



NESST CASE STUDY

# Siedlisko

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Co-investing for Social Inclusion

# Siedlisko

## **SOCIAL PROBLEM**

Young people with intellectual disabilities in Poland are at high risk of social exclusion and unemployment. Currently, only 6.4% of people with intellectual disabilities participate in the labor market. Out of the total population registered in labor offices, 3% are people with disabilities registered as unemployed and seeking a job. People with intellectual disabilities made up only 2.7% of that 3% of the registered disabled population.<sup>1</sup>

## **SOLUTION**

Siedlisko is a social enterprise located in Staniszcze Wielkie – a little town in the Opolskie district. It runs a nursing home providing full-time high-quality care for seniors and people with chronic illnesses, and also provides catering and laundry services to local companies, individuals and public institutions.

## **BUSINESS MODEL**

The social enterprise trains and employs youth with intellectual disabilities and long-term unemployed people as caregivers of the residents and in running the catering and laundry services. They develop friendly relationships and provide support based on the active model of living (based on the belief that each person should stay active and independent, his/her health permitting), overcoming stereotypes and enabling seniors to taste and experience life.

In the catering unit, people with disabilities work as a chef's helpers, coordinated by qualified specialists. The service is high quality, providing carefully selected products. In order to respond to the clients' expectations and needs, the offer is improved on a regular basis, which leads to an increased number of repeat customers.

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<sup>1</sup>Rights of People with Intellectual Disabilities, Access to Education and Employment, Poland. Open Society Institute, 2005

([https://www.opensocietyfoundations.org/sites/default/files/poland\\_2005\\_0.pdf](https://www.opensocietyfoundations.org/sites/default/files/poland_2005_0.pdf))

## IMPACT AND RESULTS TO DATE

Siedlisko opened its doors to clients in July 2015. Currently, it provides full-time care to 24 residents, with more people on the waiting list, and the catering services serve more than 7,700 meals per month to schools, hospitals, companies and private events. It employs 33 people from the local community, including women over the age of 50 and long-term unemployed persons, out of which 17 are disabled, with almost no chance to find a job on the open labor market. Almost 50 people with intellectual disabilities received vocational training and more than 115 family members of persons with intellectual disabilities received support from Siedlisko. The enterprise reached break-even in early 2017, with an annual sales income of USD 414,000.



## Vision for the Future

Siedlisko identified two growth strategies in response to the increasing demand for nursing services among Poland's aging population: (1) diversification to home-based nursing services for the elderly and other dependent people and (2) expansion of its facility. The growth will lead to the creation of five new jobs for people with disabilities and to a USD 30,000 sales increase per year.

The home-based care will be provided based on the needs of the client – permanently (24/7) or for specific days and times. The idea of home-based care started as a pilot, offering assistance at night, during the weekends and holidays. The team considered providing a wide range of services, from complex diagnosis to assisting with regular tasks (i.e. shopping, cooking, going for a walk), basic medical care, or one-off support, during the evenings, weekends, and holidays. Starting with the second half of 2019, these services will be included in the regular offering of the social enterprise.

Siedlisko plans to add 160 m<sup>2</sup> to its building to accommodate six new residents. With 30 people in total, the house will maintain its intimate and home-like feeling. The enterprise also plans to add more facilities, including a common room on the ground floor and a rehabilitation room on the first floor.

Furthermore, in order to contribute to a better quality of life of its disabled employees, thus maximizing its social impact, Siedlisko plans to build a supported housing system, providing them with the opportunity of living independently. Currently, 80% of the disabled employees live in a local social welfare facility, with little control over their own lives, unable to decide on their activities, leisure time, budgets, etc.

Siedlisko plans to document its business model, as a place of vocational training and work for at-risk communities, and to help replicate its model in other locations.



**Joanna Pietrzela is the vice-director of Siedlisko, and she oversees the organization's catering business.**

## Leadership Team

The Association for Assisting the Persons with Disabilities Siedlisko, established in 2006, founded the social enterprise. The social enterprise is led by an amazing team of three experienced and passionate women.

**Teresa Truch**, director and deputy chairman of the board, worked for more than 15 years in the local school as a teacher and has a master's degree in special education. She is responsible for managing the healthcare center (including home-based services), recruiting young people with disabilities and the overall logistics.

**Joanna Pietrzela**, vice-director and chair of the board, holds a master's degree in social pedagogy and has almost 30 years of experience as a teacher of youth with special educational needs. Her responsibilities include fundraising and managing the catering business, including ensuring quality control and efficient procedures, recruitment of staff, cooperation with suppliers and contractors, and filling orders.

**Magdalena Grzymek**, board member, holds a master's degree in geronto-pedagogy and completed postgraduate studies in education of people with intellectual disabilities. In addition to overseeing the enterprise's fundraising, she is focused on human resource matters.

# Challenges and Opportunities

## KEY OPPORTUNITIES

- The team developed and proved the models for labor inclusion of young people with disabilities, as well as a functioning Active Model of Living methodology for elderly and dependent people. These are key success and differentiating factors in the market.
- There is a growing demand for nursing homes in Poland, especially due to emigration to Germany of family members who are no longer able to care for elderly relatives. The elderly need a professional, home-like type of service, to replace the care traditionally provided by the family.
- Siedlisko has a strong business model (with diverse income streams) with clear goals and results, operating in an industry with moderate local competition.
- The business relies on a professional, highly qualified team. The expansion plans are implemented by a strong management team, flexible, open to challenges and manageable risks.
- The model relies on key partnerships with the EU, NESsT, the local municipality and regional self-government, engaging other stakeholders (advisers, supports, volunteers).

## KEY CHALLENGES

- The business model generates significant social costs, as most employees need additional training and support. Also, the model needs significant start-up and expansion investments. There is limited capacity within the nursing care facility, even with the new significant real estate investment. The replication and home-based care provision are the appropriate scaling strategies, although they too will require reliable and committed partners.
- There are also human resources related challenges, coming from managing a diverse team, with different support needs and levels of productivity.

# NESsT Portfolio Membership

At the end of an extensive due diligence process, NESsT invited Siedlisko to its portfolio in 2014, one year after the enterprise launched its operations in Poland. NESsT invested almost USD 75,000 in grant funding, disbursed in five different installments. NESsT initial support allowed the social enterprise to finalize the construction of the nursing home and to launch its employment program.

The value of the non-financial services provided to the social enterprise to date is USD 55,000. The main areas of support are: financial management, fundraising and pitching preparation, legal and governance advice, growth strategy, impact measurement, including surveying its marginalized employees. NESsT and Siedlisko wanted to understand the quality of the jobs the social enterprise generates. They therefore decided to annually survey the social enterprise's employees in order to measure the level of income and job security, and the overall impact on the quality of their lives.

When NESsT started working with Siedlisko, the social enterprise had a substantial amount of debt. It had to take several loans to cover ongoing cash flow gaps and the investment needs during the start-up period.

Some of these loans were provided under very friendly conditions, with low interest rates and longer repayment periods from social investors like TISE. Others from mainstream banks were more expensive, creating a drain on the social enterprise financials and ability to grow. Too much of the revenues generated were designated to cover debt expenses, affecting the social enterprise margins and its available cash for further investments.

Given the funding needed for the enterprise's expansion plans, Siedlisko and NESsT decided to assess different options to restructure this expensive debt in order to free up the social enterprise's cash. In addition to this restructuring, the enterprise required USD 220,000 – 70% to be obtained from European funds. NESsT provided Siedlisko with a grant to cover costs incurred during the pre-expansion phase – to prepare all the documentation required by EU for this grant funding. The remaining 30% needed to be fundraised (as low interest loans or grants) or to be reinvested through revenues generated by the social enterprise (which would partially come from debt interest savings).

# Co-Investment: BNP Paribas and NESsT

NESsT was in touch with the CSR Office of BGŻ BNP Paribas, to explore ways of cooperating. Aware of Siedlisko's need for patient loans, NESsT made the introductions.



It was good timing, as the bank was considering developing a product for Polish social enterprises. It saw a potential in this market of approximately 5,200 social enterprises<sup>2</sup> in Poland. The bank has a great reputation as a social investor in Western European countries, and its Polish team was in the process of developing bank products catering to the Polish market.

“Social enterprises need external financing to grow and run their businesses on a wider scale. They therefore use grants and donations, but, unfortunately, these are not always enough to provide money for ongoing operations and development,” said Marcin Grabiszewski, director of the mortgage loan development office at Bank BGŻ BNP Paribas. “Although some of their income comes from commercial business, bank financing is often not available to them because they are unable to meet the same conditions as traditional enterprises, and thus have difficulty documenting the appropriate creditworthiness. Interestingly, as shown by the experience of countries such as Italy, Belgium, France and Luxembourg, social economy enterprises have a greater repayment rate than others. Hence our idea of cooperation with NESsT, providing direct support to social businesses and participating in initiatives to strengthen the social investment sector.”

Through the bank's process of product development, NESsT played an advisory role, sharing its knowledge and experience with soft loans and guarantees. It was also an intermediary in the bank's due diligence process and ended up guaranteeing the refinancing of the loan.

As it was a completely new initiative for each of the three parties involved, the process proved to be more complex than originally anticipated. It took more than one and a half years to build the relationship and structure a compelling financial package. The co-investment decision was made in September 2018 for a USD 20,000 loan with an eight-year repayment period and a 20% guarantee from NESsT. The loan refinanced the existing expensive debt, improving the cash flow of the social enterprise and its ability to grow. It was the first time that a bank in Poland got involved in financing a social enterprise with a bank product beyond the customary corporate social responsibility (CSR) types of grants.

This is one of the few genuine co-investment cases in Central and Eastern Europe. Based on this experience, BGŻ BNP Paribas launched an offer for social enterprises, included in its retail and business banking unit, and it is currently actively looking for new investees.

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<sup>2</sup> A Map of Social Enterprises and their Ecosystem in Europe, Country Report Poland, The European Commission, 2014.



It was a great learning process for all parties involved, overcoming the main barriers social enterprises face when trying to access bank financing, mainly related to level of investment readiness and lack of availability of collateral.

“The Polish labor market does not provide sufficient employment opportunities for people with intellectual disabilities. These young people need specialized, continuous emotional and professional support,” said Teresa Truch, director and deputy chair of the board for Siedlisko. “Many employers, despite their sincere intentions, are not ready to create jobs adapted to the specific needs of people with intellectual disabilities. That's why we created Siedlisko. The offer of our services corresponds to the needs of the local community and the competences of the disabled, to whom we provide stable and well-paid jobs. Our social company was created thanks to the determination of the leaders of the organization with co-financing from EU funds and the commitment and support of NESsT. We are glad to be the first social enterprise to receive the BGŻ BNP Paribas soft loan. Such a product will give many other social enterprises an opportunity to develop and grow.”

“We appreciate the activity and impact of social enterprises such as Siedlisko. We want to support them in the implementation of a difficult social mission and facilitate helping others through the provision of the needed financing. We feel obliged to do so,” continued Grabiszewski of Bank BGŻ BNP Paribas. “We draw on the experience of the BNP Paribas Group, which is a global leader in the financing of social enterprises and has its own policy of financing such initiatives.”

# Conclusions and Recommendations

Co-investment agreements such as the one between NESsT and Paribas Bank, are a strategic way to leverage additional financial resources for social enterprises. Social entrepreneurs need access to funding to grow, and most of them face difficulties in raising amounts below USD 250,000. But developing funding packages involving several capital suppliers is not an easy process. Many variables need to align. What is the contribution of each investor? What type of financial product will be offered? Under what conditions (including financial returns expectations, disbursement milestones, timeline, grace periods)? What documentation is required for due diligence? What is the post-investment involvement?

In the NESsT BGŻ BNP Paribas case, the main success factors were:

- An existing relationship between NESsT and BGŻ BNP Paribas
- Alignment of goals – to provide patient capital to Polish social enterprises
- Provision of complementary financial products – NESsT with a guarantee, BGŻ BNPP with a soft loan
- Clear need for the partnership – to help the social enterprise refinance expensive loans, to enable NESsT to accelerate investments for growth and to allow BGŻ BNP Paribas to deploy the first Polish social enterprise soft loan
- Willingness of each party to take some level of risk and allocate their own resources to make this pilot happen

Some challenges were related to: (1) the alignment of timelines and type of information required in due diligence; (2) the negotiation required in relation to the disbursement terms and conditions (which takes time and effort); and (3) the need to secure untied capital on the part of NESsT to guarantee the loan. As NESsT relies on philanthropic capital, the latter was one of most difficult barriers to overcome. It finally did so by using investment capital provided by a flexible social investor.

This co-investing case benefits both the social entrepreneur and the co-investors. For the social entrepreneur, the partnership provides not only access to new funding, but to new non-financial services, new connections and access to networks. For the co-investors, the agreement provided an opportunity to know each other very well, learn from each other and share risks. This creates the foundation for future co-investment deals, making them more efficient in their due diligence and contributing to deploying higher amounts of capital. The partners should build on their initial experiences and aim for long-term relationships.

The key recommendations, based on this specific co-investment case, are:

- The co-investors should align their due diligence and screening processes and timelines as much as possible, including the type of information required, and the format of required documents. It is important to avoid overwhelming social entrepreneurs, as they need to focus on the day-to-day implementation of the business.

- Accept that some processes cannot be rushed, while others should not be rushed. It's important to allocate time to build an open, trust-based relationship, to understand each other's motivation and to recognize each other's role in the ecosystem.
- Training is needed in order to bridge the world of social enterprises and investors, who, often, do not speak the same financial language. Social enterprises need to understand the premise and structure of a mainstream investor and what it means to be investment ready to meet their demands. Investors need to better understand social enterprises' financial realities linked to state subsidies and complex project-based types of financing.
- Philanthropic capital needs to be made available for the market-building efforts and for un-locking the power of co-investment. Most social enterprises in the region need investment readiness support, but very few donors or social investors are interested in sustaining these efforts. The efforts made by intermediary organizations should be recognized and paid for.
- Funds should be made available by public and philanthropic sources in order to guarantee private sector loans and investment vehicles. It's unlikely that intermediary organizations such as NESsT would have the capital to do this.
- Allocate time and resources to communicate about the co-investment work and share such case studies. It contributes to building the field and incentivizing other suppliers of capital to replicate innovate products and co-investing experiences.

## ABOUT NESsT

NESsT has been working for more than 20 years to provide dignified employment to lift people out of poverty in emerging markets. NESsT achieves its mission by raising philanthropic capital to invest in and develop social enterprises that create employment and viable income opportunities for the poorest communities facing isolation, discrimination, lack of job skills and poor education. To date, NESsT has invited 187 social enterprises to enter its portfolio providing them with an average of four years of support and investing more than USD 15 million in capacity building and direct funding. Though this investment, NESsT has contributed to creating more than 49,500 dignified employment and sustainable income opportunities.

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