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**SOCIAL ENTREPRENEURSHIP AS A SOLUTION PROVIDER FOR AGEING SOCIETIES  
IN EUROPE**

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## 1 Abstract

This work was conducted during an internship with the Social Venture Fund (SVF) in Munich which is the first social impact investing institution that strategically targets social enterprises with innovative driven solutions that tackle urgent societal and/or environmental challenges across Europe (SVF, 2013). The SVF addresses the funding gap often faced by social enterprises and aims to assure rate of returns with percentages similar to bank deposits but invests in social entrepreneurial solutions with the objective of maximizing social impact. It commonly provides debt and mezzanine capital as well as equity investments through preferred shares. The SVF 1 with a volume of 7.3 million Euros is currently invested in five social enterprises named ‘Auticon’<sup>1</sup>, ‘Deutschland rundet auf’<sup>2</sup>, ‘Essex Social Impact Bond’<sup>3</sup>, ‘Kinderzentren Kunterbunt’<sup>4</sup> and ‘VerbaVoice’<sup>5</sup> (SVF, 2013). Thus SVF 1 attracts investors who are mainly driven by impact generation (Santos, 2012). With regard to SVF 2 (First closing 09/12/13: 16.4m €) the team is highly interested in discovering social challenges, innovative ideas and social enterprises across Europe as potential future fund’s investments. Therefore it is important to investigate social issues/sectors that could be of interest. The present work intends to understand and demonstrate the process of identifying a field of investment according to problem size, attractiveness, maturity, existence of established solutions and identification of investment opportunities. The research aims to investigate whether a sector could be of interest for impact investing institutions who are willing to (financially) support the scaling-up or replication of social enterprises and which entrepreneurial solutions already exist in terms of quality and quantity. The focus is on the case of population ageing in Europe and its consequences which represent growing problems for society and hence provide space for social entrepreneurship (SE). Accordingly existing and emerging opportunities for impact investors in the field of elderly will be demonstrated.

*Keywords: Social Entrepreneurship, Impact Investing, Ageing Population, Subjective-Well-Being;*

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<sup>1</sup>Auticon uses the special skills of people with Aperger’s Autism and employs them in specialized IT services

<sup>2</sup>Collects micro donations at supermarket checks and generates a considerable donation volume (SVF, 2013)

<sup>3</sup>Essex Social Impact Bond supports vulnerable young people to avoid care or custody (BSC, 2013)

<sup>4</sup>“Kinderzentren Kunterbunt operates daycare centers, which are specially adapted to the needs of working parents” (SVF, 2013)

<sup>5</sup>VerbaVoice is a “mobile solution to transfer voice into text for hearing-impaired people in almost real time” (SVF, 2013)

## 2 Literature Review

The literature review discusses the theoretical background of the subject and firstly defines the term social entrepreneurship, secondly explains the components of a social entrepreneurial business model and thirdly presents the different possibilities social enterprises can generate revenue with. Moreover it explains the phenomenon of impact investing and mentions basic investment criteria an impact investor applies in order to decide whether a social enterprise could be of interest in terms of an investment. The provided theory is crucial in order to follow the practical analysis.

### 2.1 Social Entrepreneurship

There is no consistent standard definition of the term social entrepreneurship (SE) to date as the term emerged from different research fields like entrepreneurship, sociology, economics or psychology and is a relatively new field of research. Mair and Marti (2004) for instance define SE as ‘the innovative use of resources to explore and exploit opportunities that meet a social need in a sustainable manner.’ (Volkman, Tokarksi, and Ernst, 2012) Nevertheless Santos (2012) is the first who defines SE with a more economic and management approach and hence overcomes previous literature that used to implement the term ‘social’ into the definition. According to the author, SE is the process of identifying and addressing neglected problems in society through innovative sustainable solutions (Santos, 2012).

As governments have scarce resources and diversified roles some externalities are neglected in societies. SE tries to reduce these market failures and the underprovision of beneficial goods. Social entrepreneurial actions might often be more effective than a central actor such as the government. Main goal of SE is the scaling-up and replication of innovative business models and the creation of social and economic value (Santos, 2012).

There are different **social entrepreneurial business models**. A business model for both commercial and Social Entrepreneurs contains three basic components: **value proposition**, **value architecture** and **revenue model** (Müller, 2012).

The **value proposition** of social entrepreneurial business models is providing solutions to the basic cause of environmental or societal problems. SE is characterized by targeting problems with positive externalities with the overriding objective of value creation (Santos, 2012) and

encouraging social change. It pursues to create long-lasting market oriented approaches, to improve systems and add social value on current or upcoming pressing issues. The **value architecture** of SE often implements partnerships, co-creation or volunteer support by applying innovative resource mobilization strategies (Kickul, and Lyons, 2012). SE puts the processes, tools and techniques of entrepreneurship into use to the pursuit of a societal mission (Kickul, and Lyons, 2012) and compounds innovation and ingenuity with the willingness to make a difference and achieve social transformation (Lyons, 2012).

A social enterprise as the “tangible outcome of Social Entrepreneurship” (Mair, and Marti, 2006) is a business-like entity that seeks financial sustainability with the intention to create good for society (Caslin, Sachet, and Shevinsky, 2012). Social entrepreneurial initiatives mostly include an earned income strategy and consequently create both social and economic value in order to assure financial viability (Mair, and Marti, 2006). As the term ‘mostly’ already indicates there are several **revenue models** a social entrepreneur could follow. Elkington and Hartigan (2008) distinguish three types:

- **Leveraged Nonprofit:** SE addresses government failure but it is solely dependent on outside money from private or public organizations
- **Hybrid Nonprofit:** SE is non-profit but implements to some extent a cost-recovery by the sale of goods or services.
- **Social Business:** SE generates income and profits and is self-supporting. Surpluses are reinvested in order to grow their businesses. (Elkington, and Hartigan, 2008)

This paper concentrates solely on the ‘Social Business’ model as impact investors are exclusively interested to invest in SE that have resilient income models.

## 2.2 Impact Investing

Impact Investing is given a growing attention and demand within the past years by the public and the finance industry like fund managers, foundations or family offices. Due to the lack of literature and academic research on that field there is still few available data. This section refers to reports published by the Global Impact Investing Network (GIIN) and the European Venture Philanthropy Association (EVPA). The work is based on the definition of the GIIN for Impact Investment: *‘Impact investments aim to solve social or environmental challenges while generating financial profit. Impact investing includes investments that range from producing a*

*return of principal capital (capital preservation) to offering market-rate or even market-beating financial returns. (...) Impact investors actively seek to place capital in businesses and funds that can harness the positive power of enterprise.’ (GIIN, 2013)<sup>6</sup>*

Impact investors provide innovative finance solutions to social businesses with the objective to support a scaling-up or replication of the business model for further growth. The invested money plus risk adjusted interest have to be repaid by the social business.

### 2.3 Investment criteria of Social Impact Investors

In practice the investment criteria of social impact investors have to be flexible as social businesses that are raising funds are mostly in different stages of company development. According to an impact investor survey conducted by JP Morgan in 2012, the majority of investors prefer to invest in growth stage businesses (78%) followed by venture stage (51%). In spite of the high risk still 18% of investors prefer to invest in seed/ start-up stage (Saltuk, 2013). One of the basic problems is that most social businesses need a lot of engagement in terms of capacity building by the impact investment institutions which can be a costly and complex process.

Austin, Stevenson and Wei-Killer (2006) cover the basic investment criteria by explaining four variables: **market failure**, **mission**, **resource mobilization**, **performance management**. These basic criteria are confirmed by investment managers of SVF<sup>7</sup> whose daily business is deal sourcing. The underprovision of beneficial products and services is rooted in **market failure** if it is caused by externalities (Santos, 2012). As SE mostly act in areas of market failure (Austin, Stevenson, and Wei-Skillern, 2006) identifying the neglected problem and scaling its size is important in order to identify the potential of the market or respectively the group of beneficiaries. The addressed problem must have a substantial size and must be convincing. As **mission** SE should follow value creation for the general public (Austin, Stevenson, and Wei-Skillern, 2006) or a specific segment with a sustainable innovative solution. **Resource mobilization** is a critical issue for SE. The basis for sound resource mobilization implies a management team with relevant experience, analytical skills, entrepreneurial thinking, willingness to learn and the ability to empower actors in and outside of the organization like beneficiaries, partners or users (Santos, 2012). SE must provide

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<sup>6</sup> GIIN, 2013 cited in GIIR, 2013. <http://giirs.org/about-giirs/what-is-impact-investing>

<sup>7</sup> Kröger, Arne and Erber, Florian

financial capacity and resources and ensure the ability to repay the invested capital plus interest.

**Performance measurement** in social businesses involves various challenges as the focus is on social impact rather than solely financial returns. This makes accountability more complicated as it can be difficult to make social change tangible and quantifiable (Austin, Stevenson, and Weiskillern, 2006).

Based on the provided theory of SE and its basic components value proposition, value architecture and revenue model this work focuses on income and profit generating social businesses. Impact Investment is needed to fund such businesses and close the financing gap numerous social enterprises are facing. The basic investment criteria support the ability to evaluate whether a business could be considered as potential investment.

The present work will provide an analysis of the decision making process impact investment institutions undertake in order to identify investment fields, market trends and investment opportunities. The research question is: Are there market opportunities for impact investors in the specific sector? Are there existing solutions that might offer attractive investment propositions?

### **3 Methodology**

The methodology of this work is tracking a decision making process based on the research question that starts from the macro level of a vast field of investment and leads to the micro level of concrete investment opportunities based on the provided literature in Chapter 2. This process will be applied to the demographic challenge of population ageing in Europe, meaning the analysis of problems elderlies in Europe are facing. This phenomenon might be interesting for the impact investing industry as the state is not able to handle the challenge of an increasing number of old aged individuals alone. As Germany is the most populous country of the EU-27 today and UK is projected to be the most populous in 2060 these two countries will be subject-matter of the analysis. In addition France, the third populous country of EU-27 will be included in some cases where it might be helpful for illustration.

(1) The ageing field of investment will be analyzed with regard to existing problems/ market failures/ current trends and problem size in order to identify the market potential and the needs of the group of beneficiaries (based on section 2.3 and using basic principles of market research also

applied by Volkmann, Tokarski, and Ernst in the field of SE in 2012). As elderlies' problems and needs are complex the research will be clustered into sub domains.

For this purpose gerontological research papers like "Ageing International", "Ageing & Society", "European Journal of Ageing" etc., studies like 'Elsa' and 'Generali Altersstudie' and latest ageing reports by EU were reviewed and the relevance of problems in the news during the period of conducting the work (09/2013-12/2013) was detected. The identified problems then have to be scaled by market size in order to ensure that they affect a considerable number of people. Quantitative data from Eurostat, Statista and representative studies like Elsa and Generali Alterstudie on 65+ will be used for this. The market potential then can be scaled by size of each problem according to the identified percentages of affected people 65+. Later various social businesses tackling market needs on ageing will be screened. If the identified social enterprises really deal with the previously identified problems we will get confirmation that these subjects are the crucial ones.

(2) We start conducting the analysis of the impact investment market through gathering information about main players active in the field. For this purpose a practical oriented approach will be chosen: portfolio analysis of impact investors active in the sector that are member of EVPA. Finally the portfolio analysis should provide information about active impact investors in the field (possibility of syndication/co-investments to share risks, sharing knowledge etc.), maturity of the market and existing solutions with the potential to be scaled-up, replicated or potential role models.

(3) One social business which provides an investible innovative solution for one of the identified problems will then be exemplified using the investment criteria explained in section 2.3. The matrix below shows the procedure the analysis follows.

Impact Investors are looking for social entrepreneurial solutions that provide innovative answers to urgent social issues. It is important to be aware of the causes and dimension of social problems, trends, opportunities and quality and quantity of solutions already provided. This strengthens the ability to identify appropriate social businesses that are ready for investment and scaling up. Thus this work develops and tests the decision making process for sector specific impact investment.

Outcome Matrix – decision Making Process of investment opportunities for impact investors from Macro to Micro Level

Sector			
Analysis criteria			
<b>1. Field of investment:</b> <ul style="list-style-type: none"> <li>• Social Problem</li> <li>• Future trends</li> <li>• Size of the problem</li> </ul>			
<b>2. Market analysis:</b> <ul style="list-style-type: none"> <li>• Impact Investors active in the market</li> <li>• Maturity</li> <li>• Existing solutions</li> </ul>			
<b>3. Investment opportunities:</b> <ul style="list-style-type: none"> <li>• Market failure</li> <li>• Mission</li> <li>• Resource Management</li> <li>• Scalability</li> </ul>	SE1	SE2	SE3

Table 1: Outcome Matrix for Decision Making

source: own table

#### 4 Market Research and Analysis of the Investment Field/Group of Beneficiaries

##### 4.1 Scale of the problem of an ageing Europe

Below we selected important facts to provide an overview on the general scale of the problem.

In this work ‘ageing society’ or ‘ageing population’ is defined as the increase of ‘the regional population of 65 years of age and over’ (OECD, 2009). The underlying demographic change is rooted in rising longevity due to progress in medicine, health care, sanitation, growing prosperity etc., lower and declining birth rates and the ageing of the “baby boom generations”. The median age of EU-27 population is going to rise from 2010 40.5 years to 47.6 years in 2060 (Eurostat, 2011) which is considerable. This process is accompanied by a rising ‘old age support ratio’, e.g. fewer people of working age (15-64) will have to support more pensioners. As to population numbers the UK is projected to replace Germany as the most populous country of EU-27 until 2060.

The demographic changes will be dramatic as there haven’t been any inversed pyramids of age distribution in history before. (Eurostat, 2011) Challenges for governments and societies like strains on pension and social security systems, pressure on public budgets and fiscal systems and the increasing demand for healthcare services and long-term care will be huge.

On the other hand, demographic change presents growing opportunities for SE. The development of new products, new technologies and services based on the needs of elderlies offers a great potential in order to enable older people to live in their own homes for a longer time, to stay autonomous (Eurostat, 2011) and to improve their quality of life. Based on these changes this paper investigates the most pressing problems of the 65+ generation and captures new markets for SE investments. *“The challenges of an ageing Europe provide motivation as well as opportunities for social investments, equipping our societies with tools to adapt to a historically new situation.”*

(Morel, Palier, & Joakim, 2012)

#### 4.2 Ageing in Germany and UK: situation analysis & future trends

For our focus countries Germany and UK (Germany is the most populous country today and faces severe problems of an ageing population and UK the most populous country in the future) and to less extend France (being the third populous country of the European region). We will now provide an overview of the ongoing demographic change by selected facts and future trends on ageing.

	France	Germany	UK	EU27
<b>Population 2012<sup>8</sup></b>	63.30	81.80	63.20	501.9
<b>Population 2050 (est.)<sup>9</sup></b>	72.40	71.50	79.60	520.5
<b>Share of population 65+ in 2010 in%<sup>10</sup></b>	16.6	20.7	16.4	16.0
<b>Share of population 65+ in 2050 (est.) in %<sup>11</sup></b>	26.0	32.3	23.4	27.8
<b>Median Age 2012<sup>12</sup></b>	40.2	45.0	39.7	41.5
<b>Old dependency ratio 2012<sup>13</sup></b>	26.6	31.2	25.7	26.7
<b>Old age support ratio 2010<sup>14</sup></b>	3.8	3.2	4.0	3.5 <sup>15</sup>
<b>Old age support ratio 2050 (est.)<sup>16</sup></b>	1.9	1.6	2.4	1.8 <sup>17</sup>

Table 2: Demographic Facts of Population Ageing

source: own chart

<sup>8</sup> Population Reference Bureau, 2012

<sup>9</sup> Population Reference Bureau, 2012

<sup>10</sup> [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php?title=File:Percentage\\_of\\_population\\_aged\\_6\\_5\\_years\\_and\\_over\\_on\\_1\\_January\\_of\\_selected\\_years.PNG&filetimestamp=20110609134420](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Percentage_of_population_aged_6_5_years_and_over_on_1_January_of_selected_years.PNG&filetimestamp=20110609134420) (accessed November 21, 2013)

<sup>11</sup> [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php?title=File:Percentage\\_of\\_population\\_aged\\_6\\_5\\_years\\_and\\_over\\_on\\_1\\_January\\_of\\_selected\\_years.PNG&filetimestamp=20110609134420](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Percentage_of_population_aged_6_5_years_and_over_on_1_January_of_selected_years.PNG&filetimestamp=20110609134420) (accessed November 21, 2013)

<sup>12</sup> Eurostat, 2013. Median Age of Population 2012: see table in Appendix 3.

<sup>13</sup> Eurostat, 2013. Old dependency ratio 2012: see table in the Appendix 4.

<sup>14</sup> OECD, 2011

<sup>15</sup> OECD, 2011

<sup>16</sup> OECD, 2013: <http://dx.doi.org/10.1787/888932381760> (accessed November 21, 2013)

<sup>17</sup> OECD, 2011

Although the three countries are all facing the same challenges there are noteworthy differences between them. For instance the median age in Germany is considerably higher than in France and UK. Germany in any case experiences the biggest challenge of an ageing society because it faces the additional problem of a shrinking population.

#### 4.3 Well-being of elders

In order to handle the complexity of the problem of elderlies' needs properly we clustered it into different domains. The approach is based on the literature of well-being. According to the philosopher Roger Crisp 'well-being is most commonly used (...) to describe what is (...) good for a person' (Thin, 2012). As a person's general state of subjective well-being (SWB) or satisfaction depends on its own evaluation of life, there are different domains of SWB (Rojas, 2006). After classifying these domains we analyze in which areas elderlies are dissatisfied or feeling uncomfortable with their situation in life. Thus we discuss related problems and then scale them regarding size and importance.

#### 4.4 Subjective Well-being domains

As the online research did not lead to any useful results concerning age-specific SWB categories we apply the general SWB domains to the age cohort 65+. This work will afterwards investigate age related problems and needs in the selected domains elderlies are facing.

In the following section three different theoretical papers and three real life indices on SWB will be reviewed: Argyle (2001), Heady and Wearing (1992), Rojas (2006), OECD Better Life Index, UK Office for National Statistics Well-Being Index, Big Society Capital (BSC) Outcome Matrix. BSC was the first impact investment bank established in the UK. The process of using the same amount of theoretical and practical approaches to define domains applies more to reality than the use of only theoretical research papers. Each paper and each index defines the SWB domains slightly different. Consequently the seven approaches of defining well-being domains were checked against each other. The domains mentioned most frequently (in more than half of the six sources) were approved as important and used as input. The remaining domains were seen as less significant and excluded. Finally six main domains of SWB were identified: Income, housing, work, health, leisure and relationships. Find the domain building matrix in the appendix 2.

To assure major domains are covered with the applied method, we assigned every social business which applied for funding in the field of ageing at SVF to one of the identified domains. As domains are to some degree related to each other we expect to identify social businesses that tackle multiple problems in the market analysis.

#### 4.5 Size of the problem and market potential

An important decision making criteria for an impact investor is the existence of a neglected problem of substantial size. As the ageing sector is facing various problems, thus providing appropriate market potentials it makes sense to review each domain on its own.

##### 4.5.1 Domain 1 – Income

The quality of life and well-being of an elderly is pretty much related to the financial situation. Being poor often brings about social exclusion, deprivation and discrimination. The elderly poverty issue currently leads to big discussions in Europe because it is expected to rise and become a major problem. In order to evaluate whether an elderly is at risk of being poor we use the Eurostat threshold of 60% of the national median income. The so called ‘at-risk-poverty rate’ which indicates that all those elderlies who are after social transfers still below the national median equivalised disposable income are at risk of poverty. Taking into consideration that the disposable income of an elder doesn’t consider any personal assets, it only provides information about the income in comparison to other citizens.<sup>18</sup>

#### **Problem: Elderly Poverty**

2010	France	Germany	UK	EU27
<b>Total population at-risk-of-poverty-rate in %<sup>19</sup></b>	13.3	15.6	17.1	16.4
<b>pensioners at-risk-of-poverty-rate in %<sup>20</sup></b>	8.4	13.4	22.9	13.9
<b>% of 65+ still in paid work (erwerbstätig)<sup>21</sup></b>	1.6	4.0	8.5	4.7
<b>Pension Expenditure % of GDP<sup>22</sup></b>	14.6	10.8	7.7	11.3

Table 3 Statistics on Pensioners in the EU27

source: Eurostat

<sup>18</sup> [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Glossary:At-risk-of-poverty\\_threshold](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Glossary:At-risk-of-poverty_threshold) (accessed November 21, 2013)

<sup>19</sup> [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Income\\_distribution\\_statistics/de](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Income_distribution_statistics/de) (accessed November 21, 2013)

<sup>20</sup> [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Income\\_distribution\\_statistics/de](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Income_distribution_statistics/de) (accessed November 21, 2013)

<sup>21</sup> [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/3-13012012-BP/DE/3-13012012-BP-DE.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-13012012-BP/DE/3-13012012-BP-DE.PDF) (accessed November 21, 2013)

<sup>22</sup> European Commission, 2012

Table 3 shows that on EU average elderly are less vulnerable to monetary poverty than the total working age population. The cross-country comparison shows a striking link between the categories in focus: high national pension expenditures correlate positively with a lower still-in-work status of 65+ and a lower poverty risk rate.

#### 4.5.2 *Domain 2 - Housing*

Housing for elderlies in Europe is a pressing issue from the angle view that old aged persons start facing the first problems or challenges at home with their everyday life due to their age.

##### **Problem: Need for new Housing Models**

Applying housing to elderlies includes how living at home can be designed in the most convenient way to maintain independent living in later life, the main desire of the cohort 65+ (Köcher, and Bruttel, 2012). For this purpose age-appropriate dwellings are prerequisite. The degree of satisfaction with traditional housing notably depends on the health status. In the case of becoming dependent on support and as a consequence being in need of care 59% of 65+ living in Germany declared that they desire to stay in their own housing in combination with mobile nursing service, 32% could imagine living in a nursing home. Innovative housing such as living in a multigenerational house is interesting for 19% of elderly and 12% declared that a flat share with other elders might be attractive (Köcher, and Bruttel, 2012).

According to the ELSA study 95.8% of elderlies aged 65+ are satisfied with their present accommodation (ELSA, 2010-2011). The Generali study confirms this in general. However, with the further rising life expectancy accompanied by more risk to health there will be a growing demand for new housing models, innovative housing modifications and models of mobile nursing services.

#### 4.5.3 *Domain 3 – Work*

Work is an important element in “purpose of life” considerations. Although retirement age is going to rise in Europe or has already been risen in some countries people retire quite early compared to their life expectancy.

##### **Problem: Missing purpose in Life**

2010	France	Germany	UK	EU27
Employment rate 60-64 year olds in % <sup>23</sup>	17.9	41.0	44.0	30.5
Employment rate 65+ in % <sup>24</sup>	1.9	4.0	8.5	4.7
Official retirement age <sup>25</sup>	65	65	m:65/ f:60	-
Effective Exit Age from the Labour Market	60.1	63.5	63.5	62.1
Life Expectancy people aged 65 <sup>26</sup>	21,2	19,4	19,5	19,2
Healthy life years people aged 65 <sup>27</sup>	9,4	7	11,3	8,8
Active in voluntary work age 65-74 in % <sup>28</sup>	36.9	28.0	30.0	-
Active in voluntary work age 75+ in % <sup>29 30</sup>	27.6	25.0 <sup>31</sup>	20.0	-

Table 4: Work and Retirement 65+in 2010

source: own table

Thus they could replace their ‘work’ with another meaningful activity and support the community they live in. The “potential” is marked by the fact that about two thirds of elderlies 65+ are either not actively working any more or not engaged in voluntary work. However, this figure does not take into account elder people who engage themselves in their communities unregistered or for example take care of their grandchildren. But even then we assume the majority of elderlies looking for a more satisfactory “purpose of life”. Creating a “new purpose” with new opportunities and roles in old age bears market potential. The importance of “meaning in life” for a person’s subjective well-being could well be combined with the 65+ cohort’s life experience and knowledge useful for societies. Thus we anticipate a growing number of SE in this specific segment of the market.

#### 4.5.4 Domain 4 – Health

A natural part of ageing is that changes in health may occur affecting SWB quite negatively. As the work concentrates on the 65+ only age specific health challenges such as late life depression, respiratory illness, arthritis, dementia, heart diseases, diabetes and cancer will be discussed below.

<sup>23</sup> [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/3-13012012-BP/EN/3-13012012-BP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-13012012-BP/EN/3-13012012-BP-EN.PDF) (accessed November 21, 2013)

<sup>24</sup> [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/3-13012012-BP/EN/3-13012012-BP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-13012012-BP/EN/3-13012012-BP-EN.PDF) (accessed November 21, 2013)

<sup>25</sup> <http://www.oecd.org/els/emp/ageingandemploymentpolicies-statisticsonaverageeffectiveageofretirement.htm> (accessed November 21, 2013)

<sup>26</sup> (Statista(2), 2012)

<sup>27</sup> (Statista(2), 2012)

<sup>28</sup> Provided data of Germany is from 2009

<sup>29</sup> Provided data of Germany is from 2009

<sup>30</sup> (European Foundation for the Improvement of Living and Working Conditions, 2011)

<sup>31</sup> data refers to volunteers aged 70+

Disease	% of diagnosed health conditions
Coronary heart disease	9.1
Diabetes	6.4
Cancer	7.8
Respiratory Illness	16.9
Arthritis	42.8
Depression	2.6
Dementia <sup>32</sup>	7.6

Table 5: Diagnosed Health Conditions England 65+ Source: ELSA 2010-2011

This work will focus on the problem of dementia for the following reasons: no medical treatment possible so far, public health priority in most European countries, high cost of treatment (Statista (1), 2013), disease complexity and lack of knowledge about the causes of the disease yet.

We expect that there is large space for innovation to improve the lives of people with dementia and their carers as currently there is no specific approved or successful curing treatment.

### **Problem: Dementia**

Dementia is one of the most serious reasons for disability among elders as in the future there will be a greater proportion of people aged 65+ and even of 80+ (European Commission, 2013).

There are an estimated 35.6 million affected people worldwide and this number is projected to nearly double in the next 20 years (Alzheimer's Disease International, 2013). The same source estimates the societal costs of dementia will exceed 1% of the GDP globally this year at \$604bn.

According to the UK government there are around 800.000 people living with Dementia in the UK<sup>33</sup> which is approximately 7.6% of the age group 65+ (experts expect a considerable rate of unreported cases). In Germany an estimated 8.3%<sup>34</sup> live with dementia. The governmental expenditures in Germany in 2010 for dementia were at €9,36 bn which was 3.7% of Germany's total health expenditures and 7.5% of the health expenditures 65+. Including all the expenditures on dementia it probably is the most expensive disease of individuals aged 65+ (Wallesch, Klaus-Werner, and Förstl, 2012).

Even though in all the three focus countries government action on dementia is strong they cannot meet the challenge alone. There is a need for improvements in communicating information and support for people with dementia, families and carers from the very beginning of the diagnosis.

<sup>32</sup> Calculation: 800.000 affected / 10,49m people 65+ ≈ 7,6% (approximate value)

<sup>33</sup> <https://www.gov.uk/government/policies/improving-care-for-people-with-dementia> (accessed November 21, 2013)

<sup>34</sup> Calculation: 1.4m affected / 16.85m people 65+ ≈ 8,3% (approximate value)

Prevention needs to be prioritized in order to reduce dementia cases, thus Dementia provides space for prevention and deferral projects.<sup>35</sup> Also innovations with increased use of technology both to support people living with dementia to stay in their homes and to improve their quality of life in care homes are needed.

#### 4.5.5 *Domain 5 – Leisure*

After retirement or with at least reducing working hours the cohort 65+ generally has more leisure time than any other age group. Successful ageing and the sensation of positive SWB are closely related to leisure activities and an engaged lifestyle (Adams, Leibbrandt, and Moon, 2010). As leisure especially after retirement pretty much overlaps with domains like relationships or work the domain is restricted to challenges an elderly might hinder to exercise leisure activities, an engaged lifestyle, work or to have relationships to others.

#### **Problem: Mobility**

Access to transport is essential for seniors in order to keep up these activities, having access to goods and services and to sustain social networks. But seniors increasingly with older age start experiencing mobility impairments. Although seniors are more mobile than ever and live an active life (Köcher, and Bruttel, 2012) there might appear age related physical limitations. Although in Germany 75% of elderlies have a car on their disposal at locations with less than 5000 residents (UK about 52%, all locations) and although public transport has improved in the past there is still lack of transport possibilities for older people particularly in rural areas. The lack of cultural activities, low-threshold services for elderlies and availability of medical specialists there aggravates the problem. An overall market potential, however, is hard to estimate as it depends on the availability of infrastructure of each city or village and can vary widely.

#### 4.5.6 *Domain 6 - Relationships*

Relationships in terms of social contacts with family, friends and neighborhood are important indicators of SWB (Van der Horst, and Coffé, 2012). Relationships enhance the perception of belonging and being integrated in society, provide emotional support, decrease the risk of social

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<sup>35</sup> <http://www.bbc.co.uk/news/health-22531066> (accessed November 21, 2013)

alienation and support physical health (Cavallero, Morino-Abbele, and Bertocci, 2007). Loneliness and Social Isolation is the main problem affecting SWB of an elderly in the relationship domain.

**Problem: Loneliness**

The quality of relationships is an essential predictor of loneliness (Liu, and Rook, 2013). Loneliness is felt by a person if one experiences a lack of connectedness with others or inadequate relationship quality. It is a subjective, negative experience (Dykstra, 2009) and a serious problem for some elderlies. It is related to decreasing psychological well-being and raising health risks (Liu, and Rook, 2013). The perceived loneliness also increases with living without a partner and not having children (Beaumont, 2013). Generali study on older adults aged 65-85 in Germany shows that 19 % of adults in that age cohort sometimes feel lonely (even 26% of older adults aged 80-85) (Köcher and Bruttel, 2012). Representative studies on loneliness in older age in the UK show similar data with around 25% of elderly in this market segment feel lonely sometimes (Beaumont, 2013).

**Market Potential of the identified problems at a glance**

Find below an overview of the market potential on ageing in UK and GER based on following sources: Eurostat 2011, Statista 2010, Elsa 2011, Office for National Statistics and Generali Altersstudie 2013. (Mobility is missing as the market potential can hardly be generalized and transferred to the country as a whole due to regional differences)

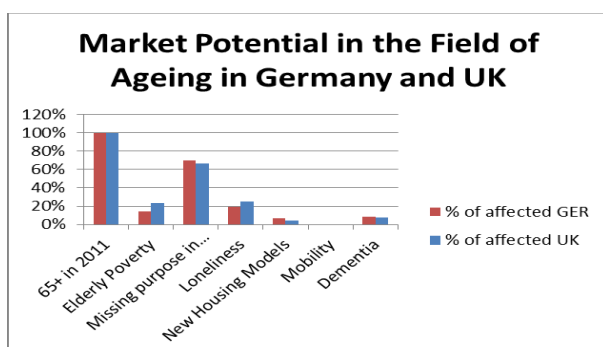


Table 6: Market Potential in the Field of Ageing in Germany and UK<sup>36</sup>;

source: own chart

Table 6 shows the market potential for the identified opportunities. The dimensions for each identified opportunity are intense. Hence these six areas offer attractive market potentials for SE and SE could affect millions of old aged individuals positively.

<sup>36</sup> See Appendix 5: sources of data for number of affected people/ market potential

#### 4.6 Overview of the Impact Investment Market

The overall social investment market in the UK in 2011/12 is estimated at £202m (€237m) (City of London Economic Development, 2013) compared to a considerably smaller market in Germany at approximately €24m.<sup>37</sup>

Big Society Capital UK for example provided finance to impact investment organizations in 2011 with the aim that social businesses prove themselves, scale-up etc. The bank currently has £600m to invest. Nesta's 'Innovation in Giving Fund' was launched by the Ministry for Civil Society as a part of a £34m package<sup>38</sup> to invest in the social sector. Germany is currently still heavily dominated by welfare organizations although their preeminent position slowly dissolves through subsidiarity. Moreover the shrinking amount of public funds promotes competition so that the Social Business Sector with its market oriented approach has been growing in recent years (Dreßler, 2000). Based on present developments investible social businesses with resilient income models and scalable impact measurement can be expected to further grow also in other European countries.

#### 4.7 Analysis of the impact investment market in the field of ageing

Portfolios of impact investors are valuable indicators for the availability of sustainable business models of SE as they provide funding only if they can expect the repayment of risk adjusted rates of return. Thus the work will screen the portfolio of EVPA members that could potentially invest in elderly (group of beneficiary) in UK or Germany. EVPA, founded in 2004, is a unique network for organizations interested in or active in venture philanthropy across Europe and thus a good source for identifying the main actors in the market (EVPA, 2013). However, one has to aware of the fact that not all impact investing institutions are members of the association.<sup>39</sup>We include all European investment institutions in the research process because some not located in UK or Germany have a cross-border investment scope like SVF or 'Kois Invest' of Belgium which is invested in the German social enterprise 'Auticon'. A careful analysis of major player active in the field is prerequisite to understand the market and be able to make statements about maturity and social

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<sup>37</sup><http://www.theguardian.com/social-enterprise-network/2013/oct/25/social-investment-germany-europe> (accessed November 24, 2013)

<sup>38</sup><https://www.gov.uk/government/news/innovation-in-giving-fund-to-back-established-charities> (accessed November 24, 2013)

<sup>39</sup> see Appendix 6. a list of the screened impact investing institutions

enterprises which already provide innovative business models which can deliver market-based solutions in a sustainable and scalable way.

13 out of 24 screened institutions are currently involved in elderlies' issues. Nevertheless only 11 SEs out of 15 identified are currently represented in a portfolio<sup>40</sup>, because two out of the 16 are winners of the Big Venture Challenge 2013-14 and two do receive active support but not impact investment by Nesta and are consequently listed among the SEs but do not have a financing yet. The portfolio analysis shows that many of the institutions are already involved in the ageing issue. Most of the SEs are located in the UK which can be explained by UK's leadership role in adopting impact investment in combination of political support, the structure of the social system and the concentration of impact investment institutions there.

As governments can't handle the challenge of ageing population alone, and due to the need for innovative approaches interactions of diverse economic actors including SE can play an essential part in addressing the ageing issue with the implementation of decentralized solutions (Müller, 2012). Although social businesses have recently become important actors in the field of an ageing population the portfolio analysis shows that the respective market is still in a development stage. Thus, market potential is still far from being exhausted.

Although UK offers a more developed market than the rest of Europe we anticipate countries like Germany to catch up as there is a substantial market potential and a growing interest for impact investment. KfW development bank for instance established a program to support the financing of social enterprises in 2012 (Bundesministerium für Familien, Senioren, Frauen und Jugend, 2013). Additionally there are a number of interesting social enterprises that appear not to be investable yet but will be in the future.

The ageing market, however, still lacks in providing payment-by-result solutions like Social Impact Bonds (SIB) which 'involve(s) a set of contracts, the basis of which is an agreement by government to pay investors for an improvement in a specific social outcome once it has been achieved.' (Nicolls and Tomkinson, 2013 cited in Government UK, 2013) This method of financing is already

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<sup>40</sup> see Appendix 7. the identified SEs

established in other investment areas. We expect this innovative method of funding to be used by SEs in the near future.

#### 4.8 Existing Solutions

Existing social businesses that already provide investible solutions can be used as an indicator for business models with a proof of concept and for the maturity of the market. Nevertheless as SE thrives from innovation it is important to also include social enterprises that are not considered as investible yet. Hence this section includes innovative ideas from all stages of development. Additionally interesting social businesses identified during the research process which might not have an impact investor yet are considered within this section.

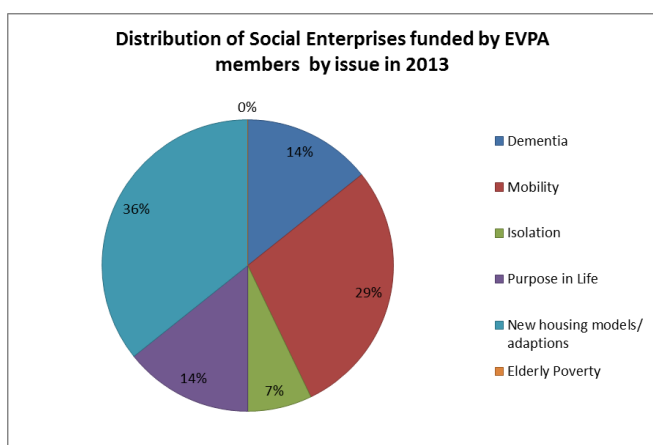


Figure 1: Distribution of 15 SEs that received support by EVPA members by issue 2013 source: own figure<sup>41</sup>

The distribution of the 15 SEs among the identified domains is dominated by new housing models and by mobility, basic issues and absolutely essential for a decent living. Hence beneficiaries regularly receive state benefits in most European countries to meet these needs. Social businesses active in that segment is able to provide innovative sustainable investible business models as they can regularly count on reliable revenues. The other segments like isolation reflect areas which are not necessarily subsidized by public authorities and hence have to establish an earned income strategy through fees, sales or membership dues mostly paid by the beneficiaries themselves. Consequently it will be more challenging to create investible business models in these segments with resilient financial management.

Another interesting finding of the portfolio analysis of investments in SEs is that no SE which focuses directly on **elderly poverty** was identified. Nevertheless various SEs usually consider the

<sup>41</sup> See Appendix 7. the list of the 15 SEs figure1 bases upon

user's ability to pay. However, many of the SEs address the problem of elderly poverty in an indirect way with an implemented co-creation model which involves the beneficiaries themselves in the production/distribution of a product or service. In return the social business provides elderlies with an earned income (i.e. 'the Amazings'). Involving the target group in the process can strengthen a sustainable value proposition and leverage scarce resources by the social entrepreneur (Müller, 2012). Most identified businesses were in the field of **housing/ new housing models/ adaption**s including social care at home. Social Business in this segment provides resilient income models, well established business concepts and innovative successful investments. Two existing solutions with a realistic ability for further growth should be highlighted: '**CASA Care and Share Associates**' (CASA, 2013) and '**Shared lives plus**' (Shared lives plus, 2013).

CASA is a proven business model with track record that provides home care to elderly and disabled individuals through a social franchise system with presently five franchise companies. It is owned by its employees. Average turnover with average staff of 40 is £500.000 and once a franchise achieves break-even they pay a license fee of 4.2% of the turnover to CASA. People are trained by the staff to reduce their dependency on more expensive and intrusive services which saves money but also increases the elderlies' quality of life (European Social Franchising Network, 2013).

Shared lives plus is a successful social business in the UK where elderlies are placed in families as an alternative to home care and care homes. It will be suggested as investment opportunity in chapter 5.

In the field of social care elderlies regularly are entitled to benefits from local Councils ('Attendance Allowance'<sup>42</sup> in the UK, 'Pflegegeld'<sup>43</sup> in Germany). In both countries the state provides financial support to beneficiaries which is probably one reason for the sound financial performance SE in the field shows. Another main reason is that the represented business models provide high levels of efficiency. Therefore we anticipate these schemes to gain in importance in the impact investment market in Germany and other European countries where governments provide financial support to its beneficiaries.

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<sup>42</sup><http://www.ageuk.org.uk/money-matters/claiming-benefits/attendance-allowance/> (accessed November 25, 2013)

<sup>43</sup> since 01/01/2013 the German government implemented a new nursing dependency level for people living with an advanced stadium of Dementia

SE tackling the problem of 'Missing Purpose in Life' provides several convincing innovative social businesses. '**The Amazings**' supported by Nestas 'Innovation Giving Fund' is a social business that establishes online/video craft classes taught by elderlies (The Amazings, 2013). In order to be seen as investible by impact investors the income model and pricing strategy might become more persuasive. Another concept, '**Encore Careers**', is a fellowship model which receives Nesta's support to be tested in the UK, named '**Encore Futures**'. The concept is placing corporate executives into charity placements at the end of their career (Encore Futures, 2013). A promising innovation called '**Granny Aupair**' (GER) is an agency that uses the experience and skills of old aged and place these elderlies with families abroad. Through its membership fees the company has in contrast to many other social businesses in this segment the potential for a sound income and revenue model (Granny Aupair, 2013). What all the businesses tackling the 'Missing Purpose in Life' have in common is that they place elderly as the solution to problems in communities rather than being a problem. As the problem is transformed into a resource we anticipate respective SE to increase in the future. Even more it could become a potential trend area for SE.

**Dementia** is subject to many social enterprises identified during the analysis. Often dementia is targeted secondary like providing one service for dementia patients among multiple other services for elderlies. Two sound business models which directly tackle dementia-related problems were identified: '**Ilse weite Welt**' (GER) and '**Active Minds**' (UK). Both SEs provide customized devices developed together with experts to support the specific needs of dementia sufferers, be it special books, puzzles, DVDs or exercising activities offered through an online shop (Ilse weite Welt, 2013) (Active Minds, 2013). We expect more business models to enter the market as dementia will increase and Ambient Assisted Living (AAL) solutions can't yet be provided at an affordable price.

Mobility is a problem which SE addresses in different ways. The '**HCT group**' provides community transport for individuals with mobility impairments. It is one of the most successful SEs in the UK and acts like a role model for the sector.

Two other SEs in the mobility field deal with the cause of the problem of restricted mobility: 'Siel Bleu' and 'The Oomph'. 'Siel Bleu' is a French SE which reduces mobility problems through

physical activity. Siel Bleu cooperates with residential homes, communities and associations and is to present strong network and local partnerships (i.e. government) to build a funding mechanism. It is an entrepreneurial role model due to its great success (Siel Bleu, 2013).

The Oomph is currently still in early stage and aims to improve the Well-Being of elderlies living in care homes through innovative fitness programs (Oomph, 2013).

The impressive scaling-up and replication of the presented business models in terms of mobility proof the obvious need for SE in that area that provide a strong and efficient concept with a measurable impact for the vast amount of elderlies living in residential homes and becoming part of their chairs.

**Loneliness and social isolation** is a problem which seems difficult to be addressed by SEs with a resilient income model. Although various social businesses tackle isolation in the broader sense like “Shared Lives Plus” which integrates elderlies in the family or SEs that provide a new purpose in life. The portfolio analysis of impact investments didn’t result in any investments.

The main problem seems to be the provision of sustainable models which work independent of donations. A sound business model which could help elders out of their loneliness and isolation are social networks tailor-made for elderlies. ‘**Southwark Circle**’ or ‘**Helicom**’ aim to interconnect elderlies with their communities. Southwark Circle is a social platform that aims to reinforce the community. It focuses on active participation of its members in the community who want to enjoy hobbies and interests with others by matching them. Additionally there are individuals of all ages in the network, so called ‘neighbourhood helpers’ which are willing to share their skills to help old aged (Southwark Circle, 2013). Southwark Circle basically is a financially sustainable (membership fees) and scalable business model. An overview of the different social enterprises, the related impact investors and the different problem areas they cover is added in the annex of this work.

## **5 Investment opportunity**

Through the portfolio analysis we screened various investments of impact investors and could identify a wide range of different organizations operating in the space between the state and the market in the area of ageing. In the following we will apply the investment criteria illustrated in

paragraph 2.3 in order to present a potential investment opportunity. The choice is ‘Shared lives plus’ with a proof-of-concept; it is used by approximately 15.000 people in the UK and is currently seeking investment for further expansion in the capacity of the scheme.

SE	Shared lives plus
Problem	People can have a wide range of care support needs (e.g. learning disabilities, mental health support needs, dementia etc.)
Market Failure	Current answer to people with a care need is often inappropriate or expensive
Mission	“To develop small-scale, community- and family-based services, built around individuals’ wishes, needs and gifts, such as Shared Lives, Homeshare and micro-enterprises.”
Resource Management	<ul style="list-style-type: none"> <li>• Average investment requirements around £250.000 for 75 new arrangements →potential incubator investment model could enable expansion of the Shared Lives Model across the country</li> <li>• Shared Lives Incubator makes up-front investment needed to support expansion (external funding partner)</li> <li>• Provision of strong management &amp; business support which maintains the scheme independent with the Shared Lives Incubator model: support of local schemes with a partnership between Community Catalysts, Social Finance, MacIntyre Charity and Shared Lives Plus</li> </ul>
Performance Measurement	<ul style="list-style-type: none"> <li>• Cost efficiency: cost-benefit analysis estimates potential savings of £26.000 per person and year for people with learning disabilities and £8.000 per person for people with mental health needs</li> <li>• Potential impact on reducing social isolation/ strengthening support in communities (no analysis or proof is conducted so far)</li> <li>• Care Quality: 38% of Shared Lives schemes received the top rating of excellent which is twice as much as conventional care models.</li> </ul>

Source: Social Finance<sup>44</sup>

In the case of Shared Lives Plus the basic criteria which are prerequisite for further investigation are satisfied and further investigation with the investment committee could be recommended.

## 6 Conclusion

The challenge and limitations of this work exist as impact investing is a new field of research. There is a limited of data, academic research, literature and practical examples so far. The resources available were used to develop and test the decision making process with the demographic phenomenon of population ageing and anticipate opportunities for impact investment. The strategy of using EVPA members’ portfolios as the industry benchmark for instance restricts the findings in this work to businesses financed by these member organizations.

An established outcome matrix was applied for the analysis of the decision making process impact investors undertake to identify a field of investment, market trends and investment opportunities. It

<sup>44</sup> <http://www.socialfinance.org.uk/resources/publications/investing-shared-lives-0> (accessed December 24, 2013)

can be seen as appropriate to answer the research question. This process could also be transferred to other neglected problems in society besides population ageing.

With regard to the particular case of this work, it demonstrated that the market of ageing is a promising area for impact investing in UK, Germany and beyond. Following the research question it showed that there are various market opportunities that provide space for social entrepreneurship and impact investment. Segmenting the problem of population ageing into six domains allowed to identify the different challenges in the vast field countries are facing. With the careful elaboration of the needs of the target cohort various innovative social businesses that successfully tackle the diverse neglected problems with high efficiency and a strong impact were classified. Selected SEs that established resilient income models could be identified which act like role models. Moreover examples for investible targets were presented and promising innovative solutions that appear not to be investible so far introduced. To date especially in Germany but also in some identified problem segments in the UK there is a lack of investible solutions. Ageing provides a ready market with a need for intervention in various fields which is not yet addressed satisfactorily by innovative solutions. Given the growing challenge of an ageing Europe, we expect an increasing number of social enterprises entering the market in that field and playing an important role in impact investor's portfolio.

To date impact investment beside the UK is a Greenfield across Europe. Thus various suggestions for future research can be made: further examination of one particular SWB domain and the related opportunities/ solutions for Impact Investment 65+; identification of major impact investors/ impact investment markets in Europe beside the established market in the UK; potential adaptability of Social Impact Bonds on ageing; applying the decision making process elaborated in this work to other challenges in society that provide space for SE or setting a different country focus on other regions of Europe or even other cultures across the globe.

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