BUILDING BUSINESSES FOR GIRL IMPACT

Investing in innovations in emerging markets
INTRODUCTION

SPRING’s vision was to build a community of business and investment leaders that could shift the market ecosystem to support the empowerment of adolescent girls. Directly securing investment for our ventures was an important part of this effort, and one of our indicators of success. Many of our businesses needed access to capital in order to progress to the next stage. We helped them to become investment ready, while also identifying potential investors and educating them on opportunities for girl impact. This work was led by our Investment Director, with the addition of Regional Investment Advisors in the final year who helped raise the profile of SPRING and connect businesses with local and international investor networks. Thanks to their incredible efforts, more than half of our ventures were successful in obtaining external funding in the form of investment and grants during or after SPRING.

As of September 2019, SPRING businesses have raised $38.1 million in investment: $28.7 million went into 25 of our East Africa businesses and $9.4 million into 23 of our South Asia businesses.

This report provides our reflections and recommendations to unlock investment for girl impact and other innovations in developing markets.

Investment in SPRING businesses by region in years following each cohort

1 Year 1 (Y1) includes all four cohorts, Y2 includes Cohort (C1), C2, and C3. Y3 includes C1 and C2. Year 4 includes C1.

2 Regional cohorts were staggered over time. Cohort 1 and 3 were in East Africa, and Cohorts 2 and 4 were in South Asia. The earlier cohorts had more time to secure investment by September 2019 than the later cohorts.
KEY INSIGHTS

1. Create a pool of highly engaged investors from the outset to build relationships and trust

SPRING’s investment approach was built on the assumption that if businesses could demonstrate potential for market and impact for girls, investors would ‘crowd in’ to follow the opportunity. In practice, the process of attracting investors proved to be more complex for a number of reasons. Information is just one element of an investment decision; a positive relationship built on trust is also a critical factor, especially when investing in start-ups or in higher-risk markets. Working with businesses at the prototyping stage meant that we were often still early in the journey by the end of the accelerator period. It takes time for investors to build relationships with businesses and gauge their market potential. Bringing on a group of highly engaged investors earlier on allows them to share their perspectives, build relationships and trust with the companies, and do informal due diligence. A comparator mission-driven accelerator to SPRING is Zinc VC, whose ‘missions’ attract a 50-strong cohort for a nine-month venture creation accelerator. Investors are involved from the beginning, providing input on what is investable as well as initial capital to create prototypes and test hypotheses using human-centred design.

2. Address the barriers preventing small and medium-sized enterprises (SMEs) from accessing patient, high-risk investment

The challenges SMEs face in accessing the patient risk capital they need for growth and expansion are well documented. Although SMEs in developing markets are a diverse group, their need for capital between $100,000 and $2 million is often categorised as ‘the missing middle’ of capital needs. Too big for microfinance lenders and too small for traditional investors, there are few local providers of appropriate capital. This not only affects their ability to access funding, but also prevents them from benefiting from local investor knowledge, networks and expertise: one of the most important contributions an early stage investor can make is as an advisor and sparring partner for investees, with relevant local knowledge and contacts.

Our experience taught us that very few out-of-country funders have the appetite to invest in innovation by SMEs. This is often due to a mismatch between what the investor and the business are looking for, such as risk profile, sector, potential for return, geography, arena of impact or stage of business. Recognising this challenging investment environment, SPRING became an advocate for the creation of new and innovative financing vehicles for high-risk ideas and early stage businesses in developing markets, and actively sought to influence the discourse amongst the impact investment community through its presence at events and forums, including the Gender-Smart Investing Summit, Sankalp Africa, the Asian Venture Philanthropy Network (AVPN) Conference, SOCAP, the Skoll World Forum and Women Deliver.
Develop tools to support gender-lens investing and to promote innovation for girls

“The field of gender lens investing is growing, but the focus on adolescent girls is still nascent. This is going to take a robust multi-sided marketplace between investors, intermediaries, and entrepreneurs. The potential impact for girls and young women is tremendous but this will require cultivation in years to come.”
Suzanne Biegel, Investment Director, SPRING

At the start of SPRING, we knew there was not a well-developed set of investors focused on improving the lives of girls. While interest in gender-lens investing to advance women’s economic empowerment is growing, investors have often asked us what it means to invest specifically in adolescent girls. They need information and tools, or ‘readiness’ to invest, as much as potential investees need preparation for investment. Gender-focused investors tend to be interested in investment in or lending to women entrepreneurs, or creating opportunities for the advancement of women in value chains. Other impact investment goals include poverty alleviation, the environment, impact in specific sectors, such as agriculture or energy, or in specific geographies. To identify investors for our ventures, we looked for alignment with other areas they were working on, and demonstrated the case for adolescent girls. Many SPRING businesses secured investment by targeting funders with an interest in scaling up solutions in target sectors. For example, Smart Paani, a company that provides sustainable water management solutions in Nepal, secured investment from the Dopper Foundation, which invests in universal safe drinking water. Several businesses accessed funding from Grand Challenges Canada by demonstrating health impacts, while others aligned with GSMA priorities on mobile tech solutions.

More information about the tools we created, including linking girl impact across different sectors, are covered in our Investor toolkit with a focus on girls and young women, which demonstrates the potential, scale and viability of girls and young women as a consumer market and as a workforce. Further efforts are needed to promote the benefits of investing in girls to the investor community.

Engage in investor networks to gain access to local, regional and global investors

Initially, SPRING’s entrepreneurs were largely unaware of the range of global sources of capital available to them. Fellowships such as Echoing Green and Acumen offer connections to global investors for those that take part in their programmes, usually geared to individual, globally experienced social entrepreneurs. Without a network, entrepreneurs cannot access the informal knowledge so critical to finding the best fit between a given investor’s thesis and risk tolerance and the business opportunity. Regional business networks often do not have access to international investors. And there has been a well-documented cultural bias by international investors towards expat founders that are part of elite networks. Over 70% of the investment raised by our participants went into expat-founded businesses.

One of the most important ways we helped our businesses to access capital was to connect them with local, regional, and global investors 1:1. Having a very well-networked Global Investment Director and Regional Investment Advisors committed to fostering connections and to building networks that could potentially unlock additional resources was absolutely critical. Our Global Investment Director and regional advisors also played a key role in promoting the SPRING Portfolio and actively representing businesses in investment forums and networks.
Matching investors with early stage impact businesses with a focus on girls is a several-sided jigsaw, combining an investor’s interest and position with a given business’s stage, focus and geography.”

Ramona Liberoff, Senior Advisor, SPRING

Build in enough time and resources to strengthen the investment readiness of early-stage businesses

Investment readiness is a challenge even for businesses with plentiful access to legal, financial, regulatory and other relevant support. When building impact investment propositions, many businesses needed significant support to develop systems to capture data (and time to collect it). SPRING was resourced for comparatively light touch support across the nine-month time frame (see our ‘Designing an Accelerator’ report). We helped to close this gap by supplementing the expert advice and coaching provided by our Investment Director with access to “Smart Impact Capital,” an online, self-paced interactive tool offered by Duke University’s CASE School of Business for impact investment capital raising, as well as additional mentoring support from Regional Investment Support Managers.

In practice, the timeline for investment can stretch on well beyond nine months, and impact investment beyond seed funding is approached once the business model, product/market fit and impact case are clear. Therefore, SPRING made the decision to shift the investment readiness support to a later point in the programme. The self-guided training tool “Smart Impact Capital” provided our businesses with the basics, which then helped us to maximise the limited advisory time of our Regional Investment Support Managers and external advisors, who could then spend time on more in-depth areas, such as financial modelling, building supportive staff structures, and deal structuring to help businesses secure funds.

Accessing global investors: Fightback and Grand Challenges Canada

Fightback had not sought any investment prior to joining SPRING. Its prototype showed promise for high impact and potential for scale. Suzanne Biegel, SPRING’s Investment Director, introduced Fightback to Grand Challenges Canada (GCC) as a candidate for its Transition to Scale Fund, which focuses on health outcomes. SPRING provided a range of support and mentoring to the founder throughout the application process, through its Investment Manager, Country Manager and M&E team, as well as through external specialists in financial modelling, bid writing and legal advice. The Investment Director also introduced the founder to other investors to secure the match funding required, and SPRING support enabled the founder to visit the UK and US to meet investors. The process lasted a year and was good learning experience for the founder to understand what it takes to secure funding. In March 2019, GCC confirmed funding of up to 500,000 Canadian dollars.
Invest in business acceleration models that provide strategic grant funding alongside working capital

In the early stages of market development – especially in sectors such as health, education and technology – grants are often an excellent source of funding to de-risk innovations, particularly to test an impact case. However, in environments with scarce early stage growth capital, grant funding can also be detrimental to the growth of for-profit or sustainable business models and scale.

We found that grant capital was often more readily available than private investment for SMEs in East African and South Asian markets. As a result, many businesses attempted to raise grant capital but it was often opportunistic, trying to fit their objectives into fairly tight criteria which did not always sit easily with a for-profit business’ need to find a product or market fit. In some countries, the government’s prioritisation of investment in innovation infrastructure also played a role in enabling businesses in certain sectors to access grant capital. For example, Drinkwell in Bangladesh has used initial grant funding from the GSMA and other institutional donors to test a scalable process for rolling out an innovative clean water infrastructure.

Prepare for and adapt to fluctuating investor market trends and priorities

During SPRING’s life time, market trends, as in all areas of business, have been constantly shifting. One year, education is ‘in’, the next it is WASH, which can make it difficult for businesses to find steady sources of funding that align to their business proposition. The UN Sustainable Development Goals (SDGs) in 2015 prioritised the role of the private sector in delivering these targets, and investors have since been realigning their investment decisions accordingly.

We adapted by working closely with our global network of investors and advisors to keep informed and aware of fluctuating market trends. At the outset, we recruited a team of Country Managers who were embedded in the local market ecosystem and well networked with the local investor community, with regional and global linkages. Country Managers were also part of the SPRING steering committee, which met regularly to exchange knowledge and updates, including about the ever-changing investor landscape in SPRING countries, to help realise investment opportunities. Finally, in all the investor collateral we created, we mapped our businesses to the SDGs.

Recognise and address the mismatch between global investor expectations and local business culture

Well-designed accelerator programmes and investment vehicles understand and respond to the local cultural context and business environment. A number of SPRING businesses noted that the due diligence process was challenging due to the cultural nature of trust. In many countries where we operated, there was no precedent for trusting strangers with confidential information. As a result, our businesses were sometimes hesitant to produce certain requested documentation to meet global investors’ expectations. We found that this mismatch of expectations was easier to resolve when the business leadership had both local and global experience, so they could understand the underpinning of cultural expectations that comes with any business transaction. Often the Country Managers also provided critical support during the due diligence process.
CONCLUSION

With SPRING support, our businesses were able to individually attract a range of capital (grant, impact and mainstream, from local, regional or global actors). While gender-lens investing is growing, there is still room to unlock investment for adolescent girl impact. This effort requires collaborative action by funders, governments, NGOs and other leaders, and investors.

“SPRING created the first view for investors of a set of companies with an adolescent girl impact lens, globally. This must be carried forward in years to come with commitment from the investment and donor community to move to deploy capital.”

Suzanne Biegel, Investment Director, SPRING

We also recognise the need to stimulate the market for more flexible and patient risk capital into innovation. This requires funders to develop new and innovative ways of funding social businesses, such as match-funding mechanisms or investment funds. These types of interventions would help build the market by de-risking opportunities for investors, and providing a track record of investment to attract later-stage growth capital for expansion once innovations are proven.

Attracting investment requires significant effort, even for small amounts. We recommend that funders and accelerators define the purpose of their investment goals – whether investment is for innovation or growth – and prioritise investment readiness and capital raising through adequate resourcing of time, funding and support, recognising that investment can take time to materialise.