

SIEMENS | Stiftung

How Digital Solutions May Enhance Social Financing

Results of Multi-Stakeholder Reflections and Working Sessions

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Honest Reflections on How the Gap Could be Closed Digitally

Foreword

Supporting the Sustainable Development Goals (SDGs) through a strong focus on social entrepreneurship and smart impact technologies is a clear, strategic objective of the development cooperation department at Siemens Stiftung. Our operational work in East Africa is conducted with this goal in mind, as is the comprehensive support that we offer social enterprises from around the world in our *empowering people. Network* (epNetwork). In the epNetwork, we connect and support promising impact entrepreneurs that are still rather small, early stage, and lack a lot of technical assistance, capacity building, coaching and expert support. Our portfolio of activities helps improve internal structures and specific knowledge.

At the same time, we are very aware that gaining access to viable finance is a huge challenge for these entrepreneurs of the “missing middle.” Therefore, we started the process of discussing, designing and analyzing potential innovative ways forward. As a first step, Siemens Stiftung invited experts from the social finance sector and social entrepreneurs to a round table on Innovative Financing for Social Entrepreneurs in Cairo in July 2019.



Since then, the process has continued – a group of international experts from the round table met regularly in virtual meetings and explored how digital solutions could help improve the funding situation of social entrepreneurs. At the Sankalp Summit, we broadened the exchange by inviting the international development community to share their thoughts and experience, and thus, using the group’s intelligence in the sector. Our expectation has not been to come out with a solution, but rather to involve the community and to facilitate the process that can lead us to impactful solutions.

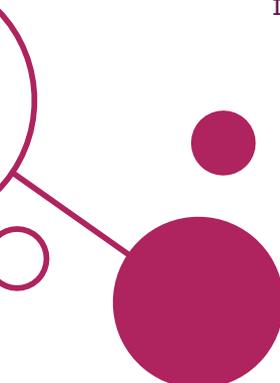
Considering the many limitations that could be encountered within this space, digitalization provides new opportunities for both social entrepreneurs and social investors. When we met in Nairobi in February 2020, COVID-19 was already a topic but the pandemic had not yet reached the African continent. During the following weeks, our way of life and working has been turned upside down – we mainly work virtually, we consult by way of video conferences, and make decisions on social communications platforms. This experience will have a lasting effect and could, in the end, change the financial world and development work as well.

Carola Schwank
Siemens Stiftung

I. Introduction

An Ongoing Journey

This report doesn't provide concrete and fully elaborated solutions to the challenges that persist in effectively financing social enterprises around the world. Instead, it is an attempt to move forward with promising digital solutions and give social entrepreneurs and financing intermediaries or funders an equal voice in the design process.



For social enterprises, finding the right type of financing remains a considerable challenge. While the last years have given rise to innovative financing instruments such as patient capital, their provision remains fragmented and inaccessible to many social enterprises in the world. At the same time, investors keep pointing to their struggle in finding investable enterprises that perform both from a financial and a social impact point of

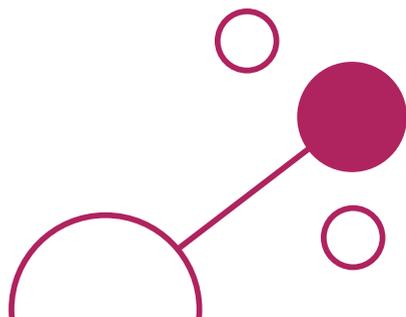
view. As a consequence, it is particularly the smaller or mid-size investments that remain too cost-intensive and thus scarce.

While these observations are not new to players in the impact space, Siemens Stiftung has embarked on a journey to better understand the reasons for the existing mismatch and to facilitate the debate, in addition to efforts to work on possible solutions. The beginning of this journey was a round table on Innovative Financing for Social Entrepreneurs, which took place in Cairo in July 2019. The objective was to identify needs for action in four areas: innovative technologies for finance, patient capital to foster mutual understanding, public-private partnership models, and new paths for foundations and philanthropy.

One promising outcome of this round table related to digital solutions that aim to address the funding gap between social entrepreneurs and investors by making their mutual identification, alignment of conditions, due diligence processes, and subsequent monitoring more efficient. The opportunities and barriers of digital approaches have subsequently been the subject of online hangout sessions with selected participants, as well as another active workshop session hosted by Siemens Stiftung at Sankalp Africa Summit

in Nairobi in February 2020. The session was dedicated to further elaboration on the requirements that such digital tools and features would have to meet in order to fulfill respective value propositions. In order to prepare and follow-up on findings from the round table, desktop research and additional interviews with social entrepreneurs, impact investors, other types of intermediaries and technology experts have been conducted in order to build a holistic understanding of the needs in the sectors and the requirements that supporting digital solutions have to meet.

In this report, the main findings are summarized to inform the social enterprise ecosystem about the current state of the debate and on ongoing efforts of Siemens Stiftung and its partners. The focus of the report lies on (1) substantial misunderstandings and gaps in the impact space (see pages 12ff.), (2) technical issues that reflect these substantial gaps in matchmaking and due diligence processes (see pages 28ff.), as well as ideas on how (mainly digital) solutions could look. Interviews with Financial Intermediaries and Social Entrepreneurs complement these insights with deep insights into their work and personal experiences.



Milestones on a Journey Towards Enhanced Social Financing



JULY 2019



**Roundtable
in Cairo**

OCTOBER 2019

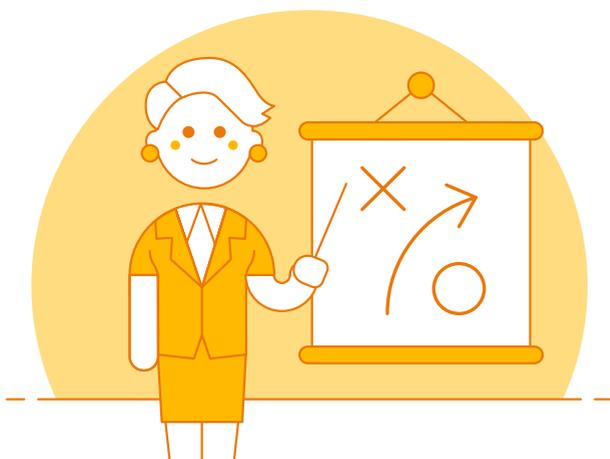


**Report on Innovative
Financing for Social
Entrepreneurs**

NOVEMBER 2019



**Follow-up Online
Hangout Sessions
and Survey**





FEBRUARY 2020

JUNE 2020

2020/2021

**Sankalp Session on
Digital Solutions**

**Report on Potential
Digital Solutions**

**To be
Continued**



II. Problem Statement

A Few Words on our Approach

This report summarizes the efforts of Siemens Stiftung to investigate the potential of the development of (digital) solutions for improved matchmaking and due diligence processes between impact investors or further funding partners and social enterprises.

As outlined on pages 8-9, Siemens Stiftung conducted a small-scale study in 2019/2020 with the support of Studio Nima to provide a basis and background knowledge for the session at the Sankalp Africa Summit 2020 with experts from the field of impact investment and social entrepreneurs.

The study included desktop research as well as interviews with nine social enterprises and 10 financial intermediaries. It has to be noted that the small sample size does not allow for statistical generalizations. The results thus need to be understood as insights from experts in the field that help to sketch a snapshot of the current situation in the impact space and inform further debates as well as the development of solutions.

The session at the Sankalp Summit in Nairobi on February 27 presented the results of the study that had been conducted until then and hosted working groups on the role of technology for due diligence, the strengthening of trust in financing relationships and the creation of ecosystem synergies.

The terms 'social enterprise' and 'impact investor' are used in a broad way, referring to players that define themselves as such and work on building solutions that have the primary goals of solving societal problems and therefore develop financially-viable business models.

“What you will find is ‘follow-on investments’ or ‘co-investments’ instead of finding lead investors who are willing to do the hard work, the ‘hand holding’ to get through the due-diligence process, and provide any other capacity building support that is needed; those types of investors are quite limited.”

— Reuben Coulter
Transformational Business Network

III. Gap Analysis – Part 1

Misunderstandings and Gaps Between Impact Investors and Social Enterprises

When diving into the topic of matchmaking between funders and social entrepreneurs, observations arise that inefficiencies prevail. Many of the gaps that have been identified can be related to the impact space itself which remains dominated by blurry definitions and a fragmented landscape of actors with diverging understandings and missions. This section outlines what currently works and what doesn't when it comes to bringing investors and impact enterprises together. The following substantial gaps and inefficiencies have been identified and are elaborated below. It has to be noted that they are all deeply interrelated and don't follow any hierarchy in terms of urgency or importance.

Limited provision of "patient" capital

One of the basic issues in the impact space relates to the scarcity of funds that are specifically designed to target social enterprises in a larger sense. Particularly in the early stages, an increasingly-quoted "missing middle" has been highlighted as one of the major problems in the impact financing landscape. This is particularly the case for ventures that have rather linear and not exponential growth journeys as usually expected by commercially-oriented venture capital funds. As already outlined in Siemens Stiftung's last report on Innovative Financing for Social Entrepreneurs, "patient" capital is

strongly needed and remains inaccessible for many social enterprises given its scarce provision.

Overall, there is a perceived mismatch between expectations of impact investors (especially those who have a commercial mindset) and the reality that social enterprises have to cope with. Many social enterprises perceive impact investors' expectations as unsuitable or sometimes even inappropriate. One way this materializes is in the different timelines for single project implementation and respective returns of funds that investors and enterprises often have. Respondents repeatedly pointed to them as a major discrepancy that creates frustration in the impact space.

Similarly, opinions on the appropriate way to deal with risks differ strongly between impact investors and social enterprises. Various social entrepreneurs perceive risk aversion among impact investors to

be too high. As a consequence, social entrepreneurship may ultimately be subject to a systemic force that drives them away from focusing on particularly challenging societal issues that require complex, innovative, and, thus more risky types of social business models that are unlikely to generate quick financial returns.



Topic	Hypotheses / Findings
Limited amount of available “patient” capital	There are not enough investors in the market for impact-driven enterprises with rather linear (instead of exponential) growth journeys.
Expectation asymmetries	Social entrepreneurs report a perceived mismatch between expectations of social investors (especially those who have a VC mindset) vs. reality of social entrepreneurship.
Diverging timelines	Social business models are often complex and innovative and might only lead to financial returns.
Risk aversion	Many social entrepreneurs perceive risk aversion among social investors to be too high, inhibiting them to create social impact.



Lack of common definitions

The scarcity of true patient capital in the sector is an expression of fundamental challenges that relate to the diversity of understandings and concepts that exist. Being a hybrid sector, in the sense that the typical language and practices of both the commercial and the social sector come together, there are many areas that reflect the lack of a common understanding.

For instance, it seems like there is little consensus between entrepreneurs and financial intermediaries or funders on what social impact means, particularly when it comes to acknowledging peculiarities of specific topics, regions or markets. While social entrepreneurs are deeply informed and involved in the complex solution of societal issues, investors are

often interested in specific measurable outcomes that relate to global frameworks such as the SDGs.

In addition, both investors and entrepreneurs referred to the lack of transparency and the prevalence of blurred lines in the impact space as a major challenge. This leads to situations in which, for example, social enterprises keep submitting funding requests to investors that target another type of enterprise with a different risk-return profile. On one hand, this structural mismatch is a consequence of insufficient transparency. However, it is also related to the fact that funders sometimes have not yet clearly identified their funding preferences and are thus unable to set clear boundaries.

Topic	Hypotheses / Findings
Lack of common impact definitions	There is little consensus in the impact space on what social impact is.
Lack of transparency / blurred lines	<p>For many existing investors, the risk-return profile of most investment opportunities is not suited, but many social enterprises still try to get their investment because they are not aware of the structural mismatch.</p> <p>Many investors are not able to clearly define what they are searching for and what matters to them.</p>

“There is a level of human intervention and some level of relationship, that I think is required.”

— Ratul Narain
Bempu



Insufficiently cooperative mindset

As will be further elaborated in section VI., finding and evaluating investable social enterprises usually causes high costs of building up solid pipelines and designing and realizing due diligence processes. This leads to a situation in which only few investors make these efforts from scratch. Instead, many try to piggyback on the due-diligence efforts of other investors, accelerators or incubators. However, this results in limited innovativeness and growth of the impact sector and increased obstacles for social enterprises to be discovered. In addition, investors partly seem to be unwilling to share

due diligence data, which would help in establishing solutions that are built on a shared costs model.

Furthermore, collaborations are inhibited by the resistance of some actors to enter cross-sector partnerships. Social enterprises reported that they have experienced resistance particularly from philanthropic funders to support them when hearing that commercial investors have already been involved. Such situations, often caused by legal restrictions as well, can result in big challenges for social enterprises that need

to be very creative about how to raise funds from different sources and often do not have many choices.

Collaborations also remain scarce when it comes to involving local investors and institutions in the Global South thereby losing the potential of making use of their knowledge about local markets, their networks and their ability to provide context-specific capacity building.

Finally, power asymmetries, particularly between investors and enterprises, have been indicated as a factor that frustrates social enterprises and leads to large inefficiencies regarding the use of their resources. The low responsiveness of social investors, for instance, has been described as a source of frustration for social enterprises who often spend a considerable amount of time and effort to submit their funding requests.

Topic	Hypotheses / Findings
High costs of filling pipeline & due diligence	Investors tend to piggy-back on the due diligence of other intermediaries. Only few make the effort to go out and search for undiscovered investment opportunities. Hence, actors stay in a “bubble” with limited new influences, innovation and growth.
Insufficient cost sharing	Little willingness of investors to share due-diligence data, thereby inhibiting cost sharing.
Barriers to cross-sectoral funding mixes	Social enterprises that try to mix commercial and philanthropic capital have experienced an unwillingness of socially-oriented investors to collaborate with commercial investors.
Little collaboration with local investors	Local investors and institutions are largely left out of the discussions around impact investment. But their knowledge about local markets, their networks to provide context-specific capacity building and their ability to fill pipelines is of high value.
Power asymmetries	Social entrepreneurs often don't dare question the practices of social investors due to power asymmetries.
	Responsiveness of social investors is sometimes perceived as inappropriate, particularly if they don't answer at all or communicate too late that they are not interested, which results in a waste of precious time that could be avoided.



Knowledge gaps

An important part of the challenge in building a common understanding and removing inefficiencies in the impact space goes back to significant knowledge gaps between the different types of players. Coming from very different backgrounds, both social investors and social enterprises lack fundamental knowledge that would help them better understand each other.

As a result, the costs of mapping available and appropriate funding opportunities are disproportionately high for both investors and enterprises. Currently, the possibility to search for bundled information about funding opportunities in a centralized way is lacking - even more so considering that data sets need to be robust, up-to-date and reach a considerable comprehensibility in order to be of use.

Information asymmetries reinforce misunderstandings between investors and enterprises and thus create inefficiencies. On one hand, there are social enterprises in early stages that are often not aware of the type of capital that suits them best and of available opportunities to raise such funds, for instance. Furthermore, they often lack knowledge and experience in managing financials in a way that meets the standards of funders or in contextualizing their impact thesis in a way that makes sense in a larger development context.

On the other hand, impact investors often have a financial background with little knowledge about the complexities entrepreneurs have to deal with when seeking to create social impact. This is likely to lead to discrepancies regarding appropriate timeframes and necessary risks as described earlier.

Topic	Hypotheses / Findings
High costs of mapping available and appropriate opportunities	<p data-bbox="348 528 975 584">It lacks a place where social entrepreneurs can search for bundled information about different funding opportunities.</p> <p data-bbox="348 619 975 671">It lacks robust data and information on the social enterprise market. This is a major obstacle to market attractiveness.</p>
Information asymmetries	<p data-bbox="348 711 922 767">There is a high level of information asymmetries in the market, leading to inefficiencies in matchmaking.</p> <p data-bbox="348 802 994 946">Particularly in early stages, social entrepreneurs often require capacity building to understand the financing jargon and success factors for fundraising and they often don't know what type of financing they actually need and what is out there.</p> <p data-bbox="348 981 994 1037">There is a high need for training social entrepreneurs on how to do accounting properly.</p> <p data-bbox="348 1072 994 1158">Social investors often have a financing background with little knowledge about the complexities of creating different types of social impact.</p>
Lack of ability to translate / contextualize business models in larger context	<p data-bbox="348 1198 975 1281">For social enterprises, it is sometimes difficult to develop an impact thesis that makes sense in the larger context that matters to social investors.</p>
Insufficient collaboration with local capacity builders	<p data-bbox="348 1321 994 1377">There is a large capacity gap that needs to be filled by experts with specific local know-how.</p> <p data-bbox="348 1412 994 1465">It is difficult to identify providers of capacity building services that are verified regarding their quality of services.</p>

IV. Interview with Karen Hitschke (Yunus Social Business)

The Role of Local Networks and Personal Interaction

SIEMENS STIFTUNG:

Impact investors often complain that they struggle to find suitable companies to invest in. How do you currently find your investees?

KAREN:

Very importantly, wherever we are actively investing, we have our own local Yunus Social Business (YSB) teams on the ground. Hence, our main source is the local network. We are not looking from here in Berlin for a company in Africa, but we are very well connected with incubators,

acceleration programs, and organizations – all of these platforms that connect investors and companies. Databases of foundations in the sector are certainly also an important source. And then, of course, it is a lot of direct referral from our investees to other investees, for example. It is a small community.

SIEMENS STIFTUNG:

What are the main challenges when it comes to financing social entrepreneurs?

KAREN:

On the funding side, there is really an increasing competition in impact investing and the expectations of funders are sometimes unrealistically high in terms of what and how quickly one can achieve impact and financial sustainability, let alone financial returns. On the investment side, due diligence can obviously be quite challenging. It is important that you have access to the right data and that you are familiar with the local situation and context. On the portfolio management side, once you have invested, of course you have typical problems like helping businesses to move from entrepreneur-centered organizations to ones with proper structures and processes that are scalable. Finally, of course you need to have stable surroundings. If you do not have proper laws and political stability, that makes it much more difficult for the business to operate.

SIEMENS STIFTUNG:

How could technology and digital solutions help to overcome these challenges?

KAREN:

On the fundraising part, I think the idea of digital crowdfunding is a concept that works quite well for very early-stage entrepreneurs and smaller ticket sizes. Money flows in the impact space are often north-south transfers, in terms of raising money in Europe or the US and then usually deploying it in a developing country where social businesses are located. In such scenarios people are generally also willing to see their investment like a donation that doesn't necessarily yield financial returns. And that's what we need in early stages.

In terms of technology for the due diligence and the investment process, I am a little

bit skeptical. It is very difficult to get the right information from the companies, so I am not sure how promising the use of digital tools would be. Especially at those very early stages where businesses really aren't used to proper reporting, it could be difficult to document financials in a way that everyone can understand. Among mature companies, it could work, but I am not sure how many would qualify for that and/or would be willing to organize their data accordingly.

SIEMENS STIFTUNG:

Tech solutions could support social entrepreneurs at these very early stages to get the reporting going, don't you think?

KAREN:

I am a little bit hesitant about that. We have tried similar things, but our experience was that many businesses are not ready yet for such solutions to really assist them. I think the challenge is more to help them really understand what numbers they should be looking at and track regularly, especially when they are still very early stage. Having a focused 3-hour session where you sit down with an entrepreneur and jointly walk through what is really required is often more helpful than trying to get everything from them, especially at the earlier stages.

SIEMENS STIFTUNG:

What about due diligence? Which parts of the process really need to be based on personal interaction and why?

KAREN:

For due diligence, I usually want to understand what assumptions they are putting behind the projections and what drives them. You want to understand what the nature of the business is, what the KPIs are, what the main risks of the business are, etc. And I think this is where technology has

its limitations, you might be able to reflect it in a tool, but in the end, you want to sit down with them in person and understand why they have made certain assumptions in their forecast, why didn't they use different ones – same for prices, market size, sales sizes. Challenging them requires some interaction.

One other challenge in terms of tools is that portfolios are usually quite diverse once you have 10-20 portfolio companies. At some stage, they will also have other investors with other preferences, also depending on the country that you are active in, and that together makes it a bit difficult to standardize.

SIEMENS STIFTUNG:

What about matchmaking? Do you think a matchmaking platform could work?

KAREN:

I think it could become relevant once you reach a critical mass in the market. The impact sector is still relatively small, but if you take a large country like India for example, that could be a good starting point. What helps is the ability to get a customer referral. Because the more promising matches are most often those that you find through your private network and private investors you are building partnerships with. In most countries, I guess the ecosystem is still too small, but India, for example, could be a different thing.

SIEMENS STIFTUNG:

Thank you very much for the interview, Karen.



Karen Hitschke

Karen Hitschke is the Managing Director and COO, Funds of Yunus Social Business (YSB) where she is responsible for worldwide investment and portfolio management activities. YSB grows and supports social businesses to solve the world's most pressing problems in two ways: The Philanthropic Ventures Funds turn donations into investments for sustainable social businesses and supports their growth to create the highest social and environmental impact possible. YSB's Corporate Innovation team helps corporate leaders to create purpose-driven, social business innovations.

“Our experience with social impact investors is that they take longer in their decision-making, they ask more details, and give less money. If I count on them only, I wouldn’t succeed.”

— Sebastian Groh
SOLshare

V. Interview with Sebastian Groh (SOLshare)

Seeking Impact Investment - Experiences from a Social Entrepreneur

SIEMENS STIFTUNG:

Sebastian, you have been operating for a few years now. In which stage are you right now with SOLshare?

SEBASTIAN:

I think we are still at an early stage even though we have already been doing this for five years. We are still trying to figure out the precise business model in addition to the product. Regarding our size, we currently have about sixty people working full-time at SOLshare.

SIEMENS STIFTUNG:

How are you currently financed?

SEBASTIAN:

We have a hybrid form of financing. Mainly we have an equity route, with a first round of venture capital funding of USD \$1.7 million. We have received grants as well as monetary award prizes of an even higher amount.

SIEMENS STIFTUNG:

How did you find your investors?

SEBASTIAN:

We have a mix of three major investors. Two of them are what you would call CVCs (Corporate-Venture Capital). They have a high-risk appetite but, in the case that it is a strategic fit, financial returns don't have to

occur in the short term. We are very much at the forefront of innovation in what is called “peer-to-peer energy exchange”, which is something that is very much in trend. Many people are working on finding viable models, and we have been one of the very early movers. That has been the point that our investors like in addition to the social impact that we create, but it is not their main focus. Our third investor is a social impact investor, for whom the social impact is much more important and consequently he has more patience. To close these deals, it was a lot about exposure, winning competitions and being in the media and so forth. That’s one reason why we have such a strong brand. But also through conferences, usually sector-specific conferences on energy access. Finally, we also actively requested to be connected to some investors and then you spin that further.

SIEMENS STIFTUNG:

How do you prepare your pitch documents if you target so many different types of funders?

SEBASTIAN:

We go in very different costumes you could almost say. If I talk to a development finance institution or to a foundation or to a corporate venture, we have different presentations for each audience, so it’s very different.

SIEMENS STIFTUNG:

What would you say are the main challenges as a social enterprise when it comes to searching for financing?

SEBASTIAN:

I think the main catch is the understanding gap. So, we are in the energy sector, which is an extremely political field. There can be strong intervention from the government. You are at times exposed to competition that is heavily subsidized, like a national

grid, for instance. To explain this to the investors and make this a compelling case is a daunting task. And then there is another gap in understanding. Two of our investors are European, so it takes time to help them understand what rural realities and local economies look like. Another extremely difficult challenge for us relates to Bangladesh as a country. The risk premium that is added on Bangladesh is massive, which means the valuation goes down significantly. The ease of doing business in the country is very poor and that means you must first pitch the country before you can even start pitching your business. That of course takes a lot of time and you are not given a lot of time. Lastly, our business model is extremely complex, and that may be our fault, but if you want to be a tech pioneer creating social impact you nearly can’t do anything simply. Not all investors necessarily have the patience to go into that.

SIEMENS STIFTUNG:

What type of information are investors typically interested in and how appropriate do you think that this is regarding your ability to show them that you are the right investment case?

SEBASTIAN:

In a nutshell, our experience with social impact investors is that they take longer in their decision-making, they ask more details and give less money compared to other types of investors. So that is the first observation in our last round. We even had made the experience that an investor jumped off the very last day before closing out on the deal because they realized that there was also a Venture Capitalist (VC) coming in and that they would have less influence.

Many social impact investors are not clear about what social impact creation

means and what it requires and then they expect financial returns that are not much different from a VC. So, where is the patience and where is the social part? Our experience taught us: If I count on social investors only, I won't survive. If social impact investors don't have the risk appetite, they will not make any breakthroughs in social impact. If they just want to finance what they know, then not much will change and I think that is a huge gap.

SIEMENS STIFTUNG:
What did you do then?

SEBASTIAN:
We are fortunate to have a very good set of investors in place now, but it took time to identify them. We had to go to the VCs and were lucky that they were so interested in our technology that they came on board even though we were actually too early stage. The problem is that I am paying the bill because now all the family offices and all the social impact investors are not interested anymore. Because they fear that if they support us with philanthropic capital, a part of it will go into the pockets of the VCs. The only "free" money (grants) we can get is from Financial Development Institutions.

SIEMENS STIFTUNG:
Why do you still need this "free money"?

SEBASTIAN:
The complexity of our business model is too high. We are trying to solve a problem that is very much systemic. Addressing this through a platform is extremely capital intensive. There is still research and development investment heavily needed which requires grants.

SIEMENS STIFTUNG:
What do you think is needed to improve the matchmaking and the due diligence processes between social impact investors and social enterprises?

SEBASTIAN:
I think social enterprises need to be supported more because, if we talk about losing time in the matchmaking and the due diligence process, our time is more precious than the investors' time because I would fail more quickly. I think the tables have to be turned more often and the roles both have should be much more equal than they currently are where the entrepreneur is inferior to investors. That is a very wrong set-up in the first place and that's not how we will create social impact. I see a lot of responsibility on the investor side to cut off the conversations much quicker if they feel like there is a mismatch. Digital solutions can have an effective pre-filter on ticket size and focus, guiding matchmaking in a much more targeted way. Video pitches can also be distributed digitally right away, cutting costs of going out and telling the same story again and again.

SIEMENS STIFTUNG:
Are you using some type of technology solutions for fundraising?

SEBASTIAN:
We have a digital data "room" where I upload documents and send them to the investors. Every investor can then sign in with his own login credentials and I can see when and how often they look at the things. That helps me a little bit to understand what they're looking at or if they're actually looking at something. In case they are not so responsive, I can check to see what's happening. In terms of matchmaking, we have been in a couple of accelerator programs which were very effective. One

program called “Free Electrons” is a global accelerator of very large energy utilities, where utilities are matched up with startups. That wasn’t targeted at investment directly, but rather to set up joint pilots with the possibility of an investment happening. That’s what happened in our case. Basically, they gather a range of entrepreneurs and a range of investors in the same location and lock them in a room until something comes out of it. That’s the methodology, which has worked quite well.

SIEMENS STIFTUNG:

Would it be an option that such a digital data “room” would be provided by a platform that helps to bundle different investors and different social enterprises and to standardize such a process?

SEBASTIAN:

I think so. It depends on the design of the data rooms. The investor in our virtual

room has to write a sort of profile which is then put to the investment committee. The structure of our data room already follows that expose and then it’s less work and it moves faster. Everything is nicely chopped into pieces instead of having a business plan of thirty pages. If we would all follow the same structure, it would go faster and investors could even compare different startups based on chapters.

SIEMENS STIFTUNG:

Would you have concerns regarding data privacy or data security when you think about such a solution?

SEBASTIAN:

The curator would have to be a trusted entity and make sure there are strong NDAs etc. If that is the case, I think it would work.

SIEMENS STIFTUNG:

Thank you, Sebastian!



Dr. Sebastian Groh

Dr. Sebastian Groh is the Founder and Managing Director of SOLshare, a peer-to-peer (P2P) solar energy exchange platform, mainly operating in Bangladesh. While the electricity needs of people with a solar home system vary, SOLshare empowers them to dynamically trade electricity. By design, a typical solar home system has an excess capacity of about 30% worth USD \$ 1 billion. Since this value is lying idle in the remote areas of Bangladesh, SOLshare has embarked to empower the local communities to tap into this vast potential. Besides that, SOLshare also takes care of an automatic settlement process through mobile money.

VI. Gap Analysis – Part 2

Technical Issues in Matchmaking and Due Diligence Processes

Besides the issues that are related to the specific impact sector, both interviews and the Sankalp session revealed problems that refer to technological aspects. These topics relate to the type of data that is exchanged in due diligence, the matchmaking processes that are particularly time consuming and resource-intensive, and the reasons why processes are currently designed as they are.

Fragmentation of the impact space

As mentioned earlier, the impact space is characterized by a high level of diversity and fragmentation with almost every player having their own systems and solutions in place to find investees, evaluate them, and manage their portfolio. With this, standardization and

interoperability of processes in an effort to create synergies and reduce costs remain a big challenge. From a technical point of view, this has significant consequences.

Transaction costs are currently disproportionately high for both investors and enterprises. While enterprises spend an unproportionate amount of time preparing requests for funding opportunities that are unsuitable by nature, investors have to invest a considerable amount of time and effort in finding undiscovered investable enterprises beyond the well-known and repeatedly supported companies. This structural mismatch leads to very high transaction costs and inhibits investors from focusing on smaller ticket sizes and shorter investment periods.

Heterogeneity and the lack of a common understanding in the space also inhibit the occurrence of co-investments in which costs could be shared. Finding suitable investment partners remains a time and resource-intensive process.

Finally, the heterogeneity of the impact space is also reflected in the difficulties of existing matchmaking platforms in establishing viable business models. Many of the platforms struggle with ensuring user friendliness, collecting and structuring comprehensive market information and ultimately in gaining sufficient traction. User experiences on both sides are thus often characterized by frustration, which leads to a vicious circle that inhibits the establishment of a solution that covers a large share of the market.

Topic

Hypotheses / Findings

Transaction costs

Preparing multiple funding applications for various funders takes an unproportionate amount of time for social enterprises.

Due diligence costs are generally high, no matter the investment size, that's why smaller ticket sizes and shorter investment periods are less attractive for many investors.

Co-investments are interesting for many investors, but time-intensive, which is a challenge for enterprises that seek funding.

Interoperability and data exchange

Social enterprises and investors are too heterogeneous to allow for significant level of standardization.

Viability of digital solution for matchmaking

Many platforms are not generating enough traction.

For platform hosts, it remains difficult to establish a viable business model.

Current practices

Across all discussions that have taken place in connection with this report, it became clear that human interaction is the most important factor in how investors and enterprises find each other and close investment deals. Due to the challenges of defining clear criteria and setting standards that the majority of players in the impact space can follow, investors mainly rely on their personal experience and habits to make investment decisions. The questions whether a digital solution may replace a part of this process

has, thus, repeatedly led to skepticism in discussions with both investors and enterprises. Even more, existing platforms haven't yet proven to be able to significantly remove inefficiencies in matchmaking and due diligence processes as described above.

As a result, for the due diligence process, most players refer to "mainstream" digital solutions, which are limited regarding their suitability for the impact space.

Topic	Hypotheses / Findings
Relevance of personal interaction	<p>Human interaction is a very important (if not the most important) factor in how social entrepreneurs successfully raise funds.</p> <p>Investors make their decisions based on both rational and irrational factors.</p>
Usefulness of existing platforms	<p>Not all platforms are perceived to be user friendly and lack a level of information that would increase traction and usage.</p> <p>There are few solutions that try to pool investors systematically, e.g. around a certain topic.</p>
Used tools	<p>For due diligence purposes, most actors rely on "mainstream" digital solutions.</p> <p>Many social enterprises use accounting software solutions which are easy to use, widespread, and free of charge.</p>



Quality of data and trust

An essential factor in matchmaking and due diligence processes refers to the quality of data that is exchanged to inform decision-making. Social investors can only make use of data if they know it is accurate and validated independently from the diverse sources data comes from.

Similarly, enterprises repeatedly pointed to the need of knowing about the credibility and the sincere interest of investors when deciding about data disclosure. It became clear that any (digital) solution needs to be built around the creation and maintenance of trustful relationships.

Throughout discussions with entrepreneurs, investors and intermediaries, the lack of sufficient trust in the impact sector came up repeatedly. Be it between investors with different cultures, due to competitive mindsets or as a result of miscommunication or knowledge asymmetries between investors and enterprise, mistrust seems to be a considerable obstacle to facilitating cooperation and the closing of investments or, even more, co-investments.

Topic	Hypotheses / Findings
Securing quality data	Digital data comes from many different sources, with a high variance of quality and lacks standardization. Social investors can only make use of data if they know it is accurate, updated and validated.
Need for credibility and trust	Social entrepreneurs are hesitant in sharing their confidential data with investors if they don't know anything about them.
Securing of data security	Data privacy is seen as highly relevant for customer data, not so much for own financial data (such as size of funding requested). Data privacy is only an issue if social entrepreneurs don't feel like there is sincere interest from funders. More traditional VCs tend to request a high amount of data, something that some social entrepreneurs might not feel comfortable with.



VII. An interview with Huseyin R Demirhisar (BiD Network)

Good Technology is Mutually Beneficial

SIEMENS STIFTUNG:

Huseyin, do you see a funding gap when it comes to financing social entrepreneurs?

HUSEYIN:

While global interest in impact investing has grown dramatically over the past several years, there is still a certain funding gap in the market and there are reasons for that. At the earliest stage, the risks are highest and that's a very well-known fact.

Second, small- to medium-sized enterprises are commonly perceived as having high financial risk due to high transaction costs. Due diligence on a company that is looking for USD \$50,000 takes the same amount of time as due diligence on a company with a three-year track record. In many cases, it's easier to conduct due diligence on a well-established company because they have the right management accounts, related information available, and you can also test their data against the market.

Third, the key constraint related to accessing working capital financing for SME / SGBs are the terms of commercial financing, in such entrepreneurs lack the high collateralization and securitization required by financiers.

Fourth, there are challenges due to the geographical constraints. Institutional or individual investors are more willing to put money into social enterprises in the developed world. For example, in Germany, local entrepreneurs are usually able to raise funding because there is capital available due to a mature investment environment. Because angel investors in Africa are scarce and, if they exist, their priority is finding opportunities with potential for high returns and quick turnaround, it makes it even more difficult for African entrepreneurs to raise capital.

SIEMENS STIFTUNG:

How do impact investors find their investees and how do social entrepreneurs find investment opportunities according to your experience?

HUSEYIN:

Most of the entrepreneurs reach investors through personal contacts, references, investment events and rarely by way of internet research. The most important success factors are good networks and having the business documentation ready, including a proper investment memorandum supported by clear financial projections and auditable historical data. The ones who have those three have an advantage to others regarding access to capital.

SIEMENS STIFTUNG:

And there is a big gap in this regard. So maybe you can tell what you do at the BiD Network and how you help enterprises get investment ready, and how you help investors as well.

HUSEYIN:

Our job begins with sourcing impactful and promising enterprises. Let's say that we receive 100 deals, after a quick scan we eliminate a significant amount and come down to 60. Then, we sign a non-disclosure agreement ensuring data confidentiality. This helps us collect their data in confidence and do the first analyses on the existing data. Out of these 60, only 25 pass our key requirements. After that, we do a quick investment-readiness scan and identify the technical assistance needs for the selected enterprises.

Then, we check whether they are interesting for our investment network and we try to focus on the ones where we feel that we can bridge the financing gap quicker to avoid frustrating experiences for both sides. Finally, we sign the contracts with approximately only 15 out of those 100 companies in the funnel and we begin to work with them to bridge those gaps identified during the investment-readiness

scan. We prepare their investment documentation, and this is a process of transforming their raw data into meaningful information required for financing. Once they are investor ready, we enable them to access a tailor-made list of investors. We also spend quite some time training them on how to pitch themselves and articulate their business in a more effective way.

Finally, we also support in building the entrepreneurial ecosystem in the geographies we operate and, many times, we also connect entrepreneurs with partners and other service providers depending on the gaps that they have to fill in attracting funding.

All of these activities reduce the investor's risks and transactional costs significantly and create a mutually-beneficial outcome.

“We also spend quite some time training them on how to pitch themselves and articulate their business in a more effective way.”

SIEMENS STIFTUNG:

In your opinion, how can technological solutions help overcome the challenges in the impact space, particularly regarding matchmaking and due diligence?

HUSEYIN:

Personally, I don't think that there's any area, in our modern times, where we can't benefit from good technology. In terms of optimizing due diligence, it should help decrease the costs by standardizing, analyzing and making available information to transform into meaningful data needed by investors. For matchmaking, there are already solutions out there from crowdfunding to deal making platforms. On both sides, technology can play a dramatically important role. A mutually beneficial role.

SIEMENS STIFTUNG:

What technology solutions are you using for the due diligence process?

HUSEYIN:

We don't use one specifically. We have our own internal information sharing tools but in due diligence, we just use cloud storage

packages so that we can work on the same deal in a secure yet accessible environment; hence, we work in different ways.

SIEMENS STIFTUNG:

Where would you see limitations when we think about due diligence tools? What could be the reasons why there is no solution out there already?

HUSEYIN:

I mean, first of all, every jurisdiction has different requirements and availability. For example, if I want to invest in a company in Holland, I can simply go to the Chamber of Commerce website, pay 50 euros and I can access all its audited historical financials. But, in many countries of the Global South, most of the economy is informal. This is the first challenge. Second, there are huge differences in reporting standards, language barriers, and concepts, etc. In other words, information asymmetry plays



Huseyin R Demirhisar

Huseyin R Demirhisar is the CEO, Co-founder and Managing Partner of the BiD Network. As an independent trusted partner for SME's in East Africa, BiD Network facilitates tailored financial solutions throughout their life cycle. Selected early-stage and growing businesses with revenues of at least \$100,000, social impact, significant growth potential and a competent entrepreneurial team are provided investment-readiness and deal-making services via BiD Network's local offices in Uganda and Rwanda. With their large international network of investors, both private and institutional, high-quality deal flow in the range of USD \$50,000 up to USD \$5 million are facilitated.

a huge role. Finally, you can create the best platform, but if the information that is uploaded is not accurate, it doesn't work.

SIEMENS STIFTUNG:
What about matchmaking platforms? Where do you see limitations there? Some existing solutions seem to work well, some not so much.

HUSEYIN:
 Most of those platforms work over one investment instrument. There are platforms for debt products only, or others that focus on donations, grant-making or equity only. There are few that offer different models but then there are also limitations in terms of how much can I trust a platform and the data uploaded there. If a platform is not supported by strong offline support services like what we are doing, I doubt that it will achieve its long-term objectives. Secondly, there are jurisdictional issues limiting standardization of legal investment requirements.

SIEMENS STIFTUNG:
Coming back to your first point concerning the diversity in the market. Do you think that the market is too fragmented and that this is an obstacle for platforms to gain traction?

HUSEYIN:
 Yes, that's one of the reasons. The other is that most are not catching up with new technologies like blockchain, and coin technologies, for example. Technology is moving fast, so to believe that the investment space and the matchmaking space will not be affected by that is quite naive I find.

SIEMENS STIFTUNG:
Thank you for the interview, Huseyin!

Expert Statement

"There is one fundamental question that we haven't yet answered: How are SMEs going to help reach the Sustainable Development Goals (SDGs)? Impact investors all compete around a handful of so-called "unicorns" that are likely to meet their performance expectations. But are we going to put all our hopes on those unicorns and design our frameworks only to target them? For 90% of the companies in Africa, these frameworks simply don't work.

There is a core misreading of risk in the impact space. Funders don't really understand what social enterprises in low-resourced environments, like many places in Africa, have to go through. They can't, because they don't know how it is to make a life in an environment like Nairobi, Lagos or Cape Town. And, as Sebastian Groh said in his interview, there is a large power imbalance between investors and entrepreneurs. As long as this is the case, the money will not flow as it needs to.

But the disparities in the impact space are so overwhelming that people don't know where to begin. So, it is useful to describe clear objects like the "missing middle" and potential digital solutions. It won't change the whole system, but it's a start and it can ignite changes that, in time, become systemic. But ideally these efforts should be led by actors with a progressive way of thinking, who provides a platform where a blunt (but still tactful) discussion with funders can happen. It needs voices in the room that have the credibility to help them understand the reality of entrepreneurship in Africa and drive the necessary behavior change among impact investors."

Clint Bartlett

Director at African Impact Foundation

VIII. Working Session at Sankalp Summit

How to Develop a Digital Solution? Requirements and Next Steps

Throughout all interviews and discussions, the intention was to gain a first overview on the digitization potential of the matchmaking and due diligence processes between impact investors and enterprises.

In a group exercise at Siemens Stiftung's session at the Sankalp Summit, participants were asked to assess which parts of the due diligence process a) currently require significant resources and efforts, and b) where they see a high

potential for technological solutions. The overall assessment was based on 16 categories and important elements of due diligence published by the GIIN (Global Impact Investing Network).

When clustering the individual assessments of participants, it became clear that some parts of the due diligence processes have greater digitization potential, whereas other categories showed rather mixed and ambiguous results (see figure on page 37).



However, it has to be noted that these estimations are not necessarily generalizable for all social enterprises. Particularly, the type and stage of social enterprises have a strong influence on the digitization potential. For instance, some aspects of the due diligence process are likely to become more important and, therefore, potentially also more resource-intensive for later stage social enterprises that have a significant business and organizational size.

In the following section, ideas on how digital solutions could potentially look and their benefits are summarized. Challenges, trade-offs and ownership questions in the implementation of such solutions are discussed and commented by selected impact and technology experts.

Expert Statement

“The catalytic potential of entrepreneurship to drive bottom-up economic growth, create jobs and find innovative solutions cannot be overstated. The same goes for the urgency to realize this potential, especially in emerging markets. Every good entrepreneur deserves an equal chance to access funding, no matter their location, gender or educational background. We are ages away from achieving this and traditional investment methods are not scalable, fast or cost-efficient enough to do so – we don’t have 50 years to hand-select every good entrepreneur. It is time to re-think how we invest and technology will be the main driver. Digital identities, automated benchmarking, predictive algorithms, chatbots, satellite images, psychometric testing, to only name a few – we have a plethora of promising, though unproven, tools already available but more actors willing to take a leap of faith, test those tools and lead the way to revolutionize access to funding are needed.”

Franziska Reh
Unconventional Capital

Identified Needs for Action

- **Mission alignment:** While standardization is difficult and heterogeneity is likely to persist in the impact space, virtual solutions that try to pool players around similar missions - as a first step - could be promising. This could entail systematic support for enterprises to frame their impact thesis in a larger context in order to match them with funders that work on the same topics. For investors, it could focus on supporting them in clearly defining their target investees and being transparent about it. Such elements are necessary to



provide some sort of translation support between two worlds that have very diverse mindsets and languages.

- **Reduction of information asymmetries:** Particularly, social enterprises suffer from information asymmetries as they spend a considerable amount of time identifying suitable funding opportunities. Often, they lack the necessary knowledge about existing financing mechanisms and opportunities. Easy-to-understand digital guidance in understanding the fundamentals of financing would be of great help in this regard.
- **Include local networks:** When operating in different parts of the world, the challenges that impact investors and social enterprises face often relate to the geographical and cultural distance between them. The integration of local intermediaries and funders is of great use when it comes to filling pipelines, understanding markets, providing contextualized capacity building services or finding co-investors. Digital solutions can provide only limited alternatives.
- **Incentivize and facilitate cost sharing:** In order to reduce the inefficiencies and thus the costs of matchmaking and due diligence, a more collaborative mindset needs to be promoted. Solutions that foster interoperability and the creation of synergies in the impact space are essential.
- **Establish credibility and trust:** The lack of sufficient trust in the impact space has been highlighted as a challenge that needs superior attention. In order to build trust regarding the accuracy of data and its security, it is essential to understand the points of interaction between investors and social entrepreneurs and map out where more trust is needed. Based on this, measures (based on both personal and digital interaction) can be developed to help players meet the minimum threshold of trust. Reputation tracking of investors or indicators about their responsiveness, for instance, would help fund seekers in evaluating whether their time-intensive efforts of requesting

“When we look at our pipeline, there are some shining stars in the social impact space with very strong business models. Our investment committee sees those as role models of how we should be looking at other new pipeline deals.”

— Carolina Kwok
Grand Challenges Canada

funds are worthwhile. At the same time, solutions that help investors evaluate the accuracy of the data that enterprises send them would increase the efficiency of their due diligence significantly. Technology may certainly help to establish trust and thus facilitate single interactions, however trust overall needs to be deepened between the different actors in the impact space. Intermediaries are overall considered as very helpful in creating trust in the whole ecosystem.

• **Not-for-profit ownership:** Given the complexity of translating between impact investors and social enterprises, and supporting them to successfully close investment deals, it is probably overambitious to aim at creating a financially self-sustainable digital solution in the first place. Sufficient traction is of the most important success factors and thus likely to require efforts that can only be mobilized with the help of philanthropic funding.

Ecosystem Solutions: The Role of Conveners

Obviously, many factors that lead to inefficiencies in the social financing space will not be solved through a digital matchmaking platform alone. Personal interaction will remain a fundamental element in investment decisions, be it because of factors such as the “right chemistry”, the evaluation of team performance or customized capacity building are difficult to substitute.

One of the major outcomes from the session at Sankalp Summit relates to the need of seeing any digital solution as a complement to the work of intermediaries. Given the high diversity in language, skills or information, so-called conveners that work on closing the fundamental gaps that prevail in the impact space will remain highly important. These conveners can be any form of trusted intermediaries that are able to understand both enterprises and investors, translate and mediate between different cultures, languages and expectations, and oversee the sector well enough to identify potential synergies between the various players.

However, their work can be facilitated significantly even through smaller digital

solutions. Throughout all interviews and discussions, it became clear that a one-size-fits-all digital solution is likely to be overambitious. Instead, agreements on standards that would allow for synergies in the impact space would be a first step in reducing inefficiencies. This could happen in different areas or for different activities that are deemed essential.

For instance, looking at the importance of conferences and networking events to establish personal connections and how they are currently organized, it soon becomes clear that every event host uses a different tool to facilitate participant connections and networking. As a result, the majority of connections that are made through such platforms are lost after every event and efforts need to be initiated from scratch at the next event. If the sector would agree on using the same software provider, for instance, synergies between different events could emerge and strengthen the ecosystem as well as facilitate sustainable exchange and collaboration between financing partners and social enterprises.



Technology and the Role of Standardization

The role of technology in the due diligence process should aim at creating efficiencies that would allow for a reduction of time and costs needed to conduct a thorough assessment of social enterprises.

If a digital tool could possibly help to assess the correctness of data, the next question is whether this can be done in a standardized manner, as systems of reporting are quite heterogeneous, from investor to investor and from entrepreneur to entrepreneur.

Standardization of inputs vs. standardization of outputs

Pushing for standardization towards common input formats, tools and standards was perceived to be not achievable given the diversity of actors in their field who all have their own preferences and approaches. Nevertheless, the potential for a digital solution could be in the form of standardization of diverse

input formats into standardized output formats, for example through Machine Learning algorithms. Such solutions could provide visibility and opportunities also to impact entrepreneurs that are less known in the financing scene and eliminate bias from the evaluation process.

Big leap vs. small solutions

One of the main findings from the interviews, research, and the session at the Sankalp Summit was that there is most likely not the comprehensive one-size-fits-all solution that provides all necessary features during the funding process and thus makes the big step towards tackling the funding gap. Instead, there will be many smaller parts and aspects where digital tools and solutions will improve efficiency and therefore help to address the funding gap between investors and social entrepreneurs through digital partial solutions.

*“I think any platform
in this area should be
supported by strong offline
support services that are
locally embedded.”*

— Gert van Veldhuisen
BiD Network

Aspects of the due diligence process

During the session at the Sankalp Summit, several partial aspects of the due diligence process as a core element of the successful financing have been explored in smaller groups and technology support in these areas was identified.

Due Diligence - Financial Forecasts and Historical Accounts

Since many social entrepreneurs and investors use their own spreadsheets and structures, an automated tool could help check differences and consistencies in Excel and with importing business cases from various documents or from other Excel sheets, structuring this part of the process in a more standardized way. Furthermore, the tool could check assumptions against known KPIs, industry averages, or market price levels, in order to check the consistency of all the calculations of Excel sheets, results errors, and give warning signs on highly unlikely numbers. By using these automated checks, it would be very easy to create standardized desk boards depending on the investment sector. These automated checks would make it easier for credit or investment committees to make decisions quicker, as they consistently get the same layout and the same forecast.

Due Diligence - Business Strategy & Market Performance

One aspect of a due diligence tool could look at metrics of a business strategy, then do a sanity check based on information that is available in the database such as

checking if there is enough raw input for the strategy. The tool could perform various tasks, such as:

- an assumption validation referring to existing literature
- assess the competitive environment of the solution
- refer to sector-specific KPIs or other benchmarks (e.g. The World Bank (CGAP) Initiative is creating KPIs for the PAYG solar industry)
- compare the performance of the technological solution to other existing solutions
- measure the market variance over time (e.g. seasonally, quarterly, etc.) to assess the market opportunity (e.g. by looking at potential gaps in the current market)

Due Diligence - Legal/Tax/Regulatory Compliance

The proposed idea is basically an Artificial Intelligence (AI) function that is able to screen and validate legal documents. You can upload pictures or PDFs of the respective legal documents and the tool would then check the documents in an initial phase on the basic validity of these documents. Are these valid documents? Are the documents expired? The platform would then automatically remind on renewals and/or expiries for both the social entrepreneurs and investors. However, the challenges for such a system include jurisdiction limitations. There is the need for a huge data set to train the AI.



The way forward

When it comes to addressing the funding gap for social entrepreneurs, a one-size-fits-all technology solution will not be the magic bullet that helps overcome this gap for various reasons. However, there is big potential for digital solutions that address specific aspects of the overall funding lifecycle such as improving the efficiency of the due diligence process. All digital solutions need to be integrated closely with the respective offline measures and require strong support from existing players in the field. More work needs to be done in order to implement digital solutions that are well integrated into the existing system and to build sound trust on the power of digital solutions. This can only be achieved through individual practice and positive, convincing experiences. Increasing digitalization will definitely not stop at the development sector and the field of social finance. The process will show which features can bring significant added value and where their limits lie. It is necessary to pave the way for meaningful applications that help to support the social impact of social entrepreneurs. Intermediaries and philanthropy can act as facilitators, conveners and pacesetters in this process.

Expert Statement

“As data is driving our search for solutions to the problems of an interconnected society, technology is the vehicle to get us there. At the same time, decentralized, bottom-up solutions prove consistently more successful than their centralized counterparts (think of the last time you used an app created by a government). Creating impact through technology thrives in an ecosystem where the technology and data are open and available, and the problem solvers are independent and free to create alternative answers to the big questions. But this ecosystem would not exist without the support of governmental initiatives, business, and the third sector. Funding sources, especially foundations, play a major role.”

Jonathan Moore

Co-Founder of N3XTCODER

“Many entrepreneurs send out funding requests randomly, to scores of investors. And these investors are probably overwhelmed in dealing with one email after another. There has to be intentionality.”

— Patricia Jumi
GrowthAfrica

IX. Interview with Henri Nyakarundi (ARED)

Fundraising is about networking

SIEMENS STIFTUNG:

Could you give me a short introduction of what ARED does and in which stage you are in?

HENRI:

We are a technology company that has developed a solution to facilitate access to offline and online applications, and digital services including phone charging for low-income people in rural areas, some urban areas and refugee camps. Our main product is a solar kiosk platform, a high-capacity router solution. We are definitely in a growth stage. We have been in business for seven years now, currently operating in Rwanda, Uganda, Nigeria, and we will be in Ivory Coast and Burkina Faso by the end of the year.

SIEMENS STIFTUNG:

What type of financing have you touched so far?

HENRI:

We have received mostly grants to develop the technology and we have raised a little

bit of equity in the last 2.5 years to develop an expansion plan. But 80% of our fundraising was mostly grants, which came during the early stage when we just got started.

SIEMENS STIFTUNG:

What is your funding strategy? Are you planning to now raise more equity the more you grow?

HENRI:

We are in the middle of fundraising \$1 million in the form of equity and debt. We should be profitable by the end of this year. We just raised \$250,000 out of the million, we have \$750,000 to go.

SIEMENS STIFTUNG:

Where do you search for funding?

HENRI:

Funding is really about networking in my experience. I network a lot, we attend a lot of conferences and we have actually hired a fund manager who is highly connected and has been able to close some of those deals.

Most of our funds come from Germany and the United States, and now we are focusing more on funding from Africa.

SIEMENS STIFTUNG:

Do you now focus on African investors for a specific reason?

HENRI:

Mostly because foreign investors don't really understand this ecosystem properly. In our space, there is a lot of misunderstanding of the African ecosystem and, because of that, there is a lot of non-alignment when it comes to implementation strategies. We have seen that foreign investors have a different type of strategy. Africa is a very fragmented market, you cannot expand in Africa like you do in Europe or in the United States.

SIEMENS STIFTUNG:

You said that there is a mismatch in terms of expectations and understanding of the market. What else are the challenges that you face when it comes to raising funds?

HENRI:

One challenge we face is when talking to social investors they often want to have high returns, which we find contradictory in a sense because we are dealing with impact and low-income people. High and quick returns are not necessarily something that is possible in this ecosystem. Another challenge relates to discrepancies on valuation when it comes to local entrepreneurs compared to foreign entrepreneurs. If I were registered in America, my technology can be part of the valuation. But when you register locally, the valuation is strictly based on revenue. They don't consider IP as part of the valuation. We are the only company right now in Africa that has developed this type of technology, but that's not really part of the valuation.

SIEMENS STIFTUNG:

Have you ever been rejected by a social investor and if so why?

HENRI:

Rejection is definitely part of entrepreneurship, we have been rejected dozens and dozens of times for many different reasons. One reason was that there are a lot of social investors who want high returns and that doesn't make any sense to us, because high returns would mean squeezing more money out of the poor people that you are servicing. We did modify our business model in the sense that we now also serve urban areas with our technology. We now have a huge revenue stream through service provision for urban areas. That's good but at the same time it's misalignment.

“there are a lot of social investors who want high returns and that doesn't make any sense to us, because high returns would mean squeezing more money out of the poor people”

SIEMENS STIFTUNG:

Are you using any technological solution, any tool or platform for fundraising purposes?

HENRI:

No, it never worked for us. For us, investment is a very personal endeavor. After seven years, I've been able to meet a lot of investors and talk to them. It's a very personal journey. It's a trust-based relationship and it's very difficult to build that trust with a digital platform. So, the best thing that can happen is when you get introduced by someone they know. The investor automatically has some confidence.

A digital platform would be interesting to close information gaps, for example, by giving lists of who does what and where, who is investing how much, etc. People have to spend hours on the internet to search for this kind of information, but as far as being able to close and facilitate those deals to actually achieve your goal, my view now, after seven years, is that the digital approach would not work for me. Hiring a fund manager has increased the chances

of getting a reply from investors 5 times compared to the online system we usually used. Looking back, I would have hired a fund manager much, much earlier.

SIEMENS STIFTUNG:

Are you concerned with sharing financial data through online platforms?

HENRI:

It depends on how advanced and how sincere the conversation is. We have not had any problems sharing financials with investors we felt like we had a chance to raise funds. Usually we start with pitch presentations and only if we feel like they are really interested and want to check our assumptions, then we are open about sharing more information.

SIEMENS STIFTUNG:

Thank you for the conversation and good luck with your fundraising!



Henri Nyakarundi

Henri Nyakarundi is the Founder of African Renewable Energy Distributor (ARED), a hard-tech company based in Rwanda and Uganda. ARED developed a business-in-a-box solar kiosk that offers customers phone charging and airtime top-up services, WIFI, an intranet with free digital content and a Bluetooth printer. The social enterprise leases the kiosks out through a franchise model.

“We have found that we get very few questions on impact, but rather about the financials, etc. Whether that is because our impact is obvious (so they don’t ask) or whether it is because they are more focused on finance, and impact is secondary, is open to debate. I do hope it is because it is obvious.”

— Simon Dixon
Kwangu Kwako

About Siemens Stiftung and epNetwork

About Siemens Stiftung

As a non-profit foundation, Siemens Stiftung promotes sustainable social development, which is crucially dependent on access to basic services, high-quality education, and an understanding of culture. To this effect, the foundation's project work supports people in taking the initiative to responsibly address current challenges. Together with partners, Siemens Stiftung develops and implements solutions and programs to support this effort, with technological and social innovation playing a central role. The actions of Siemens Stiftung are impact-oriented and conducted in a transparent manner.

www.siemens-stiftung.org

About empowering people. Network

The *empowering people. Network* (epNetwork) is an initiative by Siemens Stiftung. It connects inventors and entrepreneurs who have developed simple technical solutions, and supports social enterprises on their way to scale, replicate, and expand. With a strong focus on organizational development and improved internal processes and structures, epNetwork offers a range of interactive training formats, expert knowledge, and individual coaching and consulting to its member organizations worldwide.

By way of events, in-depth analyses, and reports, epNetwork focuses on the topic of funding for social enterprises, thus addressing the significant need for innovative forms of social financing. Starting with an international round table in Cairo in 2019, a sustainable process of expert exchange, idea generation, and work on creative financing solutions was launched. Players from different scopes of the international social entrepreneurship ecosystem gather both virtually and face-to-face, to work on finding solutions for this aspect of social development.

www.empowering-people-network.siemens-stiftung.org

Imprint / Contact



Project Management

Carola Schwank
Development Cooperation
Siemens Stiftung

Editing Partner

Leonhard Nima
Dr. Aline Laucke
Studio Nima

Siemens Stiftung

Kaiserstraße 16
80801 München
info@siemens-stiftung.org
www.siemens-stiftung.org



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