

# PUBLIC FINANCE

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## Financial Tools to Develop Social Entrepreneurship\*



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**Abstract.** Social entrepreneurship, being a relatively new activity for the Russian economy, requires the development of conditions and support mechanisms; this helps address social issues in society and also stimulates civic activity in this regard. Our paper classifies financial tools according to types of investors with different financial requirements, and analyzes the availability of these tools for the development of social entrepreneurship. We place special emphasis on mezzanine financing, social impact bonds, impact investing, and hybrid financing. In order to determine the availability of financial tools that are used to develop social entrepreneurship in Russia, we analyze financial statements of social entrepreneurs included in the catalog, formed by the Fund “Our Future”. The analysis used the coefficients of autonomy, current liquidity, profit (EBIT) and its growth rate in 2017. We have revealed that only nine of the considered organizations, which is less than 22%, meet the stated requirements and can apply for loans. Thus, we show that it is necessary to develop investment tools with lower financial requirements. Theoretical importance of our research findings consists in the fact that they expand theoretical and methodological provisions for studying social entrepreneurship in terms of systematization of financial tools used in international practice. The findings of our research are relevant in the practical aspect as well, because they help identify low availability of financial tools used in the Russian practice. The obtained data can be used to elaborate a strategy for development of this type of activity at different levels of management.

**Key words:** social entrepreneurship, financial tools, impact investing, social impact bonds, accessibility.

## 1. Introduction

Social entrepreneurship, being a relatively new activity for the Russian economy, requires close attention on the part of scientists and practitioners. The economic behavior of social entrepreneurs is significantly limited by a number of contradictions, which are due to the following factors: the combination of private and public benefits, economic and non-economic goals of social entrepreneurs, the question whether this type of activity belongs to the small business or the non-profit sector, the difference in the institutional environment for business development in Russia and in the West, from which the majority of experience in the development of this activity is borrowed, and the lack of special legal regulation of this activity. These contradictions create barriers to obtaining the necessary resources. It follows that the search for financial support is one of the key issues that need to be solved by the developer of the social and entrepreneurial project.

In an effort to achieve economic and social goals, social enterprises have to experience the impact of different values [1] and institutional rules. To explain these processes, the studies on social entrepreneurship use the term “bricolage” introduced by Lévi-Strauss and denoting the encapsulation of cultural hybridization processes. This concept was developed in the works of Strauss, who defined the process of bricolage as “the ability to make do with what is at hand” [2]. Di Domenico considers the distinctive feature of social entrepreneurship to be its ability to function in areas with underdeveloped private markets, and therefore it is forced to develop in limited conditions. Thus, the lack of resources urges social entrepreneurs to use all available means to create social values and deal with social issues [3]. In addition, of considerable importance is an institutional environment that is not designed to promote socially oriented activities. Social entrepreneurs face not only legal issues,

but also insurmountable rigid selection criteria; this leads to the fact that most startups in the social sphere are forced to stop their activities [4].

Referring to the foreign experience in the development of this type of activity, we should note that the success of social enterprises supported by associations such as the Schwab Foundation for Social Entrepreneurship and Ashoka: Innovators of the Public arouses interest on the part of state authorities and foundations. The development of support for social enterprises contributed to the development of the “social capital market” and a number of financial institutions focused on interaction with this category of entrepreneurs. However, in Russian practice, the tools that support social entrepreneurship are at the stage of their early development.

The goal of our present study is to systematize and analyze the availability of financial tools for the development of social entrepreneurship. To achieve this goal, we identify financial tools used in international and domestic practice; on the basis of the analysis of financial statements we determine a number of indicators characterizing the financial condition of social entrepreneurs in the Russian economy and draw conclusions about the lack of availability of existing tools.

## **2. Financial tools for the development of social entrepreneurship and their systematization**

Social entrepreneurship as a special type of economic activity began to be formed in the 1970s and was developed primarily in the United States and Western Europe. Having analyzed scientific literature on this subject we identify four key research schools that reveal the essence of this phenomenon: social innovation school (J. Thompson, S. Alvord, J. Mair J., I. Martí [5]); social entrepreneurship school (J. Crimmings and M. Kiel [6], J. Emerson,

F. Tversky); EMES (W. Stephan, L. Ulaner, R. Spear, I. Vidal [7]) and the English school for the development of social entrepreneurship [8, 9]. In the framework of the American approach, which includes the first two schools, social entrepreneurship is considered primarily as a market economic activity that serves a social purpose regardless of the sector of activity and organizational and legal structure [10]. The European approach, which includes the third and fourth schools, is based on the development of the third economic sector that functions in areas where there was a lack of public services. In Western Europe, this led to the creation of new social enterprises by civil society actors; while in the United States, social activities were carried out by already existing organizations [9]. In European countries, social enterprises are seen by the state as an example of inclusive, sustainable development that can support the public sector in addressing social issues. Thus, to date, there is no single interpretation of the term “social entrepreneurship”, and this fact greatly complicates the effectiveness of discussions about the goals, objectives and directions of development of this type of activity [9].

The Russian experience in the development of social entrepreneurship has incorporated both American and European traditions. In this regard, organizations that are social enterprises include both small and micro businesses and socially oriented non-profit organizations. This phenomenon urged us to use such terms as social enterprise, social entrepreneur, socially oriented enterprises, startup in the social sphere (the life cycle of organizations in the Russian Federation in this area often does not exceed 3–5 years), social entrepreneurship, social projects and initiatives as synonymous forms describing the subjects and forms of social entrepreneurship.

In determining social entrepreneurship, we shall rely on the approach used by the Fund “Our Future”, which is due to the fact that in this study we use the catalog of social entrepreneurs formed by this organization. Thus, social entrepreneurship is interpreted as an innovative activity aimed at addressing or mitigating social issues on the basis of self-sufficiency and financial stability. It should be noted that these requirements arise in connection with the dual goals of social entrepreneurs, which include not only societal but also commercial goals, the implementation of which helps receive and attract additional resources [11].

The presence of positive external effects of this type of activity necessitates the involvement of both state and municipal and private resources, which is confirmed by the wide experience in supporting social entrepreneurship in various countries [12]. Support for social entrepreneurship consists in expanding the relevant regulatory framework, creating institutions that stimulate the activities of citizens in this area, providing consulting, information, educational services, as well as directly in the development of financial instruments that help obtain additional funds for the implementation of an idea that is being designed.

The combination of social and commercial goals in the implementation of this type of activity expands the list of financial tools of social entrepreneurs. Being the providers of social services, entrepreneurs can apply for subsidies for the implementation of this type of activity, apply to credit institutions, attract investors by becoming participants in public-private partnerships, participate in programs conducted by various support funds, and attract funds from proactive citizens. However, in practice, due to the special nature of this type

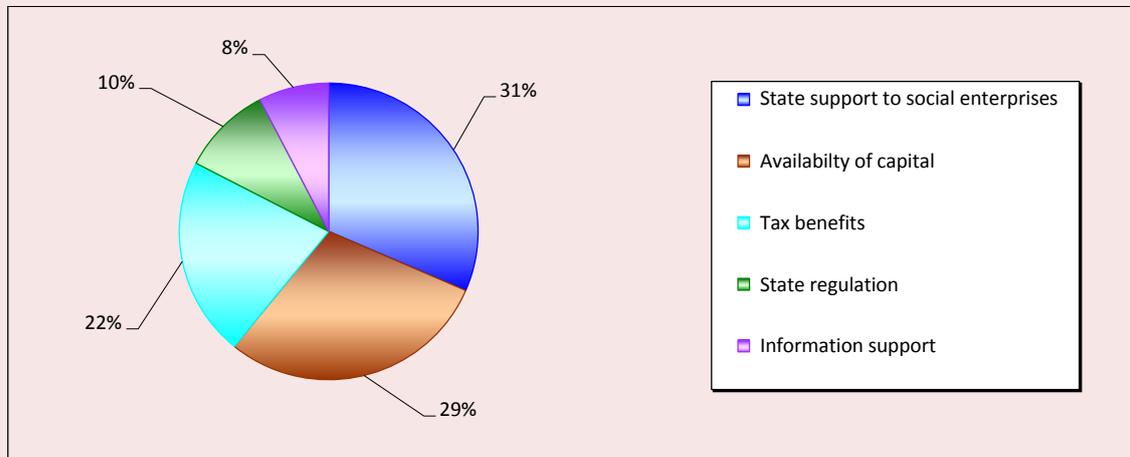
of activity, social entrepreneurs face a number of restrictions that make these tools poorly accessible.

According to the Bank of England, the unavailability of financial support is the most important obstacle to the development of social entrepreneurship. The research conducted in 2013 in the UK shows that 40% of social enterprises see lack of access to finance as a significant barrier to a startup in the social sphere, since socially oriented organizations are forced to cover not only the costs of management activities, but also the so-called “social impact costs”, which include the costs associated with low productivity, maintaining communication with public services, which also creates difficulties in satisfying financial requirements.

According to the reports of the SEFORIS research consortium, a survey of social entrepreneurs in Russia for 2015–2016 showed that the most popular measures to support social and entrepreneurial activities are the preservation of the federal program of support for NPOs (28%) and ensuring the availability of capital (27%) (*Fig. 1*).

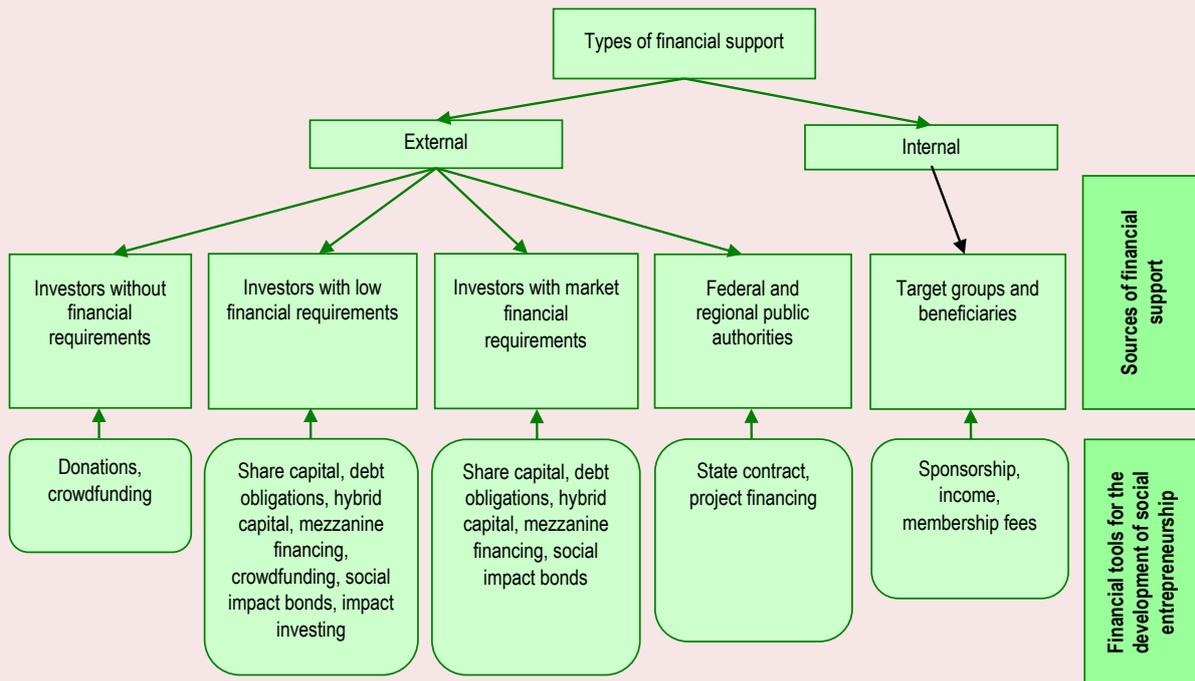
As for the systematization of financial tools for the development of this type of activity, it is advisable to allocate external and internal sources of financial support. External funding is provided in the form of charter capital, borrowed capital or donations. Entrepreneurs can use these investments as long-term investments and cover negative operating cash flows. Funds are provided by investors and are differentiated according to the financial requirements of these investors. Internal funding consists of cash flows received by social entrepreneurs in the process of entrepreneurial activity. Depending on the specifics of the activities of socially oriented organizations and the financial capabilities of the target groups,

Figure 1. Demand for measures of state regulation of social entrepreneurship in Russia



Source: own compilation according to SEFORIS. Cross-Country report. 2016. Available at: [https://static1.squarespace.com/static/56d2eebbb654f9329d20e/t/58078c90414fb506d0e5ff33/1476889747238/Cross-country+report\\_6.pdf](https://static1.squarespace.com/static/56d2eebbb654f9329d20e/t/58078c90414fb506d0e5ff33/1476889747238/Cross-country+report_6.pdf)

Figure 2. Types of financial support for the development of social entrepreneurship



Source: own compilation on the basis of the review of scientific literature, domestic and international reports.

these goods or services are paid for either by the target group itself or by third parties – public or private organizations.

Figure 2 presents the results of systematization of financial tools by type of investors and their requirements.

Investors who do not expect a financial return on their investments may be funds or sponsors. J. Andreoni suggests several possible reasons for motivating philanthropic behavior: such organizations receive publicity and obtain privileged access to resources due to the good reputation of the sponsors [17]. Donations are generally provided by foundations or individuals who do not receive control or a share in the company, and are non-refundable. However, this type of funding is available only to a certain type of projects. Scientists usually consider donations as a separate funding tool, because it meets accounting standards, as well as the economic realities of social entrepreneurs, who, as a rule, do not include it in the business model, but receive donations from classical or venture funds. Since donations are voluntary and do not require commitment, this tool is available to social entrepreneurs. Thus, donations can come from foundations aimed at providing support to social entrepreneurs, various organizations, individuals, and also as a result of crowdfunding.

Crowdfunding emerged as a separate form of support for social projects in order to develop creative projects in the field of cinema, theater, music, etc. However, over the past decade, many Internet platforms have emerged that host other social initiatives, including social entrepreneurship projects. According to Massolution, there are four types of crowdfunding: equity, lending-based, rewards-based, and donation-based. In equity crowdfunding, sponsors receive a stake in the capital of the company they invest in. In lending-based crowdfunding, investors provide a loan and obtain the opportunity to receive a return on the investment with interest. In rewards-based crowdfunding, sponsors receive goods or services in exchange for their

investment. These rewards can be presented in various forms, such as public recognition, pre-sale product preparation, or limited series of the product. Donation-based crowdfunding refers to investments in projects or firms with social goals. Donors receive neither monetary nor material rewards for their investments<sup>1</sup>. Thus, this type of crowdfunding does not provide a return; this fact encouraged J. Cox to classify this type of crowdfunding as a form of digital philanthropy [15].

The second group of investors (investors with low financial requirements), reduce their expectations of financial returns and try to find a balance between financial and social returns, also known as “blended value proposition” [18]. Thus, philanthropic capitalists use financial tools to maintain the entrepreneurial orientation of social entrepreneurship [19]. This approach to investing originates in the organization of venture funds that use venture capital methods to support social entrepreneurship [20].

Loans can be used by social entrepreneurs to finance long-term investments or to cover working capital needs. Debt capital, on the one hand gives entrepreneurs flexibility, but on the other hand limits innovation and risks, since financial obligations imply the presence of a business model with a low level of risk [21].

Contributions to the equity capital, as well as loans, are used to finance long-term investments and working capital needs, and do not involve repayment, but entail the provision of voting rights and part of the profits to the investor. Among followers of social entrepreneurship, there are different points of view on the distribution of profits. Thus,

<sup>1</sup> Massolution. Massolution Crowdfunding Industry 2015 Report. Available at: <http://reports.crowdsourcing.org/index> (accessed 7 November 2018).

M. Yunus denies the payment of dividends [22], while a number of researchers admit a limited distribution of profits [23]. This group also includes impact investing, mezzanine financing, hybrid financing and social impact bonds.

Impact investing refers to investments that promote social change. The term itself was coined in 2007 at a meeting of the Rockefeller Foundation, whose goal was to find a way to create a global industry focused on investment with a positive social and environmental impact [13]. At the same time, the priority of these investments is to create a measurable social impact, and the financial return is considered by investors as additional and can range from 0% (of the debt amount) to the yield at the market rate adjusted for risk [14]. However, according to a 2019 survey of impact investors from European countries, the United States, and Canada, about two-thirds of respondents (66%) are focused on return on investment at market rates, and the remaining third is divided between those who focus on income closer to the market rate (19%) and those who pursue the goal of preserving the capital (15%)<sup>2</sup>. The main participants in the impact investment market on the part of donors are individuals, pension funds and venture philanthropy. In various countries of the world this initiative is supported by the state. For instance, in 2013, UK Prime Minister D. Cameron set up an impact investment group from the G8 countries; the group is working in cooperation with the OECD to promote impact investment in all countries in the group. In addition, the UK has a “Large non-governmental capital” program, and the French government is implementing the “90-10” program, which obliges enterprises to invest

<sup>2</sup> Annual impact investor survey. 2019. Available at: <https://thegiin.org/research/publication/impinv-survey-2019>

10% of employees’ savings in state-recognized solidarity societies or income distribution funds. In 2013, the European Commission adopted the Regulation on European Social Entrepreneurship Funds and created its own financial support instrument called the Social Impact Accelerator. According to the 2019 survey, respondents manage the assets worth 239 billion US dollars in impact investing.

Social bonds (or social impact bonds – SIB) are private investments under government guarantees to provide social services to a specific target group<sup>3</sup>. SIB is a security that contains a loan agreement based on certain mutually beneficial conditions for interaction of several organizations engaged in different activities, but seeking to achieve a certain socially significant result. In its simple original form, SIB is a bond loan that is organized by an investment bank and aims to raise charitable funds. The money that will be received in the course of this loan should be used to finance projects. An important party to this agreement is the state, which undertakes the obligation to repay investors their costs, as well as to pay a bonus in case the funded program is successfully implemented. However, if the results are not achieved, then no refund is provided. Therefore, SIB bonds are also called “pay-for success” bonds [14].

In the foreign practice of financing social entrepreneurship there is also the concept of mezzanine capital. This type of investment is a combination of equity and debt capital with fixed interest rates and repayment obligations. Mezzanine capital is flexibly structured and entitles the investor to receive profit in case of financial success. However, as well as obtaining

<sup>3</sup> Social finance: from venture philanthropy to impact investments. *Mir sotsial'nogo predprinimatel'stva*, 2018, no. 9. Available at: <https://www.hse.ru/data/2018/11/18/1140955055/Issue%209%202018.pdf>

the loan, it assumes a stable financial business model and low risks.

There are also specialized tools for financing social entrepreneurship in the form of hybrid capital that combines elements of equity or debt capital and donations. This type of funding includes reimbursable grants and non-refundable loans.

A third group of investors expects financial results from investing in social entrepreneurship at the market level. According to the analysis, most of the social entrepreneurs belong to the micro-business with an average number of employees being 1–2 people; this imposes restrictions on attracting investment<sup>4</sup>. The same reason acts as a barrier to the participation of organizations in government contracts.

From a legal point of view, social entrepreneurs have access to all financial tools of financing the commercial sector, such as contributions to the authorized capital, debt and mezzanine capital, as well as the non-profit sector, including loans and donations<sup>5</sup>. However, as evidenced by existing statistics, in practice the financial situation of social entrepreneurs and their short term of operation do not allow them to obtain resources on market conditions.

In general, there are two main differences between the financing of commercial and socially oriented enterprises. In the commercial sector, there is a clear correlation between the interest rate on the loan and the riskiness of investments, but this rule may not apply to the financing of a social enterprise, since investors are willing to reduce their financial

requirements in order to obtain a social result. In this regard, interest-free or reduced interest rate loans and borrowings are not conditioned by the risks of social entrepreneurship. In addition, business entrepreneurs tend to prefer equity capital and internal financing in contrast to social entrepreneurs who have to search for opportunities to receive subsidies or donations [24]. At the same time, potential investors have limited opportunities to obtain profit, since its distribution to participants is either prohibited or strictly limited [25].

One of the forms of support for social entrepreneurship is the performance of services under a state contract. In Russia, Saint Petersburg organization “Nochlezhka” functions according to this scheme. It implements the project “Transit”, in the framework of which it sends home homeless people from other Russian regions. Part of the funding comes from the city program “Comprehensive measures aimed at preventing offenses in Saint Petersburg”. However, this program receives funding only from February to November.

In the Russian practice, the main source of financing for social entrepreneurship is income from the sale of goods and services (60%). Support in the form of grants and donations rank second and third – 23 and 12%, respectively. Investor support and loans do not exceed 4 and 1%, respectively. For comparison, it should be noted that in countries with developed social and entrepreneurial activities – Sweden and the UK – grants make up 36 and 30%, respectively, and loans – 4 and 1%, respectively. In general, the size of grants for social entrepreneurship in Russia is one of the lowest among the European countries under consideration. The use of loans for the development of this type of activity is not a common method of raising funds; this

<sup>4</sup> Seforis. Cross-Country report. 2016. Available at: [https://static1.squarespace.com/static/56d2eebbb654f9329ddb20e/t/58078c90414fb506d0e5ff33/1476889747238/Cross-country+report\\_6.pdf](https://static1.squarespace.com/static/56d2eebbb654f9329ddb20e/t/58078c90414fb506d0e5ff33/1476889747238/Cross-country+report_6.pdf)

<sup>5</sup> Achleitner A., Heinecke A., Noble A., Schöning M., Spiess-Knafl W. *Social Investment Manual*, 2011. Available at: <http://ssrn.com/abstract=1884338>.

value does not exceed 4% of the total share of financing of socially oriented organizations.

For effective business development, social entrepreneurs need to work out a financing strategy that covers not only current costs, but also promotes scaling. Current operating expenses are usually covered by internal financing (regular revenues), while external sources are used for scaling [16].

Since there is no legal framework for this type of activity in Russia, social entrepreneurs mainly use three legal forms: individual entrepreneur, limited liability company, and non-profit organization. Some social entrepreneurs belong to small and medium-sized businesses, and their activity is regulated by relevant legislative acts, in particular Federal Law 209 “On the development of small and medium-sized businesses in the Russian Federation”. The other part is represented by non-profit organizations.

Currently, the development of social entrepreneurship in Russia is provided for by several regulatory documents. First, infrastructure support is indicated in the Road Map “Support for access of non-governmental organizations to the provision of services in the social sphere”, approved by the Resolution of the Government of the Russian Federation dated 08.06.2016 No. 1144-r. The Road Map contains the following provisions:

- increasing the share of non-governmental organizations in the provision of social services;
- creating conditions for improving the quality of services in the social sphere;
- development of support for socially oriented non-profit organizations and social entrepreneurship organizations;
- development of public-private partnership mechanisms in the social sphere.

Within the framework of this project, social innovation centers (SICs) were established in constituent entities of the Russian Federation; the main competencies of SICs are as follows:

- training of social entrepreneurs through the organization of the school of social entrepreneurship;
- conducting analytical studies on the state of the social sphere;
- organizing communications between business and authorities on the development and implementation of social innovation;
- consultations with the legislative authorities on introducing amendments to the regulations that enshrine the use of social innovations at the system level.

On the basis of SICs there are four main platforms for social entrepreneurship:

- schools of social innovation;
- incubator of social projects and initiatives;
- best practices aggregation platform;
- resource support platform.

Thus, in the Sverdlovsk Oblast, the resource support platform functions with the help of investments from the Sverdlovsk venture fund and the Sverdlovsk investment fund. At the same time, the Sverdlovsk venture fund has the following requirements for investment projects: the minimum size of investments is 1.5 million rubles; the fund’s return on participation in the project is not less than 12% per year and the project period is not more than five years; these are quite high requirements for social entrepreneurs who are at the stage of startup or formation. In addition to SIC funds in Russia there are the Fund “Our Future” and the Fund for Social Entrepreneurship Support (FSES), which provide soft loans to social entrepreneurship.

Table 1. Examples of programs to support social entrepreneurship in Russia

Fund	Name of program/contest	Type of support	Sum	Conditions
Fund for Social Entrepreneurship Support		Loan	Determined individually	Not more than for 3 years, 6.5%
“Our Future”	“Impulse of Good” award	Bonus	2.5 million rubles	On the terms of the competition
“Our Future”	“Social Entrepreneur” competition	Interest-free loan	From 2 million to 40 million rubles	Interest-free loan
SAP Company	Competition of social projects	Bonus	450,000 rubles	On the terms of the competition
Source: own compilation.				

At the same time, support for social entrepreneurship can be implemented with the support of large corporations (*Tab. 1*).

The Fund “Our Future” is one of the largest funds providing loans and grants for social entrepreneurs in the Russian Federation. According to the official regulations on the competition of projects for the provision of interest-free loans “Social Entrepreneur”, the following requirements are imposed on the participants:

- 1) the presence of a measurable socio-transformative impact on the population of a region or group of regions;
- 2) the impact of the project should cover at least 1,000 people per year;
- 3) the availability of confirmed indicators of social and transformative impact during the company’s operation;
- 4) tested sustainable business model of the project;
- 5) at least two years of profitable operating activity of the applicant implementing the project;
- 6) direction of investments in the development of the company<sup>6</sup>.

<sup>6</sup> Regulations on the competition of projects “Social Entrepreneur” from 05.02.2019. Available at: <http://konkurs.nb-fund.ru/documents/>

In addition, an essential condition for the provision of an interest-free loan is the provision of collateral and/or guarantee of third parties. At that, the total cost of collateral must exceed the amount of the requested financing by at least 10% (excluding VAT). These requirements are quite high and limit the activities of social entrepreneurs.

### 3. Research methodology

The methodology of this study is presented as follows. We analyze of the financial statements of 42 social enterprises operating in various economic entities and determine the availability of financial tools for the development of social entrepreneurship in Russian practice. In order to receive funds, social entrepreneurs have to show their economic viability and financial stability, which is indicated in the requirements for competitions and grants. In this regard, in the course of further analysis, we used the autonomy coefficient as an indicator of financial stability, calculated as the ratio of equity to total capital; for the analysis of profitability, we used the values of EBIT (earnings before interest and taxes) and their growth rate in 2017 compared to the previous year. This allowed us to track not only the actual values of profit in the period under review, but also to take into account the dynamics of its changes. In addition, the analysis of social entrepreneurs took into

account the indicator of current liquidity, calculated as the ratio of current assets to short-term liabilities and showing the solvency of the organization under consideration. The importance of liquidity indicators is explained by the interest of creditors in the company's ability to repay debt in the near future.

When analyzing the credit worthiness of organizations, we relied on the methodology of Sberbank of Russia (approved by the Committee of Sberbank of Russia on loans and investments dated June 30, 2006 No. 285-5-r), as well as the requirements of the Fund "Our Future".

We used the catalogue of social entrepreneurs of the Fund "Our Future" for 2017 as the information base for our research, because it is almost the only source of information about social entrepreneurs, including organizations located on the territory of the Russian Federation in various economic entities. The Fund does not set requirements for organizational and legal forms of social entrepreneurs, so in this sample there are both individual entrepreneurs and legal entities in the form of limited liability company, closed joint-stock company, autonomous nonprofit organization, interregional charitable non-governmental organization, etc. The data on financial statements (form 1 and form 2) of these enterprises were provided by the information system "Kontur-Fokus". The analysis of the data for 2017 is due to both the limitations of this information system and the time of formation of the catalogue of social entrepreneurs.

It should be noted that these organizations were systematized in the following areas: medicine and medical technology, culture and art, promotion of self-employment, education, care for the elderly and children, ecology, and employment of people with disabilities.

#### 4. Research results

Our analysis of financial statements considered such indicators as current liquidity ratio, EBIT, profit growth rate and autonomy ratio. The analysis showed high current liquidity indicators in such type of activity as the provision of services in the field of employment of vulnerable segments of the population; this fact is most likely due to the lack of borrowed funds, since this type of activity does not involve large investments. We should note that for a more visual presentation of the results obtained we excluded the organization "Nochlezhka" and the project "Dospekhi" (Fig. 3) from the analysis, because their values significantly exceed the standard ones. The standard value for this indicator is 2; only 15 organizations have achieved it.

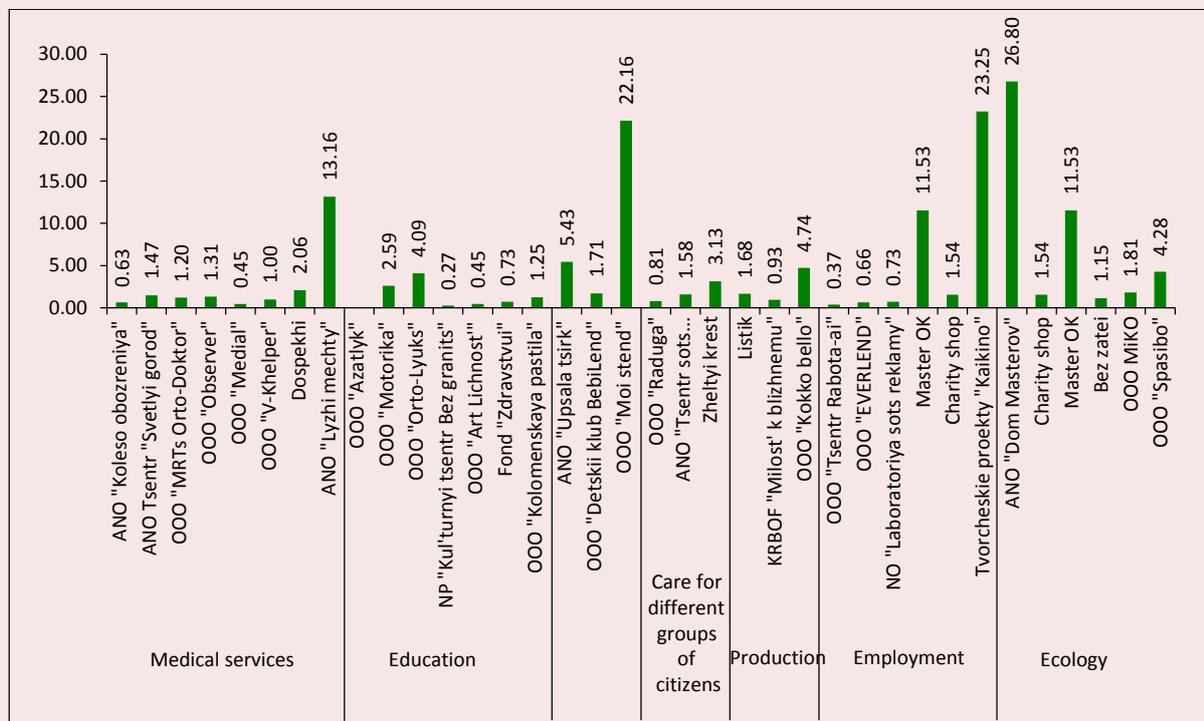
According to the analysis of profitability presented in Figure 4, where each of the types of markers characterizes a separate field of activity, we see that the most stable development is observed in the field of medical services (square marker). This conclusion is made based on the position of the corresponding points in the first square. It should be added that the Ox axis represents EBIT values, while the Oy axis represents the profit growth rate.

Figure 5 shows the values of autonomy coefficients in various fields of activity.

The normative value for this indicator is 0.55 (for education – 0.45). Thus, among these organizations, only 11 are financially stable.

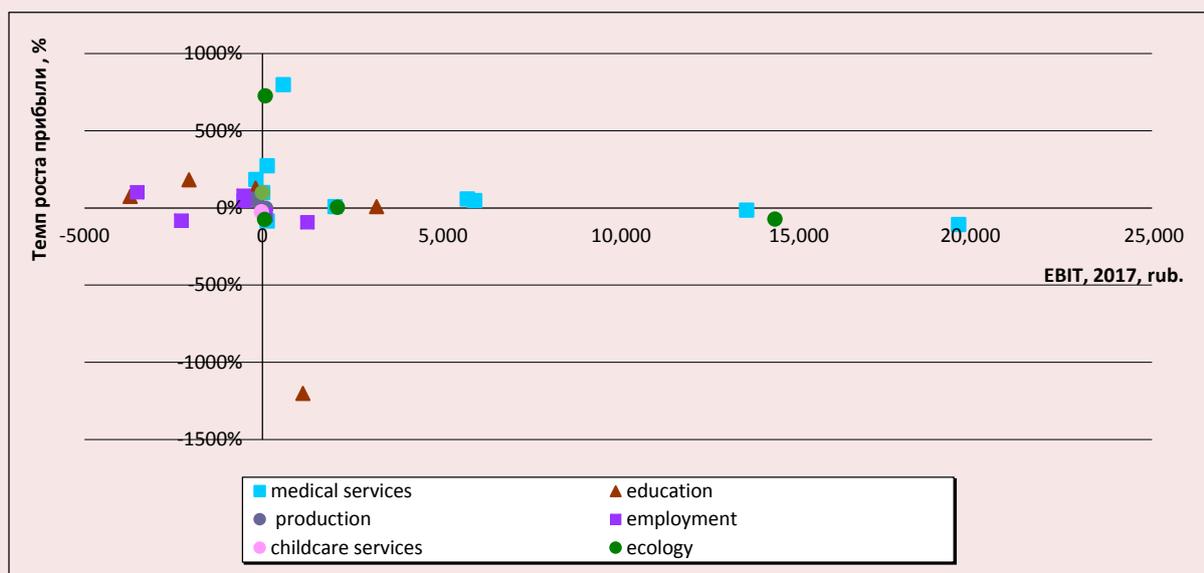
As we noted above, when analyzing the credit worthiness of organizations, we relied on the methodology of Sberbank of Russia (approved by the Committee of Sberbank of Russia on loans and investments dated June 30, 2006 No. 285-5-r). This technique takes into account several indicators ranked by weight. The most significant indicator is the current liquidity ratio

Figure 3. Values of indicators of current liquidity of social enterprises



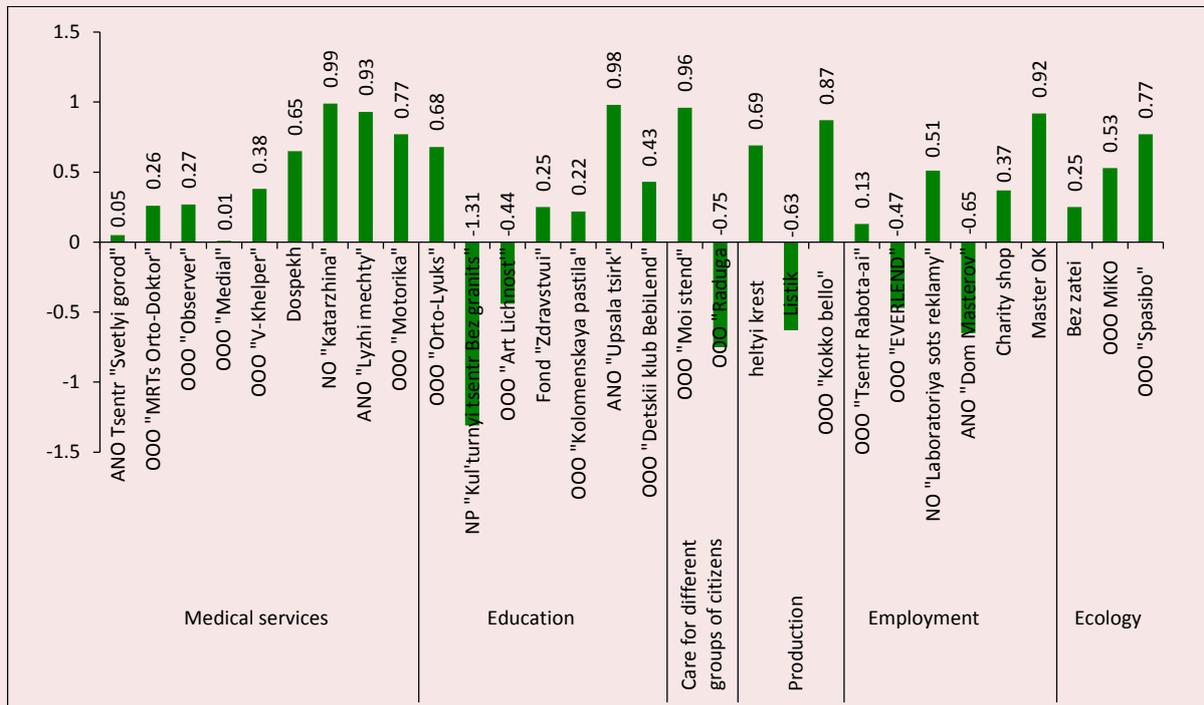
Source: own compilation on the basis of financial statements.

Figure 4. The ratio of EBIT and its growth rate for social entrepreneurship in various spheres of activity



Source: own compilation on the basis of financial statements.

Figure 5. Values of social enterprises autonomy coefficients



(0.4), and the less significant – the absolute liquidity ratio (0.05). According to the analysis, all organizations with current liquidity above 2 have a high chance to get a loan according to Sberbank methodology as well. Thus, according to Figure 3, the highest rates are observed in organizations providing employment services, medical services, and services in the field of education. However, according to this methodology, only five of the analyzed enterprises have a high chance of obtaining a bank loan. Thus, other organizations are forced to seek funding from other sources.

The Fund "Our Future" puts forward a requirement for social entrepreneurs to have financial stability and break-even activity over the past two years. According to the financial analysis based on the autonomy coefficient, growth rate and profitability for 2016 and 2017, we see that only nine organizations out of 42 meet these requirements, and three out of nine

meet the requirements of the bank as well. Hence, we can conclude that the majority of socially oriented organizations cannot obtain loans, even on preferential terms. In this case, social entrepreneurs can take advantage of special support measures, in particular grants, subsidies, etc. However, in practice, the inability of the social entrepreneur to meet the stated requirements makes these support measures difficult to access.

### 5. Discussion of results

The theoretical review, which made it possible to identify financial tools for the development of social entrepreneurship in international practice, and the analysis of financial and economic activities of domestic social enterprises indicate the need to consider and discuss the possibility of spreading the development of funding sources with low financial requirements in the Russian practice.

Social entrepreneurs, according to the ZIRCON survey for 2018, note that the motives for creating a socially oriented organization include the desire to implement a certain idea (71%) and the desire for self-sufficiency and independence (71%). Since social entrepreneurs are forced to act in market conditions, they need to maintain competitive advantages and fight for the resources of sponsors and grantees.

Resource mobilization plays an important role in the formation of entrepreneurial activity at the stages of its formation and development, but since most entrepreneurs do not have the opportunity to finance their organizations from their own savings, access to financial resources remains one of the most pressing issues that need to be addressed [2].

For organizations operating in the interest of the public, the problem of access to resources is further aggravated by their limitations and by poor development of institutional mechanisms, which is particularly noticeable in developing

countries [26]. The social mission does not allow organizations to set market prices for their goods and services; in addition, restrictions on the distribution of profits (lack of dividends and shares) reduce the opportunities for social entrepreneurs to access financial resources. Thus, the duality of the goals of social entrepreneurs limits the resource pool of financial tools.

Since socially oriented enterprises must have a period of profitable operating activity of at least two years, startups cannot apply for this method of support. Funding sources available to social entrepreneurs include grants, donations, and crowdfunding. As for the funds that provide interest-free loans, we should also note that there are high requirements to these funds; this fact reduces their availability for the majority of the organizations under consideration. The results of the analysis of the availability of financial tools for the development of social entrepreneurship, their advantages and disadvantages are given in *Table 2*.

Table 2. Advantages, disadvantages, limitations and availability of financial tools for the development of social entrepreneurs in Russia

Funding source	Financial tool	Advantages	Disadvantages	Limitations	Availability
Investors who do not make financial demands	Donations, crowdfunding	Non-repayable financial means	High search costs	There are no official limitations	Available
Investors with limited demands	Debt obligations, interest-free loans	Zero or reduced rates	Need to meet certain requirements	Requirements of a sustainable business model, profitable operating activities	Available with limitations
Investors with market requirements	Loans at market value, contributions to authorized capital, venture investment	A large number of offers	High interest rate	High requirements	Virtually inaccessible due to high requirements
Public funds	Payment for services, project financing	Receiving subsidies/grants	Limited time offer	Need to participate in a contest	Low availability due to limited supply
Target groups and beneficiaries	Sponsorship, profit, membership fees	Raising additional funds	High costs of search/attracting	Determined by the level of trust	Limited supply due to the lack of institutions

Source: own compilation based on the analysis we conducted.

Currently, social entrepreneurs receive quite a large amount of support in the form of consulting services and training. At the same time, financial support does not become less important. In Russia, there is an inverse proportion of the availability of loans and training. The list of organizations that provide affordable loans, subsidies and other funds is extremely limited. In Russia, there are also no public or private social investment agencies, social banks, and not enough socially oriented microfinance institutions<sup>7</sup>.

One of the directions for development of financial tools is the focus on international experience, in particular the introduction of impact investment, social impact bonds, mezzanine investment and the spread of crowdfunding. However, the implementation of instruments such as SIB (social impact bonds) and impact investing may face a number of limitations. In the case of bonds, state regulation is necessary, namely the development and implementation of legal support, which slows down the process of introduction of this tool.

In addition, due to the complexity of its application, this financial tool has high risks of not being implemented in sufficient volume. Impact investing is a more appropriate tool because it does not involve government participation. The initiative of large businesses and private investors who have the desire and ability to support socially important projects is enough to use this tool. In this case, effective interaction will be determined by institutional agreements or the quality of informal institutions in the absence of the latter.

<sup>7</sup> Social finance: from venture philanthropy to impact investments. *Mir sotsial'nogo predprinimatel'stva*, 2018, no. 9. Available at: <https://www.hse.ru/data/2018/11/18/1140955055/Issue%209%202018.pdf>

The second direction of social entrepreneurship development is seen in the dissemination and popularization of crowdfunding as a new model of development and financing of projects, and also in attracting funds from the beneficiaries of their services.

Thus, the problem of financing and sustainable development of social entrepreneurship is extremely important; this statement is confirmed by the need for entrepreneurs to find sources of financial support and simultaneously implement their social mission. To date, Russia has limited opportunities to finance socially oriented projects, that is, support from the top is limited; and the very financial condition of organizations does not allow them to use external financial tools.

### Conclusion

In this article, the goal of which was to systematize and analyze the availability of financial tools for the development of social entrepreneurship, we obtained the following results.

First, financial tools for the development of social entrepreneurship were grouped according to types of investors with different requirements. It is shown that the driver of the development of social entrepreneurship can be tools that are not currently used in the Russian practice. These tools include mezzanine financing and social impact bonds. Their application indicates that the development of this type of activity involves not only proactive citizens that face a social problem, which is the most common practice, but also authorities at different levels of administration. Support and stimulation of this category of entrepreneurs, provided that the institutions of trust are being developed, will act as a significant catalyst in addressing social issues.

Second, based on the analysis of financial statements of social entrepreneurs supported by the Fund “Our Future”, we show the low availability of such tools as loans and borrowings. This conclusion is made as a result of the analysis of the coefficients of autonomy, current liquidity and profitability of the social entrepreneur. The highest rates are typical of the organizations providing employment services, medical services, and services in the field of education.

Third, we analyzed the availability of financial tools for the development of social entrepreneurs in the Russian economy. The analysis has revealed that only 7% of social entrepreneurs that are on the list under consideration can meet the requirements of Sberbank of Russia, and 22% have a chance to get a loan from the Fund “Our Future”. All of the above indicates an urgent need to develop affordable financial tools of social entrepreneurship, which in this article are designated as financial tools with low requirements.

Our approach to the analysis of financial tools for the development of social entrepreneurship has allowed us to demonstrate the low availability of existing measures of financial support for social entrepreneurs and

to substantiate the possibility of introducing new mechanisms that are successfully used in international practice.

Theoretical significance of the results we have obtained consists in the systematization of financial tools used in international practice to support social entrepreneurs. Practical significance of this study consists in the fact that it identifies the low availability of financial tools used in the Russian practice for the development of social entrepreneurship. The obtained data can be used in the elaboration of a strategy for the development of this type of activity at the federal, regional, and municipal levels. In particular, the adoption of the decision on the development of social entrepreneurship by increasing the availability of existing financial tools and the development of new ones will contribute to the elaboration of special support mechanisms and will allow different categories of citizens and investors to be involved in this type of activity. The hybridity of the goals of social entrepreneurs, which justifies the emerging limitations in obtaining resources for the implementation of projects, requires the active involvement of civil society. Building new mechanisms of interaction will also form a new vision of meeting social needs in society.

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