum disorder. Unicus is a niche player providing services in testing and quality assurance of IT systems on commercial terms, with several of the largest companies in Norway among its customers. What makes Unicus stand out among consulting firms is that the staff is composed by people who are affected with the Asperger syndrome (AS).⁵³ The customers served by Unicus can largely benefit from some of the unique characteristics of individuals affected by this syndrome, such as attention to detail, accuracy, structured and systematic approach – factors that are very much in demand in today's market. Unicus focuses on possibilities rather than limitations stemming from the syndrome, putting the individual first.

Most consulting companies need to have flexibility in the size of their workforce due to shifts in market demands. One of the challenges of employing people with the Asperger syndrome is that Unicus cannot have the same flexibility and therefore needs to have a conservative growth: having an unstable job is not an option for Unicus' employees as they need stability in their everyday life. Uncertainty in the working situation can decrease the quality of life of people with Asperger syndrome proportionally more than for other people.

Ferd SE invested in Unicus with the purpose of making the core business sustainable, and increasing the total number of employees by hiring people who are outside the labour market with Asperger syndrome.

Ferd SE invested seed money for the first three years of operation (by means of a three year grant totalling €125 K), plus non-financial support consisting of competences and access to the network.

52. Source: <http://unicus.no/en/>

53. Asperger syndrome (AS) is an autism spectrum disorder (ASD) that is characterized by significant difficulties in social interaction and nonverbal communication, alongside restricted and repetitive patterns of behaviour and interests. It differs from other autism spectrum disorders by its relative preservation of linguistic and cognitive development.

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The exit strategy process

Developing an exit plan

At the basis of the exit plan of Ferd SE and Unicus there was an agreement between the two parties that Unicus needed to be self-sustaining by the time Ferd exits it. By sustainable Ferd SE meant that they were able to have a running business with no need for extra grants or other financial support. Ferd applied its screening criteria, analysed the strategy and business plan of Unicus and decided to invest in Unicus based on the assessment that Unicus would be able to develop a sustainable business by the end of Ferd's financial support and would not need a new investor when Ferd exited. This approach was taken because Ferd SE is based in Norway, a country with few social investors to date, meaning that Ferd SE can only exit by making sure the investee is able to carry on its work without external support or alternatively exit to the public sector or to a corporation operating in the same industrial sector as the investee.

The end of Ferd's support was also conditional to Unicus becoming capable to continue building a healthy business by hiring people with Asperger syndrome.

Determining exit readiness

During the investment period Ferd SE worked closely with the management team and the board of Unicus, to help them through capacity building and non-financial support (including strategy consulting, coaching, operational management, etc.). Additionally, Ferd SE monitored closely the development of the investment towards self-sustainability. Two years after the initial investment, Ferd SE and Unicus started the discussions on whether Ferd SE would exit at the end of the three years financing period originally foreseen or if it would prolong the financing for one to three additional years.

When the planned exit date arrived, Ferd SE realised that Unicus had not reached the ambitious goals originally envisaged in terms of number of consultants to be hired, which meant that the growth rate planned was not achieved. In fact the initial goal was revised several times during the investment period. The main reason for the numerous revisions is that when hiring people which are not a part of the regular labour force is a delicate issue, because the negative effect of losing one's job is more severe when there are less employment opportunities.

Two issues prevented Unicus from realising the expected growth. First, the SPO encountered quite some scepticism in the market, due to the special characteristics of Unicus' consultants. Second, Unicus realised that it is hard to be a niche player in a market where most IT systems are contracted to larger players.

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Executing an exit

Given the context in which Ferd SE operates, at the moment of exit there are three options:

- The SPO becomes self- sustaining and continues on its own;
- The SPO looks for another financial partner with the support of Ferd SE;
- The SPO looks for an industrial partner, together with Ferd SE.

The execution of the exit of Ferd SE from Unicus started one year before the end of the financing period originally planned. The decision to exit was based on the assessment that the business was sustainable at the size it had reached, so exit readiness was achieved.

At the time of exit, Ferd SE also realized that Unicus had high growth and scaling potential. However, Ferd SE was not the right partner for such scale-up, as it would need a higher pool of resources and different competencies that would go beyond the scope and focus of Ferd. To grow substantially Unicus would need an industrial partner. Therefore Ferd SE and Unicus started the search for an industrial partner. However, as of today no partner has been found yet.

Post-investment follow-up

Evaluation

After the execution of the exit, Ferd could perform an evaluation of the achievement of the objectives of the SPO, as summarised in Table 11.

Dimension	Objectives	Results	Final evaluation
Social impact	25-30 consultants and no goals for test managers	15 consultants and 3 test managers	<ul style="list-style-type: none"> • Underperformed with respect to the expectations on the number of consultants, but on par with impact on each (underperformance due to slow sale) • Impact on each consultant as expected, but overall impact lower since fewer consultants involved than planned
Financial sustainability		<ul style="list-style-type: none"> • Sustainable at current size 	
Organisational resilience		<ul style="list-style-type: none"> • Have a good mixture of coaches/test managers based on the number of consultants hired • Have a good balance between consultants and work load 	Overall utilization is OK

Table 11:
The final evaluation of the exit of Ferd SE from Unicus AS

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Unicus was one of the earliest investments Ferd SE made, and the first one focusing on creating jobs. In terms of objectives, there were not expressed distinct objectives as of the numbers of consultants or test managers to be hired during the financing period. Though not specific goals were set, there was a common understanding of the size the organization had and the size it wanted to achieve. The expectation was that Unicus should have had maybe 25-30 consultants by the end of the financing period, while no goal was ever discussed for the number of test managers. The goal in terms of number of consultants was a guesstimate, as inside Ferd SE there was no useful previous experience to base the estimate upon. At the point of exit Unicus had 15 consultants and 3 test managers.

By the planned exit date, Unicus had reached financial sustainability at current size, so Ferd SE considered the exit a success. However, the social impact goals set at the beginning were not completely reached. Unicus had originally planned to hire a larger number of consultants, but had then to revise its plan and grow more prudently than planned to avoid risking putting pressure on the employment contracts of its beneficiaries. As a result, the impact in terms of training and development of each consultant was reached, but the overall impact of Unicus was lower than expected, since the SPO employed fewer consultants than planned.

In terms of organisational resilience, Unicus could be said to have reached the goals set. At the end of the financing period Unicus had a good mixture of coaches/test managers based on the number of consultants hired and a good balance between consultants and work load.

Follow-up

Ferd has an alumni group, for all the SPOs it financed in the past. Membership in the Alumni group is not compulsory, but SPOs that want to be members of the Alumni group are required to report on impact every 6 months. By doing so, Ferd SE is able to track the long term impact which occurs after the relationship has ended. In many cases the impact generated by an SPO is not visible to its full extent when the relationship has ended, and it won't be proved until years later. This is for example the case of SPO tackling environmental issues, as positive effects become apparent only many years after the SPO started its activities.

When Ferd SE invests in an SPO it often takes a seat in the Board of the investee. At the end of the financing period the SPO can extend the board membership of the person originally representing Ferd SE. Similarly to the membership to the Alumni group, this is not compulsory, but it is a way to keep a connection between Ferd and the SPO.

By keeping the investor informed about the developments of the SPO after the investor has exited additional opportunities to work together may arise. In the case of Ferd SE investing in Unicus, for example, Ferd SE tried to exit the investment to an industrial partner that could help the company scale up its activities, but did not succeed in doing so. However,

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Ferd SE stated it might consider re-entry in Unicus in case the SPO would consider a geographical expansion at a later stage of development. Therefore it stated it might consider re-entry in Unicus in case the SPO will consider a geographical expansion at a later stage of development.

Lessons learnt from the Unicus case.

Ferd SE learned a number of lessons from its investment in Unicus, especially given the fact that not all the objectives set for the SPO were reached.

More specifically, Ferd SE realised more emphasis should have been put on the sales part of the SPO – perhaps hiring a key account manager – in order to boost sales and by that be able to hire more people, reaching the goals set for the SPO. But as Øyvind Sandvold of Ferd SE stated: “it is a fine balance of expanding the business together while maintaining a responsible working environment”.

Another important lesson learnt for Ferd SE concerned how to cooperate with co-investors. Unicus was launched by Ferd SE together with two co-investors that Ferd SE found through its network. Being more than one professional investor on the board helped develop the company better than Ferd SE could have done alone since both of the investors had complimentary skills compared to Ferd SE’s skills. After the co-investing experience Ferd SE realised that none of the investors could have developed Unicus to what it was without the others.

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IKARE – “SOS Uganda”

IKARE and IK Investment Partners

IKARE Ltd (pronounced “I care”) stands for IK Aid and Relief Enterprise. IKARE is an independent UK registered charity, aiming to overlay private equity investment techniques and best business practices into the causes it supports. Primarily looking for societal impact and through applying the venture philanthropy principles IKARE aims to contribute more than just funding to its “investees”. IKARE’s main donor is IK Investment Partners (IK).⁵⁴

IK is a European private equity firm with Nordic roots, managing and advising funds, which since 1989 have invested approximately €6.3 billion to more than 80 European mid-sized companies, out of which 19 currently remain in the portfolio. IK strives to significantly improve the performance of the businesses it invests in and to create strong, focused companies with excellent long-term prospects, thereby delivering strong returns to its investors.

Determining key exit considerations at IKARE

Table 12 summarises the main elements of IKARE’s exit strategy, which builds on the experiences gained at IK Investment Partners, and sets out the key exit considerations that guide IKARE through its investment process.

When reading the table it is important to keep in mind that IKARE is relatively young (founded in 2006) and the case presented “SOS Uganda” is IKARE’s first investment. While intuitively applying many of the VP principles to the cause it came to support IKARE was at the time not aware that neither the term VP as such or EVPA existed. IKARE did not even specifically look for the investment – it was rather the investment which triggered the formation of IKARE when it was brought to IK’s attention by one of its then portfolio companies, Ceva Santé Animale. As a result, all is learning by doing. As the investment has evolved through a number of different phases, each subject to a separate investment decision, some of the key exit considerations here presented were not perfectly clear at inception, but constitute lessons learnt. In fact IKARE is continuously learning from this first experience and is actively using its experience to further develop key exit considerations.

54. Source:
<http://www.ikinest.com/>
and
<http://www.ikinest.com/IKARE/>

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Table 12: Elements of the investment strategy and key exit considerations at IKARE

Element of the investment strategy	Description	IKARE's strategy	Key exit considerations at IKARE
Context	Market/sector and country in which investee (s) (and investor) operate Geographical focus of the investor Sector focus of the investor	<ul style="list-style-type: none"> Prevent threatening geographical convergence of two strains of sleeping sickness in Northern Uganda through mass treatment and spraying of cattle Sustainability in control of sleeping sickness in cattle and humans in these five districts through farmers "doing it for themselves" Public Health as well as veterinary services market as sleeping sickness is a zoonotic disease 	<p>85% of cattle treated</p> <p>Reduction of parasites</p> <p>Community engagement with "farmers doing it for themselves"</p>
Social and financial return goals of the VPO	Definition of the social objective of the VPO Level of financial return the VPO wants to obtain vs. level of social return that the VPO wants to achieve	<ul style="list-style-type: none"> In the case of SPO1 the social return objective to be achieved was (i) averting the threatening convergence of the two strains of human sleeping sickness and (ii) creating sustainability in the control through "farmers doing it for themselves". There was no financial return objective. In the case of SPO2 the social return objective was the putting in place of the necessary veterinary service infrastructure to help achieve (ii) above. SPO2 would need to become financially viable, through the provision of broader veterinary services, in order to also be able to supply the drugs and sprays necessary for farmers to use their cattle as "live bait" in the control of sleeping sickness. There was no financial return objective on the level of the VPO 	<ul style="list-style-type: none"> 85% of cattle treated and sprayed Measurable reduction of parasites at 3,9, and 18 months post treatment "Sink or swim" approach taken. Based on individual business plans which all showed potential for financial viability within 12-18 months each of the businesses were assessed at 6 and 12 months to determine whether they were on the right path. In addition there was continuous mentoring and monitoring.
Type of investee	Organisational structure of the SPOs (linked to the return expectations and the types of funding) Development stage of investees (at which stage of development does the VPO invest?)	<ul style="list-style-type: none"> IKARE invested in "SOS Uganda" through both a Public Private Partnership (SPO1) as well as directly and indirectly through a number of Ugandan limited liability companies (SPO2) contracted to deliver specific services. The latter were all in the form of start-ups. Also the SPO1 investment was to test a new technology for "proof of concept". 	<ul style="list-style-type: none"> Each investment made was in a way "self-liquidating" through the way the grants and loans were structured making exit easier. Loan portions that were not repaid were converted to grants. All investments had very clearly defined purposes and objectives.

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Element of the investment strategy	Description	IKARE's strategy	Key exit considerations at IKARE
Type of funding	Benefits and/or constraints per type of financing instrument	<ul style="list-style-type: none"> • IKARE opted to invest in "SOS Uganda" via grants and loans. Loans were used more as a means of instituting financial discipline and "best business practices" rather than IKARE actually expecting to recover these amounts. IKARE chose not to use equity even if there was a possibility of making a small financial return in the case of the 3 V vet start-ups. This was due to the trade-offs between the relatively small amounts invested and the administrative and corporate governance complexities of owning equity in Ugandan SPOs. 	<ul style="list-style-type: none"> • Using grants and loans that were also "self-liquidating" made exits easier. In the case of the veterinary start-ups the message was very clear that this was a "sink or swim" exercise as entrepreneurs. In a few cases the original time-plan was extended by just a few months where there were clear signs of improvement during the later months making financial viability still achievable
Co-investing	Define roles and responsibilities Lead investor or not? How will things change after exit?	<ul style="list-style-type: none"> • In "SOS Uganda" the working together cross-sectorially and with both international and local partners was a clear advantage in the first phase. As the investment moved through its different stages, some partners have been more relevant than the others. IKARE believes it is important to have clearly defined roles and accountabilities, ideally contractual. IKARE has very much taken on a co-ordinator or project leader role, but has over the last year or so seen increasing local ownership, which is very positive. 	<ul style="list-style-type: none"> • With IKARE's local partner in 2013 having been appointed to central role in the governmental body responsible for the co-ordinating of sleeping sickness and tsetse control activities there are good chances of the SOS "legacy" continuing.

Project background – the first investment or SPO 1⁵⁵

When IKARE initially become engaged in and decided to invest into "SOS Uganda" this took the form of a Public Private Partnership (PPP). This partnership was based on a MoU with the Ugandan government body UTCC⁵⁶ which IK/IKARE and Ceva had entered into during the summer of 2006. Working also together with the universities of Edinburgh, UK and Makerere, Uganda, the SOS initiative and partnership aims to Stamp Out Sleeping Sickness (or at least control it!) in Northern Uganda. Uganda is the only sub-Saharan country unfortunate to be affected by both human forms of this lethal disease, which is spread by the bite of the tse-tse fly and is estimated to kill more than 100 people per day in sub-Saharan Africa. For more detail on the disease, its causes and control mechanisms (which are highly relevant to how IKARE's engagement evolved) please see facts box below.

55. More information on "SOS Uganda" here: <http://www.stampoutsleepingsickness.com/>

56. Uganda Trypanosomiasis Control Council; www.coctu.go.ug

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Fact box on sleeping sickness⁵⁷

Sixty million people in sub-Saharan Africa are at risk for sleeping sickness epidemics, of which only about four million have access to medical services. Having access to medical services implies at least a chance of both getting correctly diagnosed and being provided with treatment. There are no vaccines for sleeping sickness, only curative treatments which are free for humans, but few cases are actually and correctly diagnosed. Due to the toxicity of the treatment if wrongly administered, approximately 5% of patients die of the treatment itself.

Sleeping sickness is a zoonotic disease, meaning it affects both humans and animals, and the Rhodensiense strain of the human form is further transferrable between animals and humans. It is transferred by the bite of the tsetse fly who acts as the vector.

Sleeping sickness or HAT (Human African Trypanosomiasis) is also a so-called neglected disease, which receives less attention than malaria, tuberculosis and HIV because it affects the real bottom of the pyramid, meaning mainly rural and poor populations living in very small subsistence farming areas and surviving on a dollar per day. In addition to receiving less visibility, being located in such remote areas also implies that such populations have limited access to veterinary products and services, which also negatively affects the extent to which the disease can be controlled.

Sleeping sickness is lethal if it is not treated. Across Africa about 100 deaths a day are recorded but as we know that access to health services and thus diagnosis is very limited, the estimation is that at least ten times more cases occur than what are officially recorded. In addition, acting as hosts to the human parasite which is transmitted through the bite of the tsetse fly, the disease also affects the cattle. The animal form is called Nagana. Though it can also affect other animals, such as goats, pigs and dogs and wildlife, cattle tends to be the main reservoir for the Rhodensiense disease. Once the cattle are infected with the animal parasite, their blood becomes more receptive to hosting the human parasite. Cattle affected by Nagana milk less, have spontaneous abortions, are too weak to plough – therefore making farming more difficult – and eventually die. Thus in addition to human suffering, sleeping sickness has direct and severe effects also on farming productivity and food security, especially so in countries like Uganda with young and growing populations which to approximately 70-75% still depend on subsistence farming. While many farmers will typically spray their cattle against ticks (which are carriers of a number of severe cattle diseases like East Coast Fever), not all insecticides are effective against BOTH ticks and tsetse.

The 2005 WHO conference in Addis Ababa warned of the geographic convergence of the two types of endemic sleeping sickness in Northern Uganda, the only country unfortunate enough to host both, and called for an emergency intervention. In an area with already limited health resources it would be next to impossible to correctly diag-

57. For more information on sleeping sickness and HAT see: www.who.int/trypanosomiasis_african/en/

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nose and hence correctly treat people affected by one or other of the disease variants. The continued resurgences of sleeping sickness epidemics in large parts of Uganda puts 9–11 million people at risk due to lack of surveillance, access to diagnosis and treatment.

A few years earlier, research undertaken by the Universities of Edinburgh and Makerere had shown that if a large number of cattle are first treated and thereafter regularly sprayed with insecticide on the legs and belly (known as RAP or Restricted Application Protocol; other research had shown that tsetse typically bite here), re-infection (and thus transmission to humans) could be avoided. Acting as “live bait”, cattle would attract the tsetse that would be knocked down and die from contact with the insecticide. Additional research had further showed that as long as approximately 20% of the treated cattle in an area were regularly sprayed this would be sufficient to keep the parasites, and hence sleeping sickness, under control.

Investment 1, the Public Private Partnership (SPO 1) and its aims

The original SOS initiative and emergency intervention as set out in the PPP Agreement had three aims:

1. To investigate the dynamics of the spread of human-infective trypanosomes (the sleeping sickness parasites) through the cattle population in five northern districts of Uganda
2. To prevent the northward spread of the Rhodensiense strain of the disease and prevent the two forms of the disease (Rhodensiense and Gambiense) from geographically converging through:
 - Providing mass treatment to an estimated number of 220,560 cattle (targeting 85% of cattle stock) in these 5 districts, and in addition protecting them from immediate re-infection through spraying them with insecticide using the Restricted Application Protocol (RAP) technique, at time of treatment as well as an additional two times.
 - Provision of treatment at cattle markets for all cattle traded northwards plus provision of RAP spraying resources.
3. To build awareness of sleeping sickness as a Zoonotic disease (affecting both humans and animals), its causes and control mechanisms in these rural communities. Teaching farmers to “do it for themselves”.

The RAP technique which had been chosen for the spraying came out of previous research undertaken by the two universities, but had been never been tested on a larger scale. As it implied a much more cost-effective way of spraying cattle it also provided a true opportunity for farmers to be able “to do it for themselves”. This appealed to IKARE and its “catalyst for change” philosophy (an heritage from its Private Equity background) while also providing the critical opportunity for the sought sustainability.

IKARE’s involvement in the “SOS Uganda” initiative was eventually rolled out over a period of eight years plus; through a number of different initiatives and each a separate investment decision. Total investment by IKARE to date in “SOS Uganda” is approximately EUR 600,000.

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Investment 1, its achievements and exit

As agreed in the PPP Agreement, final year veterinary students from Makerere University, supervised by their teachers, would undertake the mass-treatment and spraying of cattle. While so interacting with the farmers they would, in parallel, be sensitizing the local communities on sleeping sickness. Sampling of cattle pre and post treatment would be undertaken by Ph.D. students from the University of Edinburgh's veterinary college. IKARE agreed to cover the related out-of-pocket expenses through grants to these two institutions and Ceva agreed to donate the necessary drugs and insecticides.

Even if the number of cattle treated fell slightly short of the 85% target, the intervention as such was successful. But while the intervention led to a reduction in the prevalence of parasites by more than 70%, the secondary goal of the intervention, the necessary awareness building among farmers and communities for longer term sustainability, was not achieved due to a number of unforeseen challenges. But rather than just exiting there and then, which would have been possible after the third round of free sprayings had been administered during 2007, IKARE and its partners focused on identifying the gaps to building a sustainable defence to the disease. For IKARE this implied a number of new investment decisions and exit considerations as follow:

Investment 2 and creation of SPO, exit 2

Not only had it proven more difficult than expected to, in parallel to the mass-treatment, sensitize farmers to the existence, causes and control mechanisms of sleeping sickness, but it also became clear that the necessary infrastructure (drug shops, veterinary practices, animal health workers etc.) for the delivery of the sleeping sickness products to these rural territories was not really in existence. There was also a lack of co-ordination of various NGO led initiatives resulting in mixed messages to the communities. In addition it became increasingly clear that treatment at point of sales, i.e. the cattle markets, (as required by government policy) did not happen. IKARE together with Ceva thus decided to undertake a six month mapping exercise of the five SOS districts in order to have a better idea of the local context "SOS Uganda" was operating in. Five of the then newly graduated vets were approached to undertake the work. One of the veterinary professors IKARE had worked with at Makerere (and who also served on the Technical Committee of COCTU - the executive and co-ordinating arm of the UTCC) agreed to mentor and coach them, using his small family business (his wife ran a small guest house) as the temporary employer of the vets and conduit for IKARE's funding. High Heights Services (HHS) Ltd thus became the SPO. Work plans, job descriptions and detailed budgets and reporting formats were developed. Each vet was equipped with a motor cycle in order to be able to "travel down every road to see what was there" and interact with farmers and communities" - which they did.

Investment 3 - further investment into SPO and gradual exits 3, as start-up veterinary practices (mini-SPOs or SPO spin-offs) became financially viable

Having achieved what it had set out to, IKARE was again faced with a new challenge/investment opportunity. The mapping exercise had not only provided a much better

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understanding of the (non-existent) veterinary infrastructure in these districts, it also created much better awareness on sleeping sickness among the farmers. More importantly though, the mapping exercise further led to each of the five vets coming back to IKARE having identified an opportunity to set up a practice. Once alerted to the causes and controls of sleeping sickness, farmers were willing to invest in protecting their families and animals by spraying their cattle with an insecticide effective on both tsetse and ticks. However, to be able to do so the farmers would then need to travel up to 90 km in order to access the necessary products and services – and this on a bus that only made only one trip per day...

Business plans for each of the veterinary practices were developed together with the vets and an outside consultant was brought in by IKARE to also train the vets in basic business skills. As these plans showed potential for break-even after a period of 12-18 months, IKARE decided to take the risk and invest into these so called 3 V vet practices start-ups, which not only held potential for helping to achieve the sustainability of “farmers doing it for themselves”, but also held potential for job creation in these areas. To help the vets reach as many farmers as possible in their respective territories, each vet was also made responsible for recruiting 10-15 self-employed so called “spray-persons” who could then make a living from offering spray-services to farmers on a commercial basis. These spray-persons were through the vet practices offered an interest free micro loan with which they could buy the spray-pump and the first litre of insecticide. Calculations made together with the SPO had shown that by commercially spraying a relatively modest number of cattle on a daily basis the spray-persons would quite quickly be able to repay the loan. Fully aware that it would be difficult in these vast rural areas to ensure that such repayment would happen, IKARE was positively surprised to see more than 50% of these micro loans actually repaid to the vets and reinvested in the veterinary practices.

IKARE’s investment into the practices as well as into HHS, which would help co-ordinate purchases and supplies to the 3 V vet practices as well as mentor these young vets, took the form of grants and interest free loans. IKARE did also consider an equity investment, as the businesses held potential for a smaller financial return, but due to the amounts involved being relatively small and the administrative and governance hassles of setting up one or several SPOs in Uganda, it decided that it was not worth the effort. The first round of investing into these five veterinary start-ups took place in 2009/2010, followed in 2010/2011 by a second round of financing six additional vets in two additional districts, in parallel with the Makerere University undertaking mass-treatments in such additional districts, as funded by DFID.

Discussions with HHS and the young vets who received this start-up financing had been very clear on the fact that this was not a life-long employment or consultancy, but very clearly a “sink or swim” exercise as entrepreneurs. To underline this message, the grants given on a monthly basis and which basically took the form of a “salary support”, were gradually reducing and there was in addition an amortizing schedule built in for the loan portion.

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Investment 4 – capacity building at SPO 2 including mini SPOs

In 2013 IKARE could note that five out of eleven practices were still standing and seemed financially viable as no further direct financial support was being provided. IKARE did however provide some additional training, both on sales skills as well as technical skills through the use of consultants. Training support was also provided to the approximately 150 spray persons active in the area and working together with the 3 V vets in addition to being their customers. From calculating backwards from sales of insecticide it was estimated that approximately 20% of cattle in the area was being regularly sprayed. Rhodensiense sleeping sickness statistics from the Ministry of Health for the SOS area further showed a significant drop in human cases between 2005 (before the SOS activities began) and 2012.

In April of 2014 DFID in UK announced that it was looking into launching a Development Impact Bond to control sleeping sickness in Uganda – building further on the model tested and experiences achieved by “SOS Uganda”.

While technically able to exit during 2013, as neither HHS nor the 3 V vet practices were dependent upon its financial support, IKARE decided to first “consolidate” its investments. This it did by bringing in EY’s non-profit Enterprise Growth Services (EGS) to undertake a six-month review of the 3 V vet practices in order to determine true financial viability while at the same time look at ways of strengthening their operational and financial control platforms to enable future scale-up and roll-out – should they so wish.

Determining exit readiness at the end of phases 3 and 4 and developing the final exit plan.

As earlier mentioned, five practices were still standing in 2013 and had become financially viable within the 12 to 18 months set out. In a few cases, the period had been extended by an additional few months. The vets had achieved sustainability by offering a broad range of veterinary products and services. Those shops that had not reached sustainability had been closed. From what IKARE and its local partners could further make out, most of these vets had found themselves good jobs thanks to their “SOS Uganda” experience, working either with NGOs or agriculture companies. Some had started other businesses of their own.

In addition to each employing an assistant, each of the five remaining vets has worked with more than 150 self-employed persons (who are also their customers) and who have helped to deliver sleeping sickness control services in the form of commercial spraying activities to those farmers that have rather chosen to purchase the service than themselves spray their animals.

Therefore IKARE deemed that both of the original goals set back in 2006 had been achieved and decided it was time to exit.

Executing an exit

IKARE exited from the start-up investments by simply letting the veterinary practices stand on their own feet financially and by letting go of those that had not proven to be self-sustaining.

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As IKARE invested mainly through a grant, exit happened when the funding ended (and the goals were reached). IKARE has however remained in an advisory capacity.

Post-investment follow-up

The evaluation of the overall initiative and investment shows that it was a success. The overall results of the SOS initiative are summarised in Table 13.

Table 13: Final overall evaluation of "SOS Uganda"

Dimension	Objectives	Results	Final evaluation
Social impact	<p>Mass-treat + spray 220,000 cattle</p> <p>Achieve sustainability through "farmers doing it for themselves"</p> <p>Build the necessary veterinary services infrastructure to enable "farmers to do it for themselves"</p>	<ul style="list-style-type: none"> Prevalence of parasites in cattle reduced by 72% following the initial mass-treatment. Proof of concept for RAP mass-treatment knocking down parasites. Farmers willing to pay for RAP, i.e. "to do it for themselves". Number of Rhodensiense sleeping sickness cases in the seven SOS districts reduced from 257 (2005) to 64 (2012) as informed by the Ministry of Health. This implies that an estimated 1,175 cases have been averted. At 300 USD/treatment this gives direct savings of 411,250 USD. As there are no reliable statistics on cattle deaths a 5% lower mortality rate has been estimated among the 400,000 + cattle treated and now regularly sprayed, or 20,000 cattle. At 250 USD per head, savings would amount to 5 MUSD. 	<ul style="list-style-type: none"> Number of Rhodensiense sleeping sickness cases in the seven SOS districts reduced from 257 cases reported in 2005 to 64 cases reported in 2012, as informed by the Ministry of Health. This implies that an estimated 1,175 cases have been averted. At 300 USD/treatment this gives direct savings of 411,250 USD. As there are no reliable statistics on cattle deaths, a 5% lower mortality rate has been estimated among the 400,000 + cattle treated and now regularly sprayed, or 20,000 cattle. At 250 USD per head, savings would amount to 5 MUSD. With 150 + new jobs created in the area an estimated minimum of 600 persons have been "lifted out of poverty".
Social impact		<ul style="list-style-type: none"> 5 veterinary practices (out of 11 established) are still standing, each employing also an assistant. [All other vets have either gone into employment or established themselves in other businesses, e.g. poultry farming or pharmacy 150+ self-employed spray persons established in the region. As each can be assumed to fend for at least three more people this implies 600 people + lifted out of poverty. 	
Financial sustainability		<p>5 out of 11 start-ups became financially viable during the 12-18 month investment period.</p>	<p>All five veterinary practices are financially viable today as also confirmed by the EY EGS review. Some of the veterinaries are clearly more entrepreneurial than the others, but all have as part of the EY review received additional business management and sales training.</p>

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Dimension	Objectives	Results	Final evaluation
Organisational resilience		All the five veterinary practices still operating have been given additional training as well as enhanced book-keeping and management reporting tools – all of which should benefit them all in the longer run. Each of the vets are also employing an assistant, who can manage the shop when the vet is visiting farmers or doing contracted governmental work. The vets have started group purchasing to further improve margins. This may over time develop into something more akin to a franchise, expanding also into additional districts. To do so will probably require a stronger governance model and additional investment.	With the appointment of IKARE's local partner as Executive Chair of the COCTU secretariat the "SOS Uganda" achievements and experiences are being put to use in formulating action plans and policy on a national level.

In terms of goals of the VPO, IKARE considers the social impact objectives of the VPO to have been reached. IKARE had no financial return goals, as it mainly invested grant money (the microfinance loans as well as the vehicle loans, less what was actually amortized, ultimately became grants).

In terms of post-exit follow-up, some mentoring support is still given to the self-sustaining practices, as well as some training facilitation for the spray persons, but on a day to day basis they operate independent and financially viable businesses. As shown in this case, the approach can be that of a step-wise exit and the investor can also remain in a mentoring/advisory role when financial sustainability has been achieved, or the initial mission completed.

Executing a final exit – When can IKARE no longer add value?

"SOS Uganda" has, in the seven districts where it has operated, demonstrated that mass-treatment of cattle in connection with regular spraying with insecticide can help to control sleeping sickness. The five financially viable veterinary practices provide part of the necessary infrastructure to enable the farmers to "do it for themselves". The UTCC/COCTU in Uganda now have a "working model" with which to approach donors that can help leverage Ugandan public monies to take "SOS Uganda" into additional districts and at scale.

If IKARE were now to decide to execute the final exit also from its more advisory role, a number of considerations would need to be taken, mostly linked to the long-term sustainability of IKARE's efforts.

First of all, IKARE knows that the volumes and hence the overall margins of the sleeping sickness products are not currently sufficient to cover the transportation and delivery costs to farmers, because of the infrastructure challenges (risk related to continuity of programme). Focusing on sleeping sickness only will therefore not be financially self-sustaining. However, IKARE also knows that this risk can be mitigated by including sleeping

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sickness products as part of a broader range of veterinary products and services provided to these previously underserved communities and farmers.

Another risk is that the young vets themselves, once financially independent and no longer mentored by IKARE and the local partner, have no incentive to continue controlling for sleeping sickness. Even if the vets have been brought up in the SOS philosophy, in the case of a less positive business cycle they may focus more on the high-margins products and not on the sleeping sickness control delivery, where demand is also more seasonal.

Similarly, if another, more financially oriented, funder comes in it might take a similar view, focusing on the most profitable segments of veterinary services. In other words, if sleeping sickness drugs and control are only a smaller part of a larger 'package', a subsequent funder could come to concentrate only on the high-margin products and services, thereby neglecting sleeping sickness control. In this case the government can act to mitigate this risk by purchasing/contracting these human health public good services including sensitization of communities, through a now existing (thanks to private funding) delivery channel. This is very similar to what is done for other public good human health services in other parts of the world, where the government would typically contract private vets to undertake vaccination treatment or quarantine campaigns (e.g. Foot and Mouth, Mad Cow disease, etc.) where human health is at risk.

If having a follow-on funder solely focused on maintaining financial viability poses risks, also having a NGO or public funder that concentrates solely on short-term human sleeping sickness control and impact could be potentially sub-optimal. Such an approach, if built on free or heavily subsidized provision of drugs and/or services, risks, "distorting" the still immature market of both the farmers "doing it for themselves" as well as for the young veterinary practices and the spray persons. As farmers and communities have demonstrated a willingness to "do it for themselves" this should be further enabled by continuing to build also the critical "back-up line" of broader veterinary services infrastructure needed to support, in the long-term, better animal husbandry and farming productivity and practices. All of which are critical also for food security.

Lessons learnt from the case.

Being the first investment for IKARE (and thus IK as funders) using the VP principles, this investment was an important learning experience.

A first key takeaway is that the exit plan needs to be flexible, and allow for revision. Monitoring is essential, as it constitutes the way to make the necessary adjustments. The first exit (grant) was pretty clear: IKARE knew it was going in to do a one-off mass treatment, which had a pre-determined duration. However IKARE also wanted to leave something behind as otherwise to a certain extent its initial investment would have been wasted. Already in the first phase the veterinary students would work to sensitize the farmers on sleeping sickness and its causes and control mechanisms. The decision on whether to

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continue with a second phase was clearly based on the results of the first phase. Therefore it is clear from this case that it is key to set the goals before the investment, monitor them throughout the process and then evaluate them at the time of exit to establish whether the goals have been achieved, whether exit readiness has been reached (following the three dimensional approach) and to plan for the next phases (whether they involve a follow-up, an additional investment, finding new partners, etc.).

Evaluating the degree to which the goals have been reached at the exit date and identifying the sustainability gaps is a key component of this process, together with having a long term vision and strategy that includes exit considerations from the inception.

This case is also a good example of how to work with co-investors – which in this case were the project partners. In the case of IKARE the next steps were decided in agreement with the relevant project partners. The decision to finance phase 2 (the mapping study) for example was taken after discussing with the partners how to address a specific sustainability gap: the goal of farmers “doing it for themselves” was not reached. This called for the need of having a better understanding of the different actors active on the territory and their roles. Similarly, the realisation of what was lacking for the veterinary businesses to have a chance of becoming financially sustainable at the time of exit made IKARE develop the plan for providing non-financial support.

True to its private equity background, IKARE addresses the idea of an exit prior to taking the investment decision and revisits the exit plans on a regular basis, both internally as well as in discussions with the investees. The case above was IKARE’s first VP-investment and has thus also served as IKARE’s (and IK’s) own learning ground – reaffirming some of the initial beliefs, as well as fine-tuning or redefining others. Today, from the experiences gained, IKARE remains convinced that addressing exits early on and working towards clearly defined financial and social impact targets helps inform the overall strategic direction of the investees. But already as IKARE embarked on the journey back in 2006, as enthusiastic amateurs in VP-investing, sustainability was at the forefront of its eyes. IKARE’s journey was throughout solutions oriented, i.e. defining the gaps to sustainability and addressing these, wherever possible, step by step.

Whether the objectives are reached or not at the intended time thereof (as may have been annually revised), an assessment should be made as to potential next steps and where the VP/SI could potentially add additional value to the overall impact.

The VPO sees its value added in bringing new and/or additional skill-sets, as well as financial inputs, to the investees in order to either develop and/or test new innovative delivery models (which in a next step could be scaled up by somebody else) or empower them to move forward on their own. Only when there is mutual consent that the VPO can no longer add value, the investor should exit.

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Debt

Bon Venture – KKB

BonVenture⁵⁸

BonVenture is a social venture capital fund that aims to be a partner for social entrepreneurs who solve pressing social or ecological problems and wish to increase their social impact. BonVenture supports SPOs with advice, financing and networking. On top of that, BonVenture facilitates the effective collaboration between the social and economic sector in order to leverage innovative ideas, thanks to the constantly growing network of supporters.

BonVenture supports social businesses that combine a clear social mission with an efficient and sustainable implementation of their innovative solution: BonVenture does not invest into the seed stage, but for the scaling up of projects which already have a business plan in place.

According to BonVenture, the investors that put money in BonVenture's funds want to encourage other citizens to replicate the new solutions proposed by social entrepreneurs and improve transparency and professionalism in the social sector. They also hope to inspire others to create similar social venture capital funds.

Determining key exit considerations

Table 14: Elements of the investment strategy and key exit considerations at BonVenture

Element of the investment strategy	Description	BonVenture's strategy	Key exit considerations at BonVenture
Context	Market/sector and country in which investee (s) (and investor) operate Geographical focus of the investor Sector focus of the investor	SPOs in Germany and German-speaking countries. Children, youth, education and research, environment, social services, health and consumers' protection, cleantech.	BonVenture is active in practically a single market, but in a number of different sectors. Exit in each sector will need to be managed differently.
Social and financial return goals of the VPO	Definition of the social objective of the VPO Level of financial return the VPO wants to obtain vs. level of social return that the VPO wants to achieve	BonVenture as a fund sets financial and in particular social objectives as benchmarks for its success (Double-bottom-line approach): <ul style="list-style-type: none"> • The primary objective is to reach a high social impact • The financial objective is at least capital preservation • Risk is reduced by spreading financial resources over 15-20 portfolio companies 	The social impact objective will be more important than the financial objectives, but capital preservation is the goal at the time of exit. The exit will be evaluated considering the overall portfolio performance.

58. Source: <http://www.bonventure.de/en/home.html>

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Element of the investment strategy	Description	BonVenture's strategy	Key exit considerations at BonVenture
Type of investee	<p>Organisational structure of the SPOs (linked to the return expectations and the types of funding)</p> <p>Development stage of investees (at which stage of development does the VPO invest?)</p>	<p>Innovative social businesses led by motivated social entrepreneurs. Businesses shall become financially self-sustaining in the long-term.</p> <p>Social enterprises, charity without trading, charity with trading</p> <p>Phase: established but scaling up, mature. BonVenture does not invest into the seed stage, but for the scaling up of projects.</p> <ul style="list-style-type: none"> • Project applications have to undergo an intensive due diligence process before a commitment is made • Projects are financed in different financing rounds according to pre-defined milestones and are actively supported through close and intensive cooperation • Payment according to milestones (Social and Financial Impact) 	<ul style="list-style-type: none"> • Financial self-sustainability of the SPO will be key in determining the success of the exit. However established and mature organisations all have different needs and profiles in terms of social and financial return. • During the process the investment is very closely monitored to assess whether it is on track and exit readiness will be achieved according to plan. • Milestones will be set in the exit plan and extensively discussed with the investee and monitored throughout the investment.
Type of funding	<p>Benefits and/or constraints per type of investment</p> <p>VP has a broader set of investment instruments than philanthropy (grant/debt/equity)</p>	<p>Senior loan, subordinated loan, convertible loan, mezzanine finance, equity, convertible grant.</p> <p>3 to 7 years</p>	<p>Using debt means that a repayment schedule is developed. However, the principles of patient capital imply that the exit plan should be kept flexible and the investment is monitored closely throughout the period to be able to quickly address the issues when they arise (and eventually revise payment schedules).</p>
Co-investing	<p>Define roles and responsibilities</p> <p>Lead investor or not? How will things change after exit?</p>	<p>Yes, co-investors are often present (especially for equity investments)</p>	<p>Align the exit strategy and the exit strategy process with those of the co-investors + be prepared to look for new co-investors at the exit date of current co-investors</p>

Project background – the SPO

KKB is a hybrid organisation. The non-profit operating unit builds care centres for children and provides flexible child care close to the workplaces and according to the parents' needs. The shares of the non-profit unit are in the hands of a for-profit company that gives overhead support. The key aspect of the social impact provided by KKB is that it facilitates the combination of work and family. Moreover, KKB provides training of employees and a quality management (QM) system to help maintaining the quality standards. KKB has three lines of revenue. The first line of revenues is the fee the families have to pay for the childcare, the second is the public contribution of the city to the SPO and the third is the subsidies paid by the Government to the families sending their kids to the kindergartens. The purpose of BonVenture investing in KKB was to help the company scale up, growing

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from six to 42 centres. The social purpose of the investment was to ensure families with children could combine work and family, thanks to long opening hours, special arrangements, a larger number of people taking care of the kids compared to other care centers, etc.

BonVenture was not the only financier: three other co-investors were involved. The first co-investor is an impact-only VPO, giving KKB an interest-free loan, the second is a social investor and the third a pure profit player, though belonging to the Government. Therefore this investment features all kinds of financing bodies, from for profit to non for profit.

According to German law, Government financing for building and managing childcare centres can only be given to non-profit organisation. On the other hand BonVenture also wanted to secure investments from for-profit organisations. To facilitate the entry of these different co-investors with very different interests and goals, in 2007 BonVenture set up a non-profit organisation with a business plan to reach breakeven. Then to attract investors that were for-profit only and could only invest in for-profit companies, it set up a for-profit interface structure to manage the non-profit company. Through this double-layer structure, the participation of both for-profit and non-profit investors (such as the Government) was secured. This shows how the strategy of the VPO plays a key role in determining the organisational structure of the SPO and – ultimately – the exit plan.

KKB was financed in two stages. The first financing came from a € 750 K mezzanine / convertible loan from BonVenture in 2007. Then, between 2009 and 2013, co-investors invested about € 4.1 million, in addition to BonVenture's cash input.

The exit strategy process

Developing an exit plan

For BonVenture, the development of the exit plan is part of the due diligence process and of the investment memorandum before an investment is made. The process through which the investment will be exited is carefully planned before the investment is made. The plan needs to be made flexible enough from the outset, to be adaptable to changes.

Experience taught BonVenture that the exit plan is to be agreed upon at the time when an investment/donation is made. Exit strategies in the non-profit and socially-responsible sector are different from the traditional venture capital sector: expectations are necessarily different from the purely for-profit sector. Moreover, exit strategies for non-profits/hybrids are essential, because funders discuss the end of the support (and a pay-back of loans) at a very early stage, during the due diligence phase. Finally, exit strategies lead to a better cooperation between Social Entrepreneurs and Investors and should be discussed regularly.

In the case of KKB, the exit was planned by the pay back of the mezzanine by 2016. The investment was linked to certain milestones and the financing was put in in different stages.

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The setting up of a stable organisation with the introduction of a quality management system and IT and reporting/controlling tools were part of the conditions to be fulfilled by KKB in light of BonVenture's exit. Financial and organisational resilience goals were linked to milestones.

Determining exit readiness

BonVenture keeps the exit strategy in mind at all times and revises the plan throughout the investment period.

In the case of KKB, exit readiness was assessed according to the goals and milestones planned. The assessment of whether the SPO is on track is also done through the monitoring of the repayment of the debt. As of March 2014, $\frac{3}{4}$ of the loan had already been paid back (75% is already paid back), which showed KKB was perfectly on track.

Executing an exit

BonVenture identifies three ways of exit. The different ways have an influence on how the exit strategy is planned. Some of the ways to exit are similar to the usual for-profit ways, such as the pay back of a mezzanine or loan, the buy-back by the company or the funders/social entrepreneurs, a trade-sale, an IPO, etc. More hybrid modes used include for example the coupling of the pay back of mezzanine/loan and the buy-back at the end of the loan, when the organisation proves to be financially self-sustaining. Exit modes typical of the non-profit sector include the end of the donation, the achievement of financially self-sustainability of the investee, mergers, external financing by new donors or strategic partners (for- and/or non-profit), or simply the end of the project.

The execution of the exit strategy at the end of the investment period needs to be done in cooperation with the investee and with other co-investors. Regulations and arrangements on how to exit have to be implemented need to be made at the time the investment / donation is made or before, to avoid disagreement with the social entrepreneur/SPO.

In the case of KKB the exit is ongoing. BonVenture has not yet completed the exit from KKB, and at the moment of writing 75% of the debt had been paid back. Additionally in 2011 BonVenture bought shares (out of convertible), when the organisation turned from a pure non-profit to a hybrid structure. An interface was built so that purely for-profit investors could invest in real estate and bring extra financing. Finally, a sale of the shares to the organisation or the social entrepreneur is planned when the mezzanine is paid back completely.

Post-investment follow-up

BonVenture believes that the post-investment phase is highly relevant to secure that the social impact will continue after the exit of the VP/SI. During this phase the motivation of the team and the strength of the business model of the organisation are evaluated. Assessing these two elements already in the due diligence phase is quite important. When

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no more money is allocated to a certain project, having influence is quite hard. Sometimes it is possible to still exercise influence for a few months after the exit, but it is hardly possible when no more new money and support are delivered. Additionally, a follow-up aiming at checking the perpetuation of the impact goals is hardly possible, because the investor does not have any influence at the investee level after leaving.

Dimension	Objectives	Results	Final evaluation
Social impact	According to the business plan 2007-2010 open 42 nurseries (as many as possible) 2007: 6 day nurseries with about 100 employees, caring for 350 children à End 2013: 42 day nurseries with about 450 employees serving for 1,735 children.	<ul style="list-style-type: none"> End 2013: 42 day nurseries with about 450 employees serving for 1,735 children. 	The objective has been reached.
Financial sustainability	Reaching the BEP (planned from the beginning)	<ul style="list-style-type: none"> Company is independent and financially self-sustaining Stable cash flow, independent, close to break-even with strong growth rates 	The objective has been reached.
Organisational resilience	The objective was to reach at least the quality level set by government, but the over-reaching intention was to have a quality level higher than the one set by the government (changes over the years)	<ul style="list-style-type: none"> Processes are defined; quality control is an important part of the Company's strategy Setting up a QM-system, IT and Reporting /Controlling are implemented, processes are defined Training of employees 	The objective has been reached.

Table 15:
The final evaluation of the exit of BonVenture from KKB

Given the results presented in Table 15, the exit is considered to be a big success for BonVenture so far, as the achievement of the goals is in line with what planned in 2007.

Investors with highly different backgrounds and goals, both for and not-for profit, worked together over a long period of time. Impact was secured after exit, which was BonVenture's main purpose.

The purpose of BonVenture investing in KKB was to help the company scale up, growing from six to 42 centres and the social purpose of the investment was to ensure families with children could combine work and family, thanks to long opening hours, special arrangements, a larger number of people taking care of the kids compared to other care centers, etc. The social impact objective had been reached at the time of exit. The good impact results

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of KKB contributed to the overall objective of BonVenture to finance SPOs in Germany and German-speaking countries actively supporting children and youth.

In terms of financial return goals, BonVenture invested in KKB by means of a loan, so the investment would be considered successful from a financial return point of view if KKB had repaid the debt. In the case of KKB the exit is ongoing, so the VPO can't assess yet whether the exit has been successful. At the moment of writing 75% of the debt had been paid back, which gives a positive outlook.

Lessons learnt from the KKB case

BonVenture always looks for co-investors and for organisational structures that facilitate co-investors' participation. The key lesson BonVenture learnt from this exit is that an "interface-company" for for-profit co-investors (who can only invest in for-profit companies) is sometimes a very good way to secure further financing for a (financially self-sustaining) non-profit social enterprise and helps to realise an exit in the future.

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D. Capital – Waste Co.

D. Capital⁵⁹

D. Capital Partners is an investment advisory and asset management firm that facilitates the flow of development and commercial capital to underserved markets. D. Capital has an extensive track record in bringing investment programs, especially in underserved communities, from concept to reality.

D. Capital Partners is a member of the Dalberg Group, a global platform committed to development and innovation and offering a variety of services across most sectors. The Dalberg Group has over 200 advisors across 14 locations and has served over 200 clients in all regions of the world.

59. Source:
<http://dcapitalpartners.com>

Determining key exit considerations

Table 16: Elements of the investment strategy and key exit considerations at D. Capital

Element of the investment strategy	Description	D. Capital's client strategy	Key exit considerations for D. Capital's client
Context	Market/sector and country in which investee (s) (and investor) operate Geographical focus of the investor Sector focus of the investor	<ul style="list-style-type: none"> Priority sectors: agriculture; energy; waste management Country focus: Sub-Saharan Africa, South East Asia 	
Social and financial return goals of the VPO	Definition of the social objective of the VPO Level of financial return the VPO wants to obtain vs. level of social return that the VPO wants to achieve	No pre-defined financial return → Financial return depends on client, company and sector of the investment, but important → Financial and social return on the same level	Maximise exit options by turning the SPO into a financially viable business that generates returns
Type of investee	Organisational structure of the SPOs (linked to the return expectations and the types of funding) Development stage of investees (at which stage of development does the VPO invest?)	Emphasis on SPO with the potential to achieve financial sustainability	Aim is to exit when SPO is financially self-sustaining. Financial resilience is emphasised (next to achievement of social impact goals)
Type of funding	Benefits and/or constraints per type of investment VP has a broader set of investment instruments than philanthropy (grant/debt/equity)	<ul style="list-style-type: none"> Equity Self-liquidating instruments and royalty-based instruments (time horizon: 5-7 years) 	Easier to exit than with equity Timing determined by the liquidation of the financial instrument Milestones linked to repayment of the debt
Co-investing	Define roles and responsibilities Lead investor or not? How will things change after exit?	Strongly prefer to invest with co-investors: <ul style="list-style-type: none"> Higher viability Have investors to exit to 	Spend long time to align with co-investors to guarantee that the exit strategies are compatible

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D. Capital is an investment advisory company, which has mandates for a few family foundations to invest on their behalf.

Project background – the SPO

“Waste Co.”⁶⁰ is an early stage company based in South Africa that aims to build and operate the first full-scale commercial plant producing animal feed protein from waste streams in sub-Saharan Africa. Given its mission the company addresses exactly the type of impact D. Capital’s client is looking for. The project aims to provide a solution for two problems: lack of sustainable waste management solutions and challenge of food security. More specifically, Waste Co. intends to provide a solution to the undersupply of protein feed to animals needed to cover humans’ growing consumption of meat and fish.

Before the investment from D. Capital there had been a proof of concept, but on pilot scale. Given the good results of the pilot, D. Capital and its clients saw the growth potential of the company, also as a catalyst for the industry’s growth. Though in its early stages, they immediately saw the project’s potential to change the whole animal feed industry, and therefore decided to invest to support an organisation that had the potential to create significant environmental and social impact while playing a catalytic role in the animal feed industry. Additionally, D. Capital saw the potential of supporting a strong and dedicated entrepreneurial team.

To achieve these goals, D. Capital invested USD 1.5 million in two tranches: a convertible loan and a matching conditional deferred loan. This means that the second tranche of the loan is paid only if a certain number of predefined KPIs and milestones are met. Significant time was invested into the definition of the operational and sales milestones. Each disbursement was conditional on having reached certain targets. The first tranche was conditional on, for example, having the MOU secured, the CFO in place and a sales contracts for the first three months of production as planned in the business plan. The second tranche was conditional on more “advanced” milestones, such as securing the long term supply contracts with waste supply companies and additional sales contracts.

This was not only a way for D. Capital to control the ramp-up of the company, but also a way to make sure that the investee performed according to its ambitious plan.

The exit strategy process

Developing an exit plan

The exit plan for Waste Co. was developed throughout the term sheet negotiation and legal due diligence process. Milestones were set at an early stage and were linked with the development of the exit strategy, as it was a way for D. Capital to build-in exit options in the investment plan. D. Capital considered both scenarios of exiting with Waste Co. performing and with them not performing:

60. Anonymized company.

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- ***In case of underperformance:*** D. Capital structured the investment in 4 tranches (2 tranches for the convertible loan and 2 tranches for the deferred loan) and set operational and sales milestones to be met for each of the tranches. These KPIs allow D. Capital to exit (i.e. ask for immediate repayment)/ not pursue the investment (i.e. not invest further) should Waste Co. not perform. This gave D. Capital a number of exits options throughout the lifecycle of the investment. D. Capital also negotiated usual minority rights (e.g. tag along rights, voting rights).
- ***In case of performance:*** D. Capital invested alongside co-investors with stated interest to invest in follow-on rounds if the company does well.

D. Capital usually incorporates the predefined KPIs and alarms for exit to ensure alignment on operational and sales milestones within the term sheet. D. Capital invests significant time into the negotiation and legal structure phase, because they believe it is important for success and is key upfront work prior to investment.

D. Capital also tries to link the operational and sales milestones to the impact metrics in order to facilitate impact assessment post exit. In the case of Waste Co., production inputs and outputs were linked to environmental impact metrics (e.g. tons of waste streams processed, ton of animal feed produced). The final decision of D. Capital to invest was taken based on the expected long-term impact of Waste Co.:

- Food Security: The technology, when widely adopted, could influence supply and have stabilising influence on prices
- Environmental: Addresses both the negative effects of overfishing and waste dumping
- Community development: Job creation and community development programs through involving local communities in waste collection
- Industry development: The company has the potential to radically change the animal feed industry as well as how we think about nutrient recycling

Determining exit readiness

D. Capital's client puts strong emphasis on the achievement of financial sustainability for its investees. This means that to be considered exit-ready the SPO needs to reach not only the social impact goals, but also the financial sustainability goals set in the exit plan. In terms of VPO's goals this translates into a financial return which can be re-invested in other investment projects.

At the moment of this paper's writing, D. Capital had not yet started the assessment of the exit readiness of Waste Co.

Executing an exit

At the moment of writing, D. Capital had not yet reached financial closure so not all results were yet observable.

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Post-investment follow-up

Despite the fact that exit has not yet been executed, some considerations can be already made in terms of what is planned for post-investment follow-up.

In terms of including impact as a metric, in the case of Waste Co. the social impact the company can achieve is very much embedded in the whole model: according to the business plan if the company performs it will be possible to convert ten tons of waste per day into animal feed protein. This measurable result is very much linked with the impact that D. Capital wants to measure and monitor, as defined in step 2. The exit will be considered successful if Waste Co. reaches the social impact goals, but this will only be possible if the organisational resilience and financial resilience goals will have been reached.

Lessons learnt from the D. Capital case.

In the experience of D. Capital, as much as it is important to keep exits in mind, when making an investment it can be hard to carve out the space to consider potential exit strategies. Having an exit strategy and planning for the exit is crucial. However, managing portfolio companies as if it would never exit makes the investor focus on the long term sustainability of the investee and not on the mere exit.

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ERSTE Stiftung and Erste Bank Oesterreich (good.bee – Social Banking Development) – Light

Erste Foundation⁶¹

The Erste Foundation was established by the Erste Group Bank AG, which was founded in 1819 as the first Austrian savings bank. Erste Foundation is a private Austrian saving bank foundation that works to support the development of social entrepreneurship in Central and Eastern Europe.

The goal of the Erste Foundation is to gain experience in Social Enterprise Financing to strengthen businesses solving social challenges with commercial means.

The largest shareholder of the Erste Group is the Erste Foundation, which holds 23.6% of the Austrian banking group's capital. This demonstrates that the Erste Group maintains a meaningful social component of its activities.

Erste Foundation and the Erste Group launched good.bee in 2008 as a joint venture. good.bee Holding GmbH is the financial inclusion business of the Erste Group (60%) and the Erste Foundation (40%). Recently local 'Social Banking Development' project teams together with Erste's local subsidiary banks are implementing new financial inclusion approaches.

The mission of good.bee is "supporting the creation and development of a large number of successful small businesses by entrepreneurs in economically depressed areas, helping them to improve their own living standards while at the same time creating jobs in their communities and thus generating welfare for employees and their families" and "ensuring high quality financial and consulting services, promptly, at minimal costs and throughout the country, so any small entrepreneur has access to the financial resources necessary for business success."

good.bee's main task is to develop innovative solutions to break down the barriers to financial inclusion for individuals and enterprises in Central and Eastern Europe, by extending the reach of responsible and suitable financial services to social enterprises and disadvantaged people.

good.bee's business focus is two-fold:

- Microfinance – financial solutions for individuals who lack access to them
- Social Enterprise Finance – financial solutions catering the social sector

good.bee provides the necessary financial resources, as well as support, consulting and training services to entrepreneurs who already have businesses and wish to grow, or to entrepreneurs who are starting up a business activity.

61. Source: <http://goodbeecredit.ro/?q=en/goodbee-credit-ifn-sa> and <http://www.erstestiftung.org/inside-the-foundation/mission-and-vision/>

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Determining key exit considerations

Table 17: Elements of the investment strategy and key exit considerations at Erste/good.bee

Element of the investment strategy	Description	Erste Stiftung/good.bee strategy	Key exit considerations at Erste/good.bee
Context	<p>Market/sector and country in which investee (s) (and investor) operate</p> <p>Geographical focus of the investor</p> <p>Sector focus of the investor</p>	<p>Focus on Central and Eastern Europe.</p> <p>Sectors: children, youth; culture and recreation; (economic) development and housing; education and research; social services; European integration; social integration</p>	<p>In Central and Eastern Europe the issue to tackle is financial social inclusion, which is what Erste is doing through good.bee</p>
Social and financial return goals of the VPO	<p>Definition of the social objective of the VPO</p> <p>Level of financial return the VPO wants to obtain vs. level of social return that the VPO wants to achieve</p>	<ul style="list-style-type: none"> • Strengthen businesses solving social challenges with commercial means. • Aims at enduring impact and place emphasis on interdisciplinary and transnational cooperation by promoting a culture of listening and collaborative work. • The foundation is very much interrelated with the bank → use microbanking and social enterprise finance to solve social inclusion needs • supporting the creation and development of a large number of successful small businesses by entrepreneurs in economically depressed areas, helping them to improve their own living standards while at the same time creating jobs in their communities and thus generating welfare for employees and their families. 	<p>Financial and social return goals are both key. An investment will be exited when the first is not reached or both are reached.</p>
Type of investee	<p>Organisational structure of the SPOs (linked to the return expectations and the types of funding)</p> <p>Development stage of investees (at which stage of development does the VPO invest?)</p>	<ul style="list-style-type: none"> • Erste Foundation: • Charity without trading; social enterprise. → Businesses solving social challenges with commercial means. • Phase: Social entrepreneur without formal organisation; pilot or start-up; established but scaling up; mature good.bee: • Motivated individuals (entrepreneurs) who want to improve their living and the ones of their families 	<p>Erste and good.bee both help entrepreneurs strengthen their business. Therefore the three aspects of exit readiness (social impact, financial sustainability and organisational resilience) will all be equally important to be reached to determine exit readiness.</p>
Type of funding	<p>Benefits and/or constraints per type of investment</p> <p>VP has a broader set of investment instruments than philanthropy (grant/debt/equity)</p>	<p>Convertible grant, grant (ERSTE Foundation)</p> <p>Debt: Senior Debt, Mezzanine Capital, Working Capital (good.bee)</p>	<p>Debt is difficult to exit in early phase organisations.</p>

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Element of the investment strategy	Description	Erste Stiftung/good.bee strategy	Key exit considerations at Erste/good.bee
Co-investing	Define roles and responsibilities Leader investor or not? How will things change after exit?	good.bee sometimes co-invests (risk sharing)	When exiting it is key to take into considerations what the other co-investors want to do. Consider what if: <ul style="list-style-type: none"> • you want to exit and the co-investors want to stay • you want to stay and the co-investors want to exit. Develop different strategies for the different scenarios

Project background – the SPO

The company “Light” is a Limited Liability Company (Social Enterprise). Light is a hybrid museum (mixture of a museum and an exhibition) which employs visually impaired people guiding visitors through pitch black rooms simulating common life situations (e.g. traffic situation, a boat ride, walk through nature, shopping). Additionally, the company organizes theatre plays, concerts, dinners and breakfast brunches in the dark. Commercial companies use the premises and guides for different HR trainings and personal development programs. Often visitors experience complete darkness the first time in their lives and are sensitized about their own senses and the challenges visually impaired people might encounter in their daily life.

Light is a private company and is part of an international social franchise network, with headquarters in Hamburg, Germany). The social franchise network Light was founded by Andreas Heinecke in 2000. When the local branch of Light went bankrupt the employees did not want to let it die, and invested their own money in it. When Erste got in touch with Light it realized the company had potential, but it needed quite some support. Light needed to professionalise in order to be capable of becoming self-sustaining and scale up.

The exit strategy process*Developing an exit plan*

The development of the exit plan starts before the investment is made.

Erste sets up the exit strategy before financing the SPO, at the outset of the relationship with the investee. During the due diligence phase that precedes the investment Erste develops the exit plan. In particular the exit plan developed by Erste with its investees always includes:

- *The goals for the SPO and the VPO.* Erste clearly defines and agrees with the investee the targeted goals for the SPO (in terms of organisational resilience, financial sustainability and social impact) and its own financial and social return goals, both in the short and in the long term.

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- *When and how the exit will take place.* In the pre-investment phase Erste sets clear grounds on how and when exits should take place.

Erste develops and structures the deal together with the investee, tailored to the investee's needs. Erste treats the SPOs it invests in very similarly to any other business, with the addition of more supportive elements aiming at sustaining the SPO's market growth (e.g. voluntary mentoring).

Success factors of Step 1 – Developing an exit plan at Erste:

- Define and agree the targeted goals for the SPO and the VPO
- Align the VPO and SPO universes
- Be clear and communicate
- Analyse each organisation
- Tailor the exit plan according to the investee's specific needs
- Agree with the SPO on each element of the exit plan
- Keep a certain level of flexibility

Erste believes that in the pre-investment phase it is also important to align the investor's and the investee's universes. Erste is a bank, and as such it has a different culture, work style and understanding of the world than the SPOs it finances, and this reality becomes apparent at the moment when Erste and the SPO get in contact.

Erste believes that it is extremely important to have a straight, clear and transparent exit process. This includes clarity on the steps to be taken and ensuring that the steps are clear to all the parties involved at the outset of the relationship between the VPO and the SPO. Agreement among all parties on the exit process needs to be reached before the investment is made.

The VPO must perform a careful analysis of the investee's organisation and its dependencies, paying particular attention to the structure, the funding, the management and the controlling mechanisms. In particular, when working with the social sector the funding perspective becomes particularly important and complex, more than for other sectors.

Maintaining a certain level of flexibility in the plan is crucial, because all investees are different. Being able to react to deviations is also important: there will be early and delayed exits, additional unplanned funding might be needed by the investee during the investment phase, there will be delays in debt repayments and management changes and many organisations will need more support than expected to build the know-how needed (i.e. in terms of HR management).

In the case of Light, roughly 6 months passed from the first contact between the two parties and the finalisation of the deal. This time was used by Erste and Light to develop a new investment strategy, a new business plan for Light and the exit strategy. In line with its

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strategy, Erste performed a deep analysis of the organisation to understand its needs, and to be able to tailor the investment accordingly. The analysis involved assessing how the content and the format of Light could be changed, and in which cases activities could be undertaken differently and/or more efficiently to attract more customers (visitors to the exhibitions).

Erste believed in the idea and in the motivation of the management of Light. Therefore Erste decided to support working out the business plan and. Erste particularly focused on developing further professionalism regarding the controlling instruments (i.e. by deciding to have monthly business reports). The approach of Light was changed from day-to-day to long term. Through tough discussions on the viability of the business and getting to know each other, Erste and Light built a close relationship based on trust.

Erste decided to offer unsecured senior debt including a proper grace period to give the company sufficient time to realise the expected internal changes and to talk to external stakeholders. In addition, the organisation had to provide monthly financial statements, cash flow, and profit and loss reports.

Via Erste Bank Österreich, good.bee initially provided senior debt (< € 200k) with a 6 month grace period for transforming the former loss making exhibition organisation into a financially self- sustaining enterprise. The company was working thanks to an existing debt, collected in the years before. The first step was restructuring the existing debt, paying the largest part of what existed in the past, and to restructure the workforce, reducing the number of employees.

According to the plan the debt is repaid through instalments during the year. The final exit (last instalment paid) should take place after 72 months from signing the deal.

The investment objectives detailed in the exit plan that the SPO Light had to achieve for exit to happen were:

1. Pay back the most important debt burdens (e.g. Energy, Rent, Tax, HR related costs)
2. Restructuring of management team
3. Sufficient liquidity base not to risk repayment schedules
4. Professionalization and tracking of short term effects on company balance sheet

Determining exit readiness

During the investment period it is possible that the exit plan developed in step 2 needs to be adjusted, and that the flexibility foreseen in the plan proves to be useful. The adjustment process needs to be transparent. Often the investees have different sources of funding that require timely and transparent reporting on the way the money is spent and whether and how the results are achieved. Each funder needs to take these co-investors' perspectives into consideration.

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Much energy and goodwill was invested by Erste to help “Light” become sustainable and exit-ready. However, during the investment it soon became clear that the planned exit had to be re-structured due to difficulties in re-designing the former team structures and designing new approaches to attract additional clients. In particular the set business targets were not met and the pre-requisites to start the exit (change of management team etc.) took longer than expected. As the mid-to-long term planning looked promising and realistic the grace period (interest was paid since the first day) was extended. This extension enabled the company to first stabilise its business without risking its own liquidity. For Erste one of the key lessons learnt was that as much as an exit strategy can be planned in detail, flexibility needs to be kept, as things can happen that force you to change plans, such as an unexpected costs can arise (e.g. reparations of the elevator).

Being very close to the investee is really important to be able to see when these issues arise. Erste admits not having been close enough to “Light” from the inception, but nonetheless it was capable of rerouting in due course and in a short while it realised that involving volunteering work from the bank to support the investee was very helpful because experienced and ‘like-minded’ bank colleagues shared their experiences and gave insights how banks think. Additionally, banking volunteers supported the organisation to set-up the proper controlling and planning tools the VPO was asking the SPO to introduce.

Executing an exit

Erste and Light were able to re-plan and execute the newly agreed exit strategy. As per the new plan, Light started repaying the debt and it is fulfilling all criteria which were set and agreed upon, especially in terms of business goals (related to profit and loss, planning, etc.), as the achievement of social impact was never an issue for the SPO. The company is constantly optimizing income streams, looking for additional expansion opportunities and new ideas of how to attract customers (e.g. being part of the yearly “open house of museum day” or having “seasonal exhibitions”).

Light is repaying the loan through regular instalments, therefore approaching the final repayment (and therefore the complete exit).

A continuous flow of information on Light’s business developments allows Erste to oversee that the execution of the exit (i.e. the repayment of the debt) is on track.

Post-investment follow-up

It is not possible to exit without considering what will happen post-investment. Post-investment scenarios need to be considered to define the approach that best helps the investee to end up in a growth scenario. The key question Erste asks itself is how the VP/SI can support the SPO (through funding, tools, network, strategy, business plan, etc.) after the exit to grow even further in the pursuit of its mission and not be stopped or risk their existence.

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Post-investment activities shall be worked out ideally before investing into the organisation but the reality shows that new doors to post-investments open/close during the period of cooperation.

Dimension	Objectives	Results	Final evaluation
Social impact	<ul style="list-style-type: none"> • Continue to offer guided tours and other formats • Keep employing visually impaired people • Grow the number of clients 	<ul style="list-style-type: none"> • Sensitizing people to the issues faced by blind people in their daily lives • Creating jobs for disabled people 	Social impact was never an issue for the SPO.
Financial sustainability	<ul style="list-style-type: none"> • Reduction of 3rd party debt • Secure liquidity • Gain moderate profits • Reduce costs • Start repayment of restructured debt (good. bee loan) 	<ul style="list-style-type: none"> • Repayment of old debt • Re-Financing of existing debt • Stable cash flow and secured liquidity • Pro-Active business approach (Regular reporting, advanced and future oriented operational and strategic planning, transparency and stakeholder information sessions before issues get to big to solve) 	The SPO is fulfilling all criteria which were set and agreed upon.
Organisational resilience	<ul style="list-style-type: none"> • Align team size and abilities to economic reality and outlook • Identify strengths and weaknesses of existing team members • Complement team if know-how/ experience is lacking • Track and plan organisational developments (e.g. headcount, marketing plan, ...) • Network and partner search • Focus on sales and marketing • Emergency plan in case employees are not being able to go to work 	<ul style="list-style-type: none"> • Streamlined and proper management of team sources and duties/responsibilities, stabilising business based on minimum social impact "criteria" first then maximizing the social impact (otherwise no stable social impact possible) • Secured jobs, continuation of business and its impact, healthy business approach, positive PR for investee, laying basis for business expansion. 	

Table 18:
Final evaluation of Light

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Erste considers the exit from Light a success. The SPO has now the organisational structure and the financial capability to achieve its social impact goal of sensitizing more and more people to the issues faced by blind people in their daily lives and creating more and more jobs for disabled people, many of whom are chronically unemployed.

The goal of Erste Foundation was to get the debt repaid and to make the social enterprise viable and self-sustaining. Since both objectives were achieved the investment was considered a success.

Lessons learnt from the good.bee case.

The case presented above was an important learning moment for Erste Foundation and its financial inclusion instrument, good.bee. Key takeaways from this case include:

- It takes more time than expected- from deal sourcing till the final exit
- Have a close relationship based on trust and understanding is crucial
- Keep a healthy and objective distance to the investee
- Set minimum standards and communicate your expectations
- Be strict but fair on deadlines and have a proper documentation system
- Know your investee's capabilities, motivation and know-how
- Understand the universe of your clients

Additionally, this case taught Erste Foundation that there might be reputational risk of dealing with some of the investees. SPOs with a high degree of visibility in media and news can be an advantage when things work out in the right direction but it can also be a threat for the image of the VPO when things go wrong.

Furthermore, the use of multiple sources of financing for the same activities makes it less easy to have real transparency on how the money is used and for what.

Sometimes social entrepreneurs only see the social impact they want to create and fail to see the importance of the financial and organisation viability that is crucial for the organisation to reach its social goals.

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Impact Invest Scandinavia – The Weather Company

62. Source: <http://impactinvest.se/>**Impact Invest⁶²**

Impact Invest Scandinavia is the first impact investor network in the Nordics. Impact Invest works as an intermediary connecting SPOs with investors, funds and business angels. The purpose is to facilitate and to support impact investments within this community, with the final aim of seeing an exponential increase in different types of funding toward businesses with impact.

The SPOs supported by Impact Invest's members have a social and sustainable impact at the heart of their business idea, rather than as a positive side effect.

Members (business angels, family offices and venture firms) get a peer-to-peer learning environment in the area of social and ecological impact in a Scandinavian context. Impact Invest has the supporting tools, knowledge and offers services to help during the investment process and to evaluate the impact of existing investments.

Equally, pre-vetted SPOs are supported in an investment readiness-programme, which helps entrepreneurs to be better prepared for seeking capital, and also reduces the investor's costs in the investment process.

Determining key exit considerations

Table 19: Elements of the investment strategy and key exit considerations at Impact Invest Scandinavia

Element of the investment strategy	Description	Impact Invest's strategy	Key exit considerations at Impact Invest
Context	Market/sector and country in which investee (s) (and investor) operate Geographical focus of the investor Sector focus of the investor	<ul style="list-style-type: none"> • Geographical scope: Scandinavia and worldwide • Sectors: social integration, sustainable consumption, housing. 	<ul style="list-style-type: none"> • How easy or difficult may the exit be from a country perspective? • What are the 'natural' exits by sector? • The prevalence of social finance in the sector?
Social and financial return goals of the VPO	Definition of the social objective of the VPO Level of financial return the VPO wants to obtain vs. level of social return that the VPO wants to achieve	Support match making of investors and entrepreneurs Support the SPO's argumentation of shared value creation in a language understood by the VPO	How to preserve the social mission in future rounds of funding
Type of investee	Organisational structure of the SPOs (linked to the return expectations and the types of funding) Development stage of investees (at which stage of development does the VPO invest?)	Companies that have a high potential for contributing to global challenges with their solutions and business models Preferably HQ in the Nordic From early scale-up phase to larger	

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Element of the investment strategy	Description	Impact Invest's strategy	Key exit considerations at Impact Invest
Type of funding	Benefits and/or constraints per type of investment VP has a broader set of investment instruments than philanthropy (grant/debt/equity)	Grants, equity and debt (As an intermediary organisation Impact Invest Scandinavia works with very different types of investors and see a mix of grants, equity and debt)	No of owners as low as possible if exiting to investors (Crowd funded companies rejected by some investors.)
Co-investing	Define roles and responsibilities Leader investor or not? How will things change after exit?	Co-investing with traditional grant-making institutions and with Government Co-investing with other members of our network or trusted partners	Be careful about the grant-giving exiting without a follow-on plan! Discuss with the company and owners about their desired exit - those that are minority shareholders or funders will need to go with the rest of the owners and shall agree with the type of exit that the majority is looking for. Discuss with co-investors already during the exit planning phase

Project background – the SPO

Until a few years ago, no accurate weather forecasting model existed for Tropical Africa (about 15 countries). Measuring the quick changes in weather in such a region is rather complicated, as there are tropical shifts, and this is an enormous problem for farmers. The different weather management systems existing as of today cannot provide the farmers with information accurate enough for them to take decisions on when to provide additional nurture, harvest etc.

The SPO (which we will call The Weather Company⁶³) is a start-up, founded five years ago in Sweden and offering its services in Western Africa, which has developed a unique tropical forecast weather model and sells weather information services. The Weather Company delivers time-sensitive and highly customized information services via mobile phones to farmers in Africa. The company consists of meteorologists and physicists and its first target market is farmer's organisations and input providers.

At first the company was financed by means of a public grant: the company received €200,000 as an international development grant from the Swedish International Development Agency, which required matching capital. This is where Impact Invest came in: to match-make between the company and potential investors. The matching capital was raised as convertible loans from Impact Invest's angel investors and a loan from a government investment fund.

63. Anonymized company.

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The exit strategy process

Developing an exit plan

Given its experience in developing exit plans, Impact Invest Scandinavia has put together a checklist including the most important attention points for step 2 of the exit strategy process.

First of all, during the development of the exit plan the VPO and the SPO need to co-develop the exit strategy, also involving all co-investors. Impact Invest has learnt it is crucial to define the roles already at this stage. In particular, it should be clarified at this stage that those co-investors that are minority shareholders or funders will need to go with the rest of the owners and shall agree with the type of exit that the majority is looking for.

Another important issue is the definition of timing of exit. A VPO needs to keep in mind that the capital it is investing must be patient: Impact Invest considers that a minimum of five years is required to obtain good impact results. However, the longer the investment lasts, the longer the time before the exit, and the more likely that the business model and business plan will change. In light of this, Impact Invest Scandinavia advises potential investors that they must be capable of trusting the team they invest in for the years to come.⁶⁴ Impact Invest develops the monitoring system of the investment in light of the needs for the specific investment.

During the phase of development of the exit plan, the investor also plans the amount of non-financial support that is needed for the SPO to reach exit readiness in time. It is important that the investor asks itself at this stage if it is prepared to invest any of its personal time and engagement, as this may be worth just as much as the capital and can help to ensure ROI. Examples of positive outcomes of non-financial support include:

- Help boosting the marketing and PR of the organisation by forwarding news items, twitter about it, nominate to awards, etc.
- Help the company to grow by sharing personal network - be on the lookout on their behalf
- Be a door opener to the entrepreneurs to potential business partners
- Advisory support to the management (if they welcome that)
- Allowing entrepreneurs to use investor as a reference

The objective of the investment was i) initially to provide matching capital to the development grant, ii) prevent the company from entering valley of death, iii) show a positive cash balance to the new investors during their DD process and not risking compromising the company valuation.

For the monitoring of the investee, it is important to be realistic about how much operational company information the investor can request in relation to the size of investment - for small investments, the investor cannot expect updates more than a couple of times a year.

⁶⁴. This is part of the DD questions, but may come up again during the investment period.

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Determining exit readiness

Impact Invest takes a pragmatic approach to help determine the right timing of exit. Reality is more often determined by financial factors, rather than for example organisational readiness. Company sales may for example be much slower than planned and new capital injections may be needed sooner than planned. This can either mean that an exit is postponed into the future, or that an existing funder chooses to exit at the same time when new capital is raised.

The key consideration for the impact investors is, as in the previously described cases, when resources provided is no longer adding value to the organisation and when the capital could be better invested elsewhere.

Executing an exit

For many social and ecological businesses, government funding will be a first choice – in particular grants, but also loans and investments. Government loans do not necessarily come at a lower interest rate; this varies greatly between institutions and their individual assessment but can be available while other institutions consider the risk too high.

Many SPO's that Impact Invest works with have this kind of project based funding and the deadline for exit is very clear (although investors that provide matching capital can of course choose to stay on board longer). The execution of the exit need to start at least six months before this deadline and start build the list of potential investors. The Weather Company however, started quite late to try finding new investors. The founders had prioritised acquiring new customers and getting revenue over finding external capital. As a consequence the company started to become cash-flow negative and one impact angel investor decided to issue another short-term convertible loan as bridge financing.

For the entrepreneurs that Impact Invest has supported so far, exit is most likely to happen through new investor/s, merger with or acquisition by another organisation.

Preserving the social mission would be most critical if the founder(s) would leave some time after the exit. Building it into the organisational culture is more effective than adding it to the company description (or articles of association), but for a non-profit it should be clearly stated in the statutes.

A new investor might take the SPO in a different direction. There are different ways to avoid this. One is to limit the real executive power by, for example, limiting the number of board seats the new investor can have. Even if the co-investor coming in at a later stage does not have a majority share, in order to avoid trouble at a later stage it is key to check that the mission and values of the investors are aligned. It is the CEO who has the conversation with the new investors and therefore needs to be backed up when explaining to the new investor(s) what kind of company he or she wants to run. However, this can be tricky, as the CEO might see the opportunity in the more profit-generating activities, such

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as focusing on a segment with a higher margin, as such an activity can serve to generate funding for financing activities for the poorer people/lower segments. Much depends on the person the CEO of the SPO is. The biggest risk is if the CEO leaves, for any reason, because often the social impact the SPO can reach is highly linked to the SP/CEO.

Impact Invest's advice therefore relates to the points below and would be valid questions to relatively new angel investors, philanthropists and grant making organisations (not to experienced financial managers and investors).

For the Weather Company case, the exit strategy for the execution phase was to:

- help the SPO find an investor who could help scale in the region (preferably an impact investor) for up to 40% of the company
- help the SPO find a second funding (equity or loan) to provide credibility and security to the follow-on investor
- ensure the social impact objective remains by staying on the board post exit as external advisor

According to Impact Invest, when executing an exit, some recommendations can guide the process for the VPO and help making it successful:

- The SPO is likely to need as many people as possible helping it to find new investors (if the exit plan is to get bigger investors on board) – anything you could do in this process will be valuable
- Stay close to the organisation if they are inexperienced with investors if you can offer advice during the exit. Many entrepreneurs feel insecure about how to handle the negotiations and the investment process.
- Exit can take considerable time from the point of entering discussions with the new investor/s (or alternative) until you have exited completely, even when terms are agreed this is no guarantee the exit will be executed accordingly
- Continue to safeguard the social mission of the company if you can and if you think it may be at risk with new investors, e.g. by staying on as an external board member or advisor.

Post-investment follow-up

Since the VPO has very recently exited the SPO, it is not possible to draw conclusions in terms of tangible results and achievement of goals and milestones. However, some considerations on the opportunities and risks the company is facing in terms of social impact, financial resilience/ independence and organisational resilience can already be made. For the impact definitions and measurements Impact Invest refers to the EVPA handbook⁶⁵ and has also its own baseline forms that an investee can customize and base its reporting on.

65. Hehenberger, L., Harling, A-M. and Scholten, P., (2013). "A Practical Guide to Measuring and Managing Impact". EVPA. (<http://evpa.eu.com/knowledge-centre/how-to-practice-vp/imi-impact-measurement-intiative/>).

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At the moment of writing, the big opportunity for the company in terms of social impact lies in them already serving 5,000 farmers, making it one of the best performing companies that received a Government grant. This is mainly related to the choice of the customer segment to serve and the organisation of the company's operations. The risk of course will be that the new investor(s) may put pressure on the company to prioritize segments with higher margins, but less social impact. This risk happens because the weather forecast services and data provided by the investee can be very interesting for example for the mining industry, where companies spend a large amount of money on insurance, because weather forecast data are not reliable and inappropriate for having an appropriate risk mitigation plan in these expensive industries. Despite being a risk for the social impact, this market segment also constitutes an opportunity for the investee. One way to mitigate this risk of mission drift is to apply for new development or socially focused grants, where impact reporting will be required, which was done in this particular case. Another European government grant that required matching funds was received as well as a small project grant from a British social fund, which required social metrics and reporting. The new investors welcomed these grants as 'free money' and accepted the associated terms, as it did not deviate the focus of the business and had no negative effect on their own ownership.

Additionally, Impact Invest remains on the board of the company as an external advisor with one of the key tasks being the scale-up of social impact.

In terms of financial resilience and independence, the Government funding proved to be more patient than private equity, which is an opportunity. In this case study the company has so far succeeded in securing a Swedish government investment fund to be the second investor if one or several private investors take the lead.

On the risk side, as for many other cases, the first potential investor started to become more demanding, while the company is running out of cash. This is often the case when one donor has exited and the new funding has not been secured yet. Impact Invest therefore secured a temporary bridge funding. In the meantime other investors were approached and the round was closed without the first investor.

On the organisational resilience side, Impact Invest continues to give the investee non-financial support to further grow the company and its impact for at least a year after the exit and to help the company build the management leadership capacity. The risk in this particular case is that Impact Invest does it from Europe: commonly to other organisations Impact Invest provides support mainly remotely and this means the support may not be effective as Impact Invest does not know the local circumstances, and it is not locally present. For as much as Impact Invest would like to be an active board member sometimes it is not possible given the distance.

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Table 20: Final evaluation of The Weather company: opportunities and risks

Dimension	Objectives	Opportunities	Risks	Final evaluation
Social impact	Proving that services provided to mobile phones can be understood and useful for illiterate users	<ul style="list-style-type: none"> The company now provides the service to 5,000 farmers, making it one of the best performing companies that received the gov. grant. Social impact is mainly related to choice of customer segments. The new investor can by injecting capital help scale-up the service delivery to farmers. 	<ul style="list-style-type: none"> New investor/s may put pressure on prioritizing segments with higher margins, but less development impact Opportunity lost that the international development agency does not connect its portfolio of SE to impact investors 	<p>Model proven and organisation ready to scale-up</p> <p>Users have strong involvement in the development of services</p>
Financial resilience/independence	Proving that the business model for servicing poor farmers works	<ul style="list-style-type: none"> Government funding likely to be more patient than private equity Get two new investors in, raising \$1,2M. 	<ul style="list-style-type: none"> Government grant and matching funds have been used. Negotiations with investors taking longer than expected. New investor starting to make more demands and company is running out of cash 	<p>Funding closed by opening up to non-impact investors</p> <p>Number of investors became higher than optimum but adds more competence</p>
Organisational resilience	<p>Securing that the founders can remain 100% dedicated to the venture.</p> <p>Preserving the social values in the company</p>	Continue non-financial support to further grow the company and its impact min one year after exit.	<ul style="list-style-type: none"> This support is provided mainly remotely and may not be effective 	<p>First objective secured.</p> <p>Second objective – will be evaluated in a year's time.</p>

Mid-term priority is to develop a second customer segment that can provide better margins than the poorest farmers, which will remain key to the company, but will not be profitable in the foreseeable future. This scale-up of the operations is likely to include internationalisation, now that the service platform is fully developed as well as the accuracy and usability of the services proven.

First, the plan was to find an investor for up to 40% of the company, who could help scale up the business in the region. The preference of Impact Invest as well as the SPO was to find an impact investor. However, Impact Invest had trouble finding interest for the project in the impact investment community, so it gave priority to investors with expertise in the region and the capability to help the company become sustainable in a commercial fashion. This approach was taken because, similarly to other case studies contained in this guide, Impact Invest found that the social impact provided by the company is strongly embedded in the way the company does business, i.e. by going to the poorest farmers instead

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of targeting the largest commercial farmers such as the big cocoa farmers. They chose the harvest segment to penetrate, so the business model is highly dependent on that.

Secondly, Impact Invest aims at helping the investee get, upon Impact Invest's exit, a second funding (equity or loan) from the Government investment fund to provide credibility and security to the first investor.

Third, perhaps differently from other cases, Impact Invest wants to stay on the board post exit as external advisor, to ensure that both the social impact objective and the plan to find an investor which has experience in the region and has contacts in the region remain a priority.

Lessons learnt from the Impact Invest case.

One important lesson learnt by Impact Invest thanks to this investment concerns the specificities of working with a public donor. Impact investors had an opportunity to lower their own risk and cost by providing matching capital to the development grant given by the public donor, which had been awarded in a competitive process and where the donor had undertaken the basic due diligence of the company.

Connection between the donor and other investors are rarely made when it comes to funding through challenge funds. Government investment funds also operate according to their own reporting metrics and are typically not represented on the board of the SPO. This results in funding from many different sources and may be an opportunity lost to share learnings and good practice on for example impact metrics and evaluations. Therefore when 'co-investing' with public donors, the VPO needs to be aware of the key role it is going to play in facilitating knowledge exchange from and for all investors.

Additionally, Impact Invest learnt that the actual execution of the exit can take a very long time, so the VPO and the SPO need to plan well ahead of time for the exit or the SPO may risk running out of money. Bridging capital may be required if the process drags out, and it may not be straightforward to find additional funding.

Young entrepreneurs lack the experience of going through an investment as well as exit process, which is why coaching and hand-holding may be necessary.

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Equity

PhiTrust Partenaires – Alter-Eco

PhiTrust Partenaires⁶⁶

“Since 2005, PhiTrust Partenaires has been providing support to companies that have a positive impact on society. We are an agent of change towards a more equitable and sustainable society.”⁶⁷

PhiTrust Partenaires provides financial and technical support to social entrepreneurs, empowering them to implement development strategies that seek to ensure lasting positive social impact. PhiTrust Partenaires is a social investment fund dedicated to providing hybrid support to economically viable, for-profit businesses in sectors that promote positive social impact and sustainable development, in Europe and globally.

PhiTrust Partenaires is committed to working closely with the social entrepreneurs developing each of the businesses in its investment portfolio. Its non-financial support is provided by the PhiTrust Partenaires team as well as its Investment Committee comprised of shareholders who are themselves all confirmed entrepreneurs and/or company directors.

PhiTrust Partenaires believes that any responsible business should be managed with professional rigour if it is to achieve its desired objectives. Beyond the obvious efficiency considerations, the strength of the management of a company ensures in particular its long-term sustainability, and increases its ability to achieve its social objectives.

PhiTrust Partenaires invests:

- Directly, in businesses or projects
- Indirectly, by investing in specialised investment structures (e.g. in a specific sector, or region), in order to take advantage of their industry expertise or geographical location

Investments can be:

- In equity, by participating in capital raises of businesses or funds
- In debt, by providing direct loans or convertible bonds

PhiTrust Partenaires focuses on receiving regular income for 30 to 50% of its investments via debt instruments.

66. Source: <http://www.phitrustpartenaires.com/>

67. PhiTrust Partenaires. 2013 Annual Report. Available at: http://www.phitrustactiveinvestors.com/data/R.A._2013_PhiT_Partenaires_LivretNumerique.pdf

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Determining key exit considerations

Given PhiTrust's investment strategy, the following exit strategy considerations have been identified.

Table 21: Elements of the investment strategy and key exit considerations at PhiTrust

Element of the investment strategy	Description	PhiTrust's strategy	Key exit considerations at PhiTrust
Context	Market/sector and country in which investee (s) (and investor) operate Geographical focus of the investor Sector focus of the investor	Europe, Africa, Asia, Latin America Sector: Finance, Technologies, Agriculture, Real Estate, Environment, water, Services	
Social and financial return goals of the VPO	Definition of the social objective of the VPO Level of financial return the VPO wants to obtain vs. level of social return that the VPO wants to achieve	PhiTrust is a "social investment fund" → PT focuses on receiving regular income from 30-50% of its investments → social and financial return on the same level. However, the results presented in the annual report 2012 show that achieving social impact is still the main objective	Social return and financial return are equally important. This implies that PhiTrust will consider the exit successful when both the social return and the financial return objectives are met. Additionally, exit readiness will be achieved when both social and financial return goals are met.
Type of investee	Organisational structure of the SPOs (linked to the return expectations and the types of funding) Development stage of investees (at which stage of development does the VPO invest?)	Type: Social enterprise Phase: established but scaling up, mature. <ul style="list-style-type: none"> social entrepreneurs and social enterprises that are economically viable (companies that already have a viable business plan, with the objective of helping the SPO to achieve long term sustainability – financial and organisational). for-profit businesses in sectors that promote positive social impact and sustainable development. PhiTrust invests in specialised investment structures that fund businesses that are in line with the investment goals of PhiTrust SPO selection process based on criteria related to both economic and social impact 	Exit readiness will most often be achieved when the investee has achieved its goals in terms of social impact, financial sustainability and organisational resilience. PhiTrust envisions that exits from its equity portfolio will occur at a point in time that is mutually agreed upon between PhiTrust's Investment Committee and the entrepreneurial management team of its investees, for example when its added value (both in terms of financial and technical support) is reaching its limit, or when it is clear that the investee has reached certain goals and can be financially sustainable on its own (without being detrimental to its impact objectives), etc. To stress the importance of the social mission and the fact that the financial sustainability and organisational resilience are instrumental to the achievement of the social impact goals, PhiTrust exits an SPO if the SPO's mission has drifted away from its original social purpose.

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Element of the investment strategy	Description	PhiTrust's strategy	Key exit considerations at PhiTrust
Type of funding	Benefits and/or constraints per type of investment VP has a broader set of investment instruments than philanthropy (grant/debt/equity)	Equity, loan, convertible loan, grant (but only via the endowment fund) 5 to 7 years	Investing equity implies more engagement with the SPO (i.e. members of the investment committee on the board of the SPO) and therefore makes it more complex to exit. PhiTrust envisions exits of the equity portfolio to occur at a point in time that is mutually agreed upon between the Investment Committee of PhiTrust and the entrepreneurial management team of the SPO, for example when the added value (both in terms of financial and technical support) is reaching its limit, or when it is clear that the investee has reached certain goals and can be financially sustainable on its own (without being detrimental to its impact objectives), etc. Using debt means that a repayment schedule is developed. However, PhiTrust Partenaires keeps in mind that SPOs need long term financial support and patient capital so the exit plan is kept flexible and the investment is monitored closely throughout the period to be able to quickly address the issues when they arise.
Co-investing	Define roles and responsibilities Lead investor or not? How will things change after exit?	PhiTrust does co-invest, as most of the time it only takes a share of the total SPO Member of the Investment Committee joining the board of the SPO and - eventually - managing the exit process	PhiTrust needs to manage the exit process together with the co-investors → Align the exit strategy and the exit strategy process with those co-investors + be prepared to look for new co-investors at the exit date of current co-investors Member of the Investment Committee managing the exit process

Project background – the SPO⁶⁸

Small holder farmers in developing countries face considerable disadvantages relative to large multinationals regarding the sale of their products in Europe/USA. Yet it is these small producers that hold a real potential for local economic development and sustainable environmental practices.

AlterEco is a company that imports a variety of products from these small producers, paying them above-market rates for their work, including 30 – 50% upfront, and distributing their products through large retailers in developed countries. Products are packaged under a well-known brand-name that is integrated in the market economy and recognized for its high-quality, fair-trade products.

PhiTrust became involved with AlterEco via a pure equity investment of € 528 K (€ 442 K in 2006, 5.6% share, and € 86 K in 2009, an additional 1.8% share), with a member of PhiTrust's Investment Committee actively participating in – and indeed Chairing, during the exit process – the company's Executive Board.

68. Source:
<http://www.altereco.com/>

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The exit strategy process

Developing an exit plan

PhiTrust Partenaires begins addressing the idea of an exit prior to any actual investment, by discussing with entrepreneurs during the due diligence phase how and to whom the social entrepreneur envisions PhiTrust's exit. The exit discussion is an extension of the discussions about the SPO's growth and impact objectives and strategies. This upfront discussion enables PhiTrust to ensure that the investee understands that while PhiTrust has a long-term investment and mentoring horizon and is involved in 'patient capital', the exit remains a certainty. A clear example of this is PhiTrust's exit from AlterEco. For each new investment, at the moment when a deal is being structured, PhiTrust works with the entrepreneur to define measurable impact criteria that are directly related to the social mission or activity of the organisation. Longer term (5 year horizon) objectives are also defined for each criterion at that time. The SPO is asked to report on the indicators chosen (either annually or semi-annually), and supply qualitative explanations to support the understanding and analysis of the quantitative input. In the case of PhiTrust investment in AlterEco, the company's activities were linked to measurable results that led to the expected long-term effects as shown in the figure 22.



Figure 22: Impact objectives and social value chain of the PhiTrust-AlterEco investment project

The impact objectives of PhiTrust's investment in AlterEco were:

- Maximize the number of producers from which goods were imported, while maintaining the quality of the support they provide to these producers
- Maintain employment opportunities and stimulate the economy in the agricultural regions in which the farmers are located
- Enable the company to build a profitable and diversified portfolio of fair trade products based on good environmental practices

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The exit plan also serves to determine when exit readiness is achieved. PhiTrust considers that one consideration for exit readiness is when PhiTrust realises that any additional value it could add to the SPO could be matched or even increased by input from a new investor.

In the past, PhiTrust's Investment Committee has discussed the possibility of defining specific objectives that an SPO should reach before an equity divestment is considered, but this has yet to be formally implemented, due in large part to the varied geographical, industry and market contexts that comprise PhiTrust's diverse portfolio. The organisation feels that it is difficult to put precisely determined triggers for exit readiness into practice, hence the usefulness of a potential exit plan. It is useful to have a plan to follow while allowing for some flexibility in its implementation.

Determining exit readiness

For all SPOs, the exit plan is revisited regularly with the entrepreneurial management team, on a formal or informal basis, as necessary, as it helps inform the strategic direction and financial and impact objectives of each investee. It is also discussed during Investment Committee meetings.

PhiTrust Partenaires' Investment Committee is involved in the management of the companies in which it invests. The expertise of its members (themselves all confirmed entrepreneurs and/or company directors) and their ability to rely on their own networks to help the development of investees is crucial. Quarterly portfolio reporting tracks the financial development and social impact progression of each investee.

PhiTrust Partenaires' 2012 Annual Report indicates that while AlterEco was meeting its sales goals and social return expectations, PhiTrust felt that the company's financial growth and overall development was not progressing as quickly as had hoped, in large part due to headwinds in the fair trade market in France. These results were instrumental in PhiTrust's decision on when and how to proceed in terms of exit execution, as well as in informing the type of follow-on investor chosen.

Faced with the fact that several equity investors in AlterEco were reaching fund maturity and would soon need to sell their shares, and given the stagnant demand for fair trade products in France, it became increasingly clear in 2011 that new investors were needed to provide the capital necessary to open up new markets for the company. Thus began a two-year process of discussions with potential follow-on investors (led by the Executive Board, chaired by a member of PhiTrust's Investment Committee). PhiTrust Partenaires had decided that the market context and the need for an influx of new capital meant that its value-add to the SPO was increasingly diminished, and that a strategic exit to an appropriate follow-on investor would be the most beneficial decision for both PhiTrust and AlterEco.

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Executing an exit

In late May 2013, subsequent to several rounds of negotiations with potential follow-on investors, PhiTrust's shares (and indeed all shares of AlterEco) were sold to Wessanen Distriborg, a European leader in the sale of organic food products. Those who exited felt strongly that this additional support was necessary to enable Alter Eco to continue developing in an increasingly difficult fair trade and organic food market. The buyer offered to maintain the existing business model (allowing small producers in developing countries to access Western European customers) in addition to providing access to other European markets, particularly in Northern Europe.

To PhiTrust, it was crucial that the follow-on investor would ensure the continued growth of the company, both from a financial and impact perspective. For this reason, it prioritised the sale of its shares to a company that would maintain the existing business model, rather than one which would have prioritised a financial strategy but potentially re-oriented the company's social activities towards more commercially-beneficial operations. This exit strategy was a clear mandate from the Investment Committee, and was the lens through which AlterEco approached each potential new investor.

Post-investment follow-up

Dimension	Results
Social impact	Working with 42 small holder farmers in South & Central America, Africa and Asia Farmers paid 51% above market rates +8 000 T of CO2 offset annually
Financial sustainability	17,7 M euros in annual sales in 2012 (+84% since 2005)
Organisational resilience	Poised to continue expanding in new markets, be they in other European countries or internationally Leadership team was competent, visionary and continued to suggest and implement innovative ideas

Table 22:
Final Evaluation: the
AlterEco case

No specific objectives were determined from the outset of the investment, given that this was one of PhiTrust's first investments and the fact that the social objectives changed as the company grew (for ex, in the beginning it was important to continually increase the number of farmers AlterEco worked with, as time went on the shift was on quality of support provided rather than quantity of support).

When evaluating the achievement of its own social impact and financial return goals, PhiTrust can consider the investment to have been successful. PhiTrust exited a strong company, importing from a large number of high-quality producers paid above market rates. From a financial return perspective, the transaction price retained was that of the balance sheet valuation of Alter Eco as of 31 December 2012.

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Lessons learnt from the case.

The AlterEco case has some important takeaways that can be applied to other cases. AlterEco shows the importance of:

- maintaining transparency among investors, executive board and employees regarding potential exit scenarios and what they would mean for the future of the company
 - finding a follow-on investor in certain industries/sectors who will maintain the socially-oriented objectives of a company (which proved more difficult than expected, despite the healthy financial nature of Alter Eco and the quality of their products)
 - moving quickly once it has been established that an exit date is imminent (though not easy)
 - thoroughly understanding the priorities of the follow-on investor. In hindsight, the process took too long and we discovered, through our interactions with potential investors, that some social investors prioritize financial gains over impact. In the end, we chose a 'classical' company because their distribution channels were well structured, and we were confident that they would continue to implement the same socially-oriented strategy. But you never know....
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Oltre Venture – Ivrea 24 / Sharing

Oltre Venture⁶⁹

Oltre Venture invests capital in innovative social businesses and accompanies their development, with the aim of achieving a positive social impact, the economic and financial sustainability of the business and at least the preservation of investors' capital. The goal is to use economic resources and skills of private companies to promote solutions to address social needs covered neither by the state nor by the market, or, in some cases to find more affordable and efficient solutions for market needs that are covered but inaccessible for a part of the population.

Oltre Venture is a social investment fund that offers to private and institutional investors the opportunity to create a positive social impact through investments in social enterprises that promote social innovation and have the potential of becoming self-sustaining. Oltre Venture does not invest in SPOs that will need public funding to operate in the long term and invests in start-ups both in the seed and in the expansion phase.

Oltre Venture operates in Italy, employing patient capital to address social needs, such as health, housing and unemployment, with a special focus on basic needs including the crisis of the family, the weakening of the social fabric, and solitude. More specifically Oltre focused on:

- access to good quality and low prices health services,
- housing needs,
- microcredit for the creation of new small businesses and for financing family expenses needs.

Determining key exit considerations

Table 23: Elements of the investment strategy and key exit considerations at Oltre Venture

Element of the investment strategy	Description	Oltre Venture's strategy	Key exit considerations
Context	Market/sector and country in which investee (s) (and investor) operate Geographical focus of the investor Sector focus of the investor	<ul style="list-style-type: none"> • Sectors: wide range of social issues such as health, housing and unemployment, with a special focus on basic needs including the crisis of the family, the weakening of the social fabric, solitude and microfinance. • Oltre Venture invests only in Italy. 	
Social and financial return goals of the VPO	Definition of the social objective of the VPO Level of financial return the VPO wants to obtain vs. level of social return that the VPO wants to achieve	<ul style="list-style-type: none"> • Positive social impact, • the economic and financial sustainability of the business, • the preservation of investors' capital. 	Oltre exits when it considers the social goals to be achieved and when it has found a way to sell its equity stake in the SPO financed at a fair price (i.e. when at least the invested capital can be repaid).

69. Source:

<http://www.oltreventure.com/>

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Element of the investment strategy	Description	Oltre Venture's strategy	Key exit considerations
Type of investee	Organisational structure of the SPOs (linked to the return expectations and the types of funding) Development stage of investees (at which stage of development does the VPO invest?)	<ul style="list-style-type: none"> Start-ups in the seed and incubation phase SPO must-haves: <ul style="list-style-type: none"> Clear and achievable social objectives Business plan with clear goals aiming at achieving long term financial sustainability and organisational resilience. Capability of the SPO to generate a cash flow that can cover the costs in the long term (the SPO has the potential of becoming self-sustaining) Scalability 	Oltre Venture prefers exiting the company leaving it to self-sustainability. Oltre Venture does not invest in companies that will need public funding to survive after exit.
Type of funding	Benefits and/or constraints per type of investment VP has a broader set of investment instruments than philanthropy (grant/debt/equity)	<ul style="list-style-type: none"> Investment for 5 to 7 years Equity, shareholders' loans 	At the outset of the relationship theoretical options of whom to exit to are outlined, but options are kept open, as things can change during the investment and opportunities can arise.
Co-investing	Define roles and responsibilities Leader investor or not? How will things change after exit?	Oltre Venture actively seeks co-investors and project partners. Partnerships with local territorial entities bring additional resources and help winning public competitions. After exit Oltre Venture does not continue the monitoring of the SPO.	

Project background – the SPO⁷⁰

The Sharing project was born in 2008 from an idea of Oltre Venture (OV). The municipality of Turin was looking for a way to reuse an abandoned building. Oltre Venture immediately saw the potential for the building to be used for social housing, a pressing emergency for the city of Turin.

In December 2008 the Municipality of Turin called for a public competition for the purchasing and the renovation of the building, so Oltre Venture sought an operative partner and a financial partner, which are represented respectively by “Cooperativa DOC” and “Fondazione CRT”, a bank foundation. Thanks to the partnership with these very important local territorial entities Oltre Venture won the competition. The “Temporary Social Housing” project was started, aiming to support disadvantaged population groups in need for social housing, such as families waiting for public housing, single-income families, low-income young couples, relatives of people admitted to hospitals coming from outside the region, business trip workers, etc. OV's goal was to create the first temporary social housing building in Italy through the support of the Venture Capital approach and sustainable thanks to an innovative business model.

70. <http://www.oltreventure.com/index.php/investimenti/abitaresostenibile>

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The three co-investors set up a real estate company, “Ivrea 24 Abitare Sostenibile S.p.A”, to run the social housing project. While holding only 10% of the shares of Ivrea 24, Oltre Venture exercised operational control in agreement with the co-investors. Additionally, a management company was created, “Sharing srl”, with 70% held by Oltre Venture and 30% by one of the co-investors, Cooperativa DOC. The mandate of Sharing srl was to provide the management services to support the social housing project.

The capital necessary for the project was about € 14.5 million, of which € 1.3 million were invested by Oltre Venture in equity, while the remaining capital was committed by the second co-investor, Fondazione CRT. Oltre Venture had the right to appoint the CEO of Ivrea 24, and Lorenzo Allevi from Oltre Venture was nominated as board member.

The project was realized in three steps. First Ivrea 24, the real estate company purchased and renovated the building.

After the restoration was finished, the building needed to be managed, and that is when Cooperativa DOC came into the picture, as it had the right knowledge in the management of social housing buildings.

At the beginning of September 2011, after two years of construction, Ivrea24 delivered the building to the community company Sharing, funded by Oltre Venture and Cooperativa DOC, which opened the building on the 4th of September 2011. Sharing Srl started running the building, paying the rent to Ivrea 24. Oltre Venture invested a small amount in Sharing in the form of equity, for a total of € 112 K. A member of Oltre Venture was appointed as CEO of the company, while Lorenzo Allevi was appointed President of the Board.

The community company “Sharing” represents the success factor of the social housing project by covering two aspects. On one hand, Sharing pursues social objectives aimed at improving living and relational conditions of people involved, and at developing educational and training opportunities both for tenants and the neighbourhood. This has a positive social impact on the community, therefore contributing to the social impact of Oltre Venture. On the other hand, Sharing is the unique counterpart of the real estate investor and it deals with the maintenance of the building, therefore protecting the interests of the investors by guaranteeing the perpetuation of the social mission of the project.

The exit strategy process

Developing an exit plan

During the screening phase, all projects are evaluated from the investment team keeping into consideration also the potential of exiting after 5 years from the first round. In general, all projects invested have some theoretical options of exit from the beginning. However, each project has its own specificities and Oltre Venture develops and fine-tunes the exit

CASE STUDIES

strategy throughout the investment period: as Oltre Venture sees the start-up growing in the right direction and reaching sustainability, it identifies the paths for exiting the investment.

Involving selected stakeholders and the right partners from the beginning of the investment helps creating a climate of collaboration and attention around the start-up, which also facilitates exiting.

Determining exit readiness

During the investment period Oltre Venture concentrates its forces on developing the start-up and making it sustainable. The idea behind it is that if a project is well executed, satisfies concrete market needs and generates profits, by the time exit readiness is reached it will surely raise the interest of follow-on investors who will evaluate taking over from Oltre Venture. Additionally, during the monitoring phase Oltre Venture creates strong relationships with specific partners representing a potential target for an exit. In some occasions, Oltre Venture signed post-exit purchase agreements with the partners involved in a start-up since the beginning of the investment.

In the case of Ivrea 24, the exit strategy was clear to Oltre Venture since the beginning, and the occasion to put it into practice arrived after the opening of the building “Ivrea 24”. When the project was finished and active (i.e. when Oltre Venture saw it could no longer add value to the SPO) Oltre Venture started discussions with a Private Real Estate Fund active in the area of Turin which was interested in buying the whole building.

Executing an exit

Ivrea 24 sold the building and reimbursed the shareholders (i.e. Oltre Venture realized a multiple equal to 1x the initial investment). In parallel Oltre Venture started negotiating the exit date from Sharing, the company created for managing the building. The negotiations ended with the agreement that Oltre Venture would sell its shares in Sharing as of 2015 to Cooperativa Doc at nominal value.

Oltre Venture identifies some theoretical exit options from the beginning, during the planning phase. However, Oltre Venture identifies the potential buyer of a start-up when the project is carried out and profitable.

CASE STUDIES

Post-investment follow-up

Evaluation

Dimension	Objectives	Results	Final evaluation
Social impact	<ul style="list-style-type: none"> Create 182 flats with 470 beds 	<ul style="list-style-type: none"> 182 flats and 470 beds 11.000 guests in the 1st year (Sept 2011 – Sept 2012) 13 new jobs New services for the district: a cafeteria and a dental clinic Refurbishment of a building abandoned over 20 years 	Oltre created the expected number of flats and the necessary occupation enabling both Ivrea 24 and Sharing to reach break-even. All objectives have been reached with a good level of quality.
Financial sustainability	Have a minimum occupation enabling Sharing to reach the break-even point.	The property has reached the break-even point.	
Organisational resilience	Sharing up and running providing ancillary services.	In 2014 Sharing will reach break-even.	

Table 24:
The final evaluation of Ivrea 24

The social housing project can be considered a success. The building is composed of 182 apartments for 470 accommodations tailored for different users with housing hardship (students, relatives of in-patients coming from different towns, divorced or lonely mothers with children, young couples that cannot afford rent at market level). The flats are furnished, with kitchen and their size ranges from 19 sq. m to 44 sq. m. Flats are rentable for twelve months maximum, and the rent ranges from €190 to €420 per month. There are also 58 hotel rooms starting from €25 per person per night. Besides temporary social housing accommodations other services are offered, such as commercial activities (a restaurant, a launderette, a dentist centre which offer health services at low prices and excellent quality), social and cultural services (job and legal counselling services, a microcredit and cultural project window). All these services are managed by Sharing and are addressed both to the tenants and the neighbourhood, increasing the social inclusion and avoiding the “ghetto effect” common in the popular residential areas.

These results largely contribute to the social goals of Oltre Venture, as they address one of the core issues the VPO wants to tackle.

The property has reached the break-even point and – despite the fact that the project has not been completely exited as Oltre Venture still has shares in the company Sharing – the financial return goals have been achieved, as Oltre Venture recovered the capital invested.

CASE STUDIES

Additionally, thanks to this investment Oltre Venture opened a new market for real estate assets dedicated to social housing, as Ivrea 24 has been the first operation of its kind in Italy.

Follow-up

After the investment Oltre Venture does not entertain further relationships with the investee. The long term pursuit of the social impact is guaranteed by contractual obligations. For example, Ivrea 24 Abitare Sostenibile SpA has signed a lease agreement that is binding for 18 years to allocate the property for the purpose of social housing.

In other circumstances the business model was structured in such a way that guaranteed the continuation of the social impact, as changing it would mean losing the market share gained.

Lessons learnt from the Oltre Venture case.

Oltre Venture learnt three lessons from this case. First of all, this social housing investment increased Oltre Venture's knowledge of the sector, more specifically how to start and manage a social housing project.

Second, this investment increased Oltre Venture's ability to interact with territorial actors, from the municipality to the neighbourhood associations.

Additionally, this project increased Oltre Venture's skills in establishing relationships and developing projects with financial institutions such as the Fondazione CRT and Private Real Estate Funds.

Appendices

APPENDICES

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APPENDICES

Webinars

The expert group was composed of 24 VP/SI practitioners, representatives of SPOs, academics and consultants, providing the key contribution to the development of this manual. After a kick-off meeting at EVPA's annual conference in Geneva in November 2013, a subset of the expert group's members was divided into three working groups, reflecting the steps of the exit process originally envisaged. Their findings resulted in a webinar-based presentation to the other Members of the expert group and the case studies found in Part 3 of the report. EVPA would like to thank all the experts who participated in the webinars and gave input to the discussions.

Case studies contributors:

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The European Venture Philanthropy Association (EVPA)

Established in 2004, EVPA aims to be the natural home as well as the highest-value catalytic network of European Social Investors committed to using venture philanthropy and social investment tools and targeting societal impact.

EVPA's membership covers the full range of venture philanthropy and social investment activities and includes venture philanthropy funds, social investors, grant making foundations, impact investing funds, private equity firms and professional service firms, philanthropy advisors, banks and business schools. EVPA members work together across sectors in order to promote and shape the future of venture philanthropy and social investment in Europe and beyond. Currently the association has over 180 members from 25 countries, mainly based in Europe, but also outside Europe showing the sector is rapidly evolving across borders.

EVPA is committed to support its members in their work by providing networking opportunities and facilitating learning. Furthermore, we aim to strengthen our role as a thought leader in order to build a deeper understanding of the sector, promote the appropriate use of venture philanthropy and social investment and inspire guidelines and regulations.

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