



Case Study No. 40: Kek Madar and the Aushermans – Using a Soft Loan for Infrastructure Development and Growth

Introduction

In 2006, in Baltimore Maryland, Marvin and Lisa Ausherman met with Lee Davis and Nicole Etchart, co-founders of NESsT, to discuss their vision of supporting social enterprise in emerging market countries. Marvin, an established developer, and his wife Lisa, founders of the Ausherman Family Foundation wanted to make sure that wherever they placed their philanthropic giving, would encompass a strong entrepreneurial vision and create sustainable impact. At the time, their philanthropic advisor shared information about NESsT, an organization that was developing social enterprises in emerging market countries. Marvin and Lisa asked numerous questions regarding the NESsT Portfolio. The fact that the organization was working in Slovakia had a great deal of appeal to Lisa, a Slovak descendent. They asked Lee and Nicole to send them a list of social enterprises from Central and Eastern Europe and they would select the ones that seemed most interesting and where they could make the greatest difference. They selected three in Central and Eastern Europe including Kek Madar, a social enterprise in Hungary that is tackling the exclusion of people with disabilities by providing them with training and permanent employment. After conducting due diligence, the Aushermans have been supporting Kek Madar for the past five years, and have seen the social enterprise grow significantly, currently employing nine people, and having placed another eight in the job market. As the social enterprise prepares to franchise its unique model in other parts of Hungary, its impact will grow exponentially and the Family’s social return on investment as well.

Support to date from the Aushermans and other philanthropists:

Capacity: USD 60,000
Financial:
 Grant: USD 97,000
 Loan: USD 55,000
Total: USD 212,000



Kek Madar

Eva is 37 years old and works as a full time cook at Izlelo Restaurant, a family friendly restaurant located in Szekszárd, a small town in Hungary about two hours from Budapest. As a person with a hearing disability, Eva had found it particularly difficult to find employment. In her country, 90% of people with disabilities are unemployed;

Eva prepares the day menu in the Kek Madar kitchen



particularly those living in smaller cities and town, and many are socially excluded as well. However, several years ago she began to participate in a training program in restaurant skills – food selection and preparation, customer service and dining room set up, kitchen and equipment maintenance - offered by Kek Madar, a foundation established to create economic and educational opportunities for people with intellectual and physical disabilities. With the exception of the chef, all of the people that work in Izlelo have some kind of disability, and along with the chef, they are all fully trained in the restaurant business. The restaurant, launched in 2007, provides them with employment and training, as they prepare to transition to full-time employment and independent lives.

In 2006 Kek Madar approached NESsT and entered the business planning process for a restaurant, which would train and employ people with intellectual disabilities and would offer a nutritious dining alternative to customers. With NESsT's capacity building and financial support Izlelo was launched in May 2007 and entered the NESsT incubation portfolio. The social enterprise received a startup grant to equip the restaurant which at that time was housed in the same building as Kek Madar's offices. The business plan offered a blue print for the types of capacity support the social enterprise would need during the start-up and incubation phase. This was managed and measured by the NESsT Performance Management Tool which provided goals and indicators for both the enterprise and social sides of the business. The enterprise received ongoing capacity support particularly around refining its product selection to meet customer tastes, strengthening its marketing and communications, fine-tuning its pricing structure, and continuing to train its staff on providing quick and efficient customer service.



Lunch time at Kek Madar

As the restaurant became well-known and highly respected, it reached a 90% customer return rate. However, limited space prevented the enterprise from accommodating its growing customer base, and in some cases led to long waiting periods and potential customer dissatisfaction. In 2009, the leader, Andrea, approached NESsT and the Ausherman Foundation with an ambitious plan to quadruple the size of the restaurant from a seating capacity of 25 to 100, allocating 60 seats to serve 150 customers on a daily basis and leaving the remaining 40 in a separate space dedicated to providing catering services. This expansion would lead to the creation of five new jobs for beneficiaries.



The enterprise needed significant funding to purchase a neighboring building to house the Kek Madar offices, which would in turn unlock significant grant funding from the European Union to pay for the expansion and refurbishment of the restaurant itself.



Andrea Meszaros talking about kek Madar at Social Enterprise Day (Budapest, 2012)

“The enterprise development support provided by NESsT was key in the planning and launch phases when we were figuring out the business concepts with the highest possible potential.”

Andrea Mészáros, Kék Madár

In a well-researched second business plan, the enterprise made a convincing case for the market and social impact potential of the expanded restaurant. There was a clear market demand for both the dining and catering services, which would expand the number of beneficiaries working at the restaurant. In addition, the Foundation had exceptional leadership, a strong, strategic and committed executive director, who won the “Most Inspiring Woman of the Year” (business category) award by a Hungarian women’s magazine. It had a solid project track record since 1997 and a history of winning significant grants and using them strategically. These factors carried a lot of weight when NESsT decided to offer a large long-term loan to support the growth of the business. By then it was apparent that Kek Madar was interested in and capable of expanding its social enterprise, so such a financing step would be advantageous for any future plans.

Through NESsT, the Ausherman Family provided Kek Madar a grant and loan combination totaling USD 85,000 (USD 30,000 grant and USD 55,000 loan) for the purchase of a new building. Had Andrea tried to apply for the loan from



Kek Madar provides catering services at Social Enterprise Day (Hungary, 2012)



commercial lenders, she would have been met with resistance, and would probably have had to put her personal home as collateral. The use of the USD 30,000 in grant helped to decrease the overall size of the loan, and allowed for payments that could be met with growth projections. USD 10,000 of the USD 55,000 loan was leveraged from a NESsT Board member.

The conditions were jointly determined by NESsT and Kek Madar in order to ensure the best loan solution to Kek Madar's need. The term was long enough to take into account the refurbishment period and the relaunch of the restaurant. This was also an advantage when the processing of the government grant was delayed by two years. NESsT decided to request a modest transaction fee and made it payable in installments, depending on the business performance (revenue) of the restaurant, in order to provide flexibility for the management. It accepted the repayment schedule proposed by Kek Madar, namely equal annual installments. The loan was backed by collateral, a mortgage on the newly purchased building. This is also standard practice for real estate loans in the social finance sector, and Kek Madar agreed to this condition.

The most challenging part of the loan deal was the documentation, given that it was a first for NESsT and therefore required Board approval as well as serious legal work. The loan was extended from the organization's US entity, given requirements in Hungary that limit lending to accredited finance institutions. The loan was assessed by an independent Investment Committee, who deemed that the enterprise showed all indications of repayment and that the infusion of infrastructure capital made good sense for the growth of the business. There is no doubt that this investment was the right instrument to use in the Kek Madar case and that supplementing the loan with a grant helped to determine the optimal level of debt that the organization could comfortably take on and repay. The Foundation is finally in the process of preparing the refurbishment of the restaurant and plans to reopen it in June 2013. Kek Madar will now begin to franchise its model and plans to help launch five new restaurants in the next five years.



Lisa Ausherman

The Aushermans

Kek Madar's story shows the impact that the strategic combination of strong capacity support, grant and loan funding can have in taking a social enterprise idea from idea to growth and potential replication. For Lisa and Marvin, this is completely consistent with their strategy as, according to Lisa, "our trustees want to focus our giving more on major projects and funding fewer organizations for longer periods of time, for greater impact."



The selection of a specific portfolio member, and the decision to provide it with ongoing and tailored capacity and financial support, for a longer period of time, is consistent with this approach. The fact that the Aushermans designated their funding for both grants and loans, and gave NESsT the flexibility to use this as determined by local needs, and to leverage additional funding, reflects the enterprising manner they choose to carry out their philanthropy.

In the case of a restaurant that is staffed by people with disabilities, using a grant in the early years becomes even more important, since there are significant social costs - particularly around training the staff in food industry skills that they can apply not only while working at Izlelo, but also once placed in other food establishments. However, once the model is proven, and projections are met, the use of a low interest loan to purchase infrastructure is also a wise use of philanthropic capital, since it also prepares Kek Madar for future commercial lending.



Kek Madar and NESsT staff members (September 2012)

Like many family-based foundations, the Ausherman Family Foundation recognizes the importance of investing in partners who can tackle local issues and needs. Today the Foundation has a full time staff and has established a formal program in social entrepreneurship, an area that they continue to be passionate about. And though its current focus is retreating somewhat from working overseas, and intensify its work in their home town of Frederick Maryland, this is in part due to the necessity it sees in having as much of a hands-on approach with its grantees as possible. Great distances from the region prevent it from engaging at the level it prefers, but this signals another indicator of a “pioneering” quality—engaged capacity-building.

In 2009 the Aushermans travelled to Central Eastern Europe and spent the day visiting Café Kacaba, another social enterprise supported by the Family located in the Czech Republic. In 2012, they did the same in Latin America with a new set of grantees, this time travelling to Santiago Chile to spend time with a chocolate factory also staffed by people with disabilities. This kind of experience can be highly rewarding and shows a commitment on the part of the Aushermans to really understand the challenges confronted by early stage social enterprises. As the family prepares to slow exit from these countries, they do so knowing that their social investments were done wisely, and will continue to grow in a sustainable manner leading to even greater impact.