



# ACCESS TO FINANCE FOR GREEN AND SOCIAL ENTREPRENEURS

A Handbook on how to get into an impact investor's mind

# ACCESS TO FINANCE FOR GREEN AND SOCIAL ENTREPRENEURS

## A Handbook on how to get into an impact investor's mind

This publication was developed by Impact Europe and MedWaves thanks to the financial support of the EU-funded ENI CBC Green Impact Med (GIMED). The contents of this publication are the sole responsibility of Impact Europe and MedWaves and can under no circumstances be regarded as reflecting the position of the European Union or the Programme management structures.

### ***Supervision and coordination***

Ananda Alonso, Giorgio Mosangini and Claudia Pani - MedWaves, the UNEP/MAP Regional Activity Center for Sustainable Consumption and Production

### ***Content prepared by***

Sara Seganti, Florian Tuder – Impact Europe, The Investing for Impact Network

Some contribution on how to access finance for green and social entrepreneurs comes from the Social Investment Toolkit published by Ashoka

### ***Recommended citation***

UNEP/MAP MedWaves and Impact Europe (2022). Access to finance handbook for green and social entrepreneurs. Published on [www.theswitchersfund.eu](http://www.theswitchersfund.eu)

***Design and layout by*** Honesto Branding, Barcelona  
***Cover photo by*** GIMed





# Contents

<b>1.</b>	<b>What is Social Finance &amp; Investing for Impact</b>	<b>9</b>
1.1	Impact Strategies – Investing for Impact and Investing with Impact	10
1.1.1	Two important Impact Strategies	10
	Tips and Tricks for Green & Social Entrepreneurs	13
<b>2.</b>	<b>The Main Capital Providers</b>	<b>14</b>
2.1	Social Impact Funds	15
2.2	Foundations	16
2.3	Social Investment Crowdfunding Platforms	17
2.4	Corporate Social Investors (CSIs)	18
	Tips and Tricks for Green & Social Entrepreneurs	19
<b>3.</b>	<b>Financial Instruments for Impact Driven Businesses</b>	<b>22</b>
3.1	Grants	23
3.2	Debt Instruments	23
3.3	Equity Instruments	23
3.4	Hybrid Financial Instruments	24
3.5	Tailored Finance – Which Financial Instrument for Which Venture?	25
3.6	The Impact Europe 3-steps framework for Tailored Financing	28
	Tips and Tricks for Green & Social Entrepreneurs	29
<b>4.</b>	<b>How much external finance should you raise?</b>	<b>30</b>
4.1	Financial Milestones	31
4.2	Which Finance Option Should You Choose?	32
	Tips and Tricks for Green & Social Entrepreneurs	33
<b>5.</b>	<b>The Social Investment Process</b>	<b>34</b>
5.1	The investment process from the entrepreneurs' point of view	34
	Tips and Tricks for Green & Social Entrepreneurs	
5.2	The investment process from the capital providers' point of view	37
5.2.1	Investment appraisal	38
5.2.2	Deal Screening	38
5.2.3	Deal Flow	38
5.2.4	First Screening	38
5.2.5	Due Diligence	39
5.2.6	Investment decision and deal structuring	40
5.2.7	Non-financial support plan	40
5.2.8	Exit plan	41
	Tips and Tricks for Green & Social Entrepreneurs	41

<b>6.</b>	<b>What investor materials to prepare?</b>	<b>42</b>
	Tips and Tricks: When to send Investor Materials	44
	1.1.1 Two important Impact Strategies	45
	Tips and Tricks: Telling your Impact Investment Story	45
<b>7.</b>	<b>Impact Measurement &amp; Management</b>	<b>46</b>
	7.1 Impact Europe's 5 Step Framework	47
	7.2 Challenges and Opportunities	48
	Tips and Tricks for Green & Social Entrepreneurs	49
<b>8.</b>	<b>Bibliography</b>	<b>50</b>
<b>9.</b>	<b>List of capital providers</b>	<b>51</b>
	9.1 SOCIAL IMPACT FUNDS	51
	9.2 FOUNDATIONS AND ENGAGED GRANT MAKERS	51
	9.3 CORPORATE SOCIAL INVESTORS	52
	9.4 OTHERS (MICROFINANCE, DEVELOPMENT AGENCIES, ETC.)	53





# 1. What is Social Finance & Investing for Impact

This Handbook is meant to support green and social entrepreneurs in better understanding, and therefore, accessing the opportunities offered by social finance. Impact Europe (formerly EVPA), the investing for impact community, is a unique network at the intersection of finance and purpose, driven by knowledge and focused on impact. Impact Europe has almost 300 members, almost 70% among them are capital providers. Impact Europe defines investors for impact as those capital providers that power social and environmental impact to build a better world. Impact Europe builds its strategic insights over almost 20 years of direct connection with investors for impact and has produced many materials on how this impact driven type of investors select and manage their investments. Because of this very specific expertise, MedWaves asked Impact Europe to gather its knowledge in a short Handbook that could provide guidance and orientation, from a practical perspective, to green and social entrepreneurs interested in becoming investment ready and engage with investors for impact. The Handbook ties together the perspective of the investors, which is a fundamental piece of knowledge that should support green and social entrepreneurs in better defining their fundraising strategy and manage funding expectations, with the perspective of the entrepreneurs themselves thanks to a series of additional tips & tricks sections.

Impact Europe trained already 1,000+ people on social investments and produced standard-setting and bar-raising guidelines on investing for impact and impact measurement and management. This Handbook contains both this solid experience and our members' practical insights on how to better exploit all the opportunities offered by social finance providers so that green and social enterprises can increase access to finance and non-financial support and maximise their social and environmental impact.

The Handbook starts with a general introduction on the impact strategies from the capital providers' perspective, then describes the main capital providers active in the space and the financial instruments that are mostly deployed by these actors. A section is dedicated to support entrepreneurs in assessing how much and what type of finance they should raise. The Handbook then moves forward with a description of the social investment process from both perspectives, the one of the investors and the one of the entrepreneurs; and then follows up with some very practical insights on how to engage with social investors. At the end of the Handbook there is a reference to a key practice of social investment: impact measurement and management for which you will find additional guidance in the MedWaves' capacity building resources.

## 1.1 Impact Strategies – Investing *for* Impact and Investing *with* Impact

The space of social and impact investors engaging with impact-driven organisations, such as green and social entrepreneurs has been growing and maturing over the last decade. The positive news is that the lively discourse around social and impact investing brings more resources and capital to the space. This first section is an introduction to the spectrum of capital in the social and impact finance space and the different profiles of investment strategies that can be adopted by capital providers.

### 1.1.1 Two important Impact Strategies

An Impact Strategy represents the way in which capital providers codify their own activities along three axes: social and environmental impact targeted, financial return sought and social/financial risk appetite. As shown in the figure below, in between the two extremes of a spectrum – traditional philanthropy and sustainable and responsible investing, we have defined two main impact strategies: investing *for* impact and investing *with* impact.

**Investors *for* impact** see themselves as a means to an end, hence it starts from the social and environmental challenge it wants to solve, the beneficiaries being front and centre. For an investor for impact, financial and non-financial support are both equal and indispensable instruments to get to the impact.

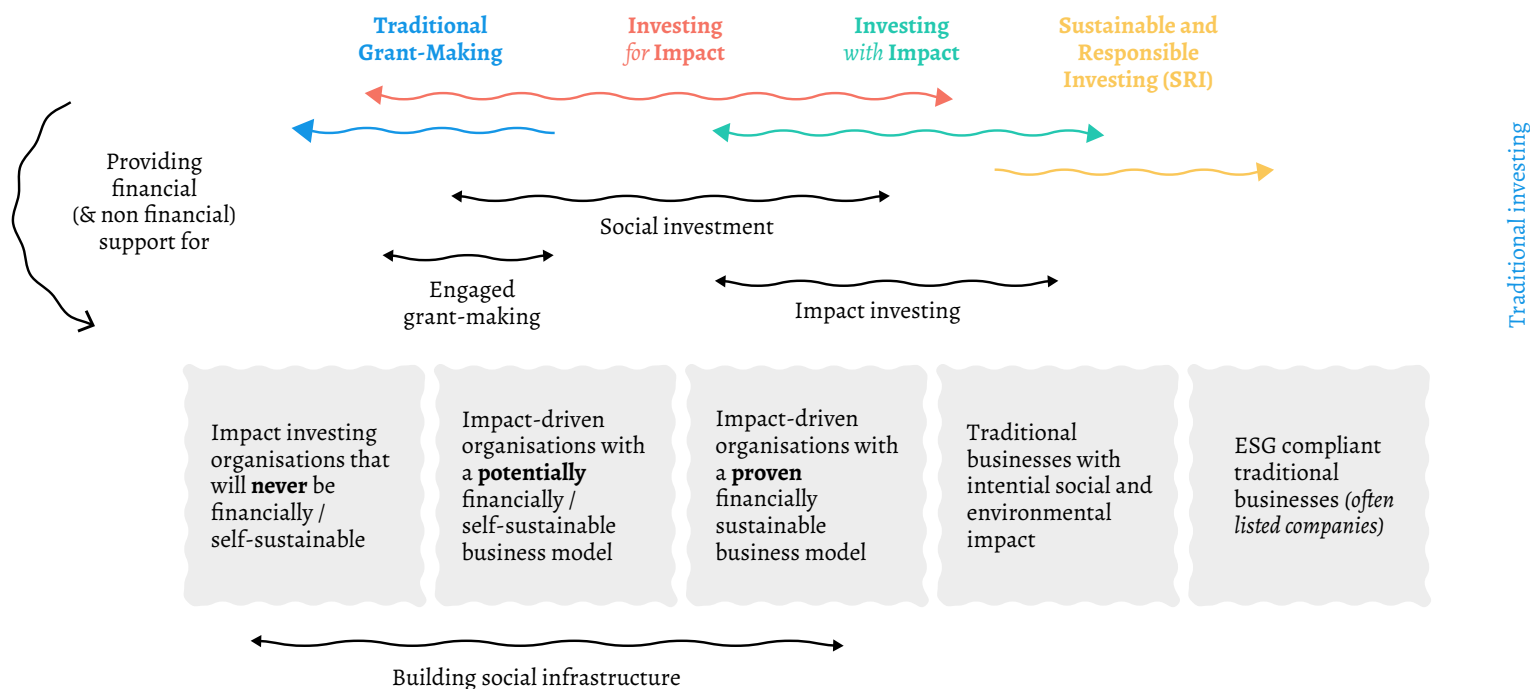
**Investors *with* impact**, on the other hand, are primarily investors seeking a financial return. The impact aspect is considered alongside the need to achieve stable financial returns, which remain their primary objective.

Investors *for* impact and investors *with* impact sit at the two sides of the same ecosystem. They represent two typologies that often collaborate and co-invest together and provide a framework inside which investors and investees can orientate themselves.





# The Impact Ecosystem



On one hand, investors *for* impact are capital providers that take risks that no one else can – or is prepared to – take, putting the impact-driven organisation or the green/social innovation and the end beneficiaries at the centre. Investors for impact are, hence, those that apply more extensively the venture philanthropy approach, i.e. those implementing the three core practices *impact measurement and management, non-financial support and tailored financing*.

On the other hand, investors *with* impact have access to larger pools of resources, but need to guarantee a certain financial return on their investments alongside the positive impact they have the intention to generate. The level of risk that investors *with* impact can take is often limited because of their mandates. As some capital providers such as foundations, social banks and corporate social investors can adopt different impact strategies, we used the spectrum to “map” the diverse streams of activities aimed at generating a positive social impact on societies.

These impact strategies are described as investment approaches that seek a societal impact combined with different degrees of financial return – by investing in green and social enterprises. We will use the term “green & social enterprise” to depict an organisation that has a primary green and/or social mission, but operates in the market economy. Green & social enterprises need different types of financing at different stages in their evolution. Venture philanthropy can be seen as the type of financing that green & social enterprises need at seed stage, normally implying smaller ticket sizes and higher risk, whereas impact investing kicks in at start-up and growth stages when there is a proven business model and some track record. Due to the risky nature of traditional grant-making and investing *for* impact, investors are often philanthropic ones who do not demand a financial return, and sometimes grants are used – alone or in combination with other financing instruments that seek a positive financial return. Moving towards investing

*with* impact on the spectrum, on the other hand, does not include philanthropic financing instruments. Both impact strategies aim to achieve a societal impact, whereas the expectation of economic returns varies from case to case.

It is difficult to obtain a clear understanding of the overall size and financial return of the impact market due to the fragmented nature of data collection efforts. The OECD expert group on social impact investment is working on streamlining and standardizing data collection so that data can become more comparable.

The [Impact Europe industry survey](#) provides a yearly update on the European venture philanthropy and impact investment sector. It includes organizations based in Europe that invest domestically or all over the world using an investing *for* impact approach (incl. venture philanthropy). The survey excludes organizations with a ‘finance first’ investment strategy, i.e. where financial returns are maximized and social impact is of secondary importance.

The Global Impact Investing Network (GIIN) publishes an [annual survey on impact investment](#). It has a global scope and also includes the ‘finance first’ part of the investment spectrum. The latest survey, published in 2020, accounts for a current market size of USD 715 billion. The sample used is clearly different from the Impact Europe survey and represents much larger investment amounts.

Several studies have attempted to assess the financial returns expected and achieved in the impact ecosystem. As in the studies of market size, the financial return achieved depends on the scope of the study. For example, EngagedX calculated financial returns on about 400 individual deals closed by three UK-based impact investors, invested in between 2002 and 2014, reporting an overall return of negative 9.3 per cent. In contrast, Cambridge Associates and the GIIN reported an overall internal rate of return (IRR) of 6.9 per cent for the sample of 51 funds making investments between 2000 and 2014. The latter includes data from finance-first, private equity funds. Until the impact sector develops more standardized measures and asset classes, benchmarking across funds is not very helpful.

The ambition to achieve green and societal impact is clearly a distinguishing factor in the ecosystem, and the concept of impact measurement is, therefore, very important. Measuring the impact is a fundamental practice in investing *for/with* impact and is compulsory both at the fund level and at the level of the investee. The ultimate objective of impact measurement should be as a tool to help both investor and investee steer their organisations towards greater environmental and societal impact. We will explore impact measurement and management in a separate chapter below.

## *Tips and Tricks for Green & Social Entrepreneurs*



- 1 The impact ecosystem is rapidly evolving with new actors constantly joining the impact investment space. Get to know them! The impact space is full of opportunities that arise in a fast-changing scenario, so it's important to be informed about the new actors active in your region and their impact strategies.
- 2 These capital providers apply different impact strategies therefore it is crucial for a green & social entrepreneur to position her/himself along the spectrum of capital in order to identify which potential investor could serve its financial needs in each phase of development.
- 3 A good understanding of potential good matches should start with a mapping of the investment possibilities through networks and online research. At the end of this chapter, you can find an updated list - although not exhaustive – of the most well-known green & social oriented capital providers active in the MENA region.
- 4 Being selective is very important to ensure the process is efficient and make the most of your chances to pitch in front of potential investors.
- 5 These capital providers give relevance to the value proposition of your business idea/venture from both a financial and a social perspective: spend some time into clarifying what your impact objectives are and identifying if there are strong social/green innovation aspects in your venture before reaching out to these capital providers.



Photo by GIMed

## 2. The Main Capital Providers

There are several players in the impact ecosystem and all of them have a critical role in driving the world towards a more sustainable future. In this Handbook, we focus only on capital providers that adopt a “for impact” strategy: social impact funds, green & social investment crowdfunding platforms, foundations and corporate social investors. We would like to stress that there are also other providers that adopt a different set of impact strategies: social banks, the public sector, and institutional investors, as well as actors that are entering the impact ecosystem by gradually orienting more towards impact their investment practices and adopting mainly SRI and “with impact” strategies: asset managers and family offices. Plus, additional actors that have an evolving role in the impact ecosystem: international non-governmental organisations (INGOs) and development finance institutions (DFIs)<sup>1</sup>. In chapter 9, we compiled a list of capital providers active in the MENA region, divided by their profiles and further information about their work.

---


<sup>1</sup>All critical terms can be looked up in the [EVPA Glossary](#)

## 2.1 Social Impact Funds

At Impact Europe, we consider social impact funds as the initiators of the investing for impact movement in Europe. Social impact funds emerged when a number of socially-oriented Venture Capital / Private Equity (VC/PE) practitioners entered the impact ecosystem to foster social innovation and help solve pressing societal and environmental issues.

The first impact funds of this kind were launched to prove the venture philanthropy model. These pioneering funds deployed patient capital with an average time-horizon of ten to twelve years. Most of the funds could count on the support of high-net-worth individuals and philanthropic capital, which allowed them to be truly engaged for the long haul, prioritising the achievement of sustainable green and social impact.

Impact funds deploy different forms of debt and equity to support innovative business models that tackle green and social issues and have the potential to scale. For these impact funds that invest *for* impact, the starting point to decide whether or not to invest is *not* the potential financial return of the venture, but its potential societal and/or environmental impact. This does not mean that social impact funds do not target a financial return, although they may target a lower return than the one expected by traditional investment funds. However, the potential financial return is not the key decision-making factor. The innovativeness of the business model of the enterprise in tackling an environmental/societal issue is what makes impact funds decide to invest. By being the scouts of innovation with commercial viability of the impact ecosystem, impact funds create the pipeline for all other investors, thus being one of the most important players of the investing *for* impact community. Impact funds take high risks, often funding green & social enterprises at their early stage, supporting them to improve their business model, and making them attractive for follow on investors. Impact funds play an important role in building a sustainable pipeline of investments for investors *with* impact and for other traditional investors interested in supporting impact as part of their investment activities. Impact funds also play a role in testing solutions to pressing societal & environmental issues that can then be scaled by the public sector.



It is worth mentioning that often early stage green and social enterprises already received support from grant making investors before starting their funding journey together with impact funds.

Some impact funds, especially those that have been established in the early days, are now also focusing on supporting the growth and the scaling phase of innovative social enterprises that already have some track records. What makes them differ from more traditional investors or from investors *with* impact is that they are willing to take the risk of the scaling path of very innovative and disruptive solutions, whose success at scale is still very much uncertain. The same applies to the support of tested solutions to be replicated in other contexts: impact funds can play a role in this phase as they are willing to take risks related, for example, to exploring new markets.

## 2.2 Foundations

Foundations, together with impact funds, were the early adopters of venture philanthropy. As explained in the Impact Europe report [“Strategies for Foundations: When, Why and How to Use Venture Philanthropy”](#), when VP started spreading in Europe, foundations were already adopting several principles of VP, referring to it as *engaged* or *strategic philanthropy*. Examples of how foundations integrated VP practices include increased efforts in impact measurement, a more engaged and long-term grant-giving approach, and the delivery of non-financial support. Adopting such an approach allowed foundations to support green & social purpose organisations in a more efficient way.

However, in Europe many foundations are still not adopting the VP approach, thus supporting NGOs and charities in a more traditional way. There is great potential in having foundations transitioning towards a more engaged grant-giving, since it would increase the resources allocated within the investing *for* impact space. Foundations that are part of the investing *for* impact space, support a variety of organisations. They do not only finance NGOs and charities that are not – and will never be – financially sustainable, but also offer first-loss capital to organisations with a potential sustainable business model that need to start their activities (e.g. social enterprises in a start-up or in an early-stage phase). This first investment usually plays a catalytic role in attracting follow-on investors. Through grant-making, foundations can take high risks and invest in innovative solutions. Alongside patient capital, foundations bring value to their grantees by providing impact expertise and connections with a wide range of stakeholders.

Through their grants, foundations can also strengthen social and green infrastructures, playing an important market building role in the impact ecosystem. For example, foundations can finance the construction of data infrastructures, which can help identify funding gaps.

In more recent years, the interest of foundations in social investment started to increase. Foundations are starting to explore opportunities of using financial instruments other than grants (e.g. debt, equity or hybrid financial instruments). One reason is to become more efficient in supporting social enterprises not exclusively in the early stage. This helps social enterprises to become financially independent from traditional grants and supports them towards financial sustainability.

Having no pressure on the sustainability dimension gives the grantee/investee more space to focus on impact, but lowers its chance to be attractive for other types of investors after the grant is over. Moreover, grants are subsidies that can give a competitive advantage to certain organisations, thus distorting the market. In some cases, where the national regulation does not allow foundations to generate financial returns, if they are willing to start using other financial instruments, they have to set up a separate entity to do so. In other cases, foundations do grant-making and green/social investment through the same legal structure, but there are then two separate teams dealing one with grants and the other one with other financial instruments.

Observing how foundations use different financial instruments to support different types of organisations, it is clear that through the recent use of repayable forms of capital, they extended their reach. Indeed, through financial instruments other than grants, they support for-profit entities with pure social or green mission and profit-maximising organisations with impact, which they also support through grants, but allocating relatively smaller amounts of resources.

A relevant number of foundations in Europe has an endowment. An endowment is a pool of assets and resources that were allocated to the foundation on the date of its establishment – or later.

Finally, foundations are increasingly collaborating with peer investors *for* impact. As foundations are starting to use repayable instruments, they can exploit complementarities and partnerships with impact funds. A way to collaborate with other investors *for* impact is through impact bonds or other payment-by-result mechanisms, in which foundations can engage as both initial investors or as outcome payers. Like all other investors, foundations benefit from peer learning, and from sharing knowledge about success and failures as it helps them in their decision-making and their understanding of what works or not.

### 2.3 Social Investment Crowdfunding Platforms

Low cost technology has made crowdfunding platforms very popular all over the world. In the attempt of democratising philanthropy and social investment and making it accessible to everyone, a multitude of initiatives to crowdfund impact projects have been launched. The majority of crowdfunding platforms has been created to bridge the gap between donors and final beneficiaries, thus supporting traditional philanthropic projects. Crowd giving platforms may be the first step in the crowdfunding landscape for some impact projects, which, in a second step, could venture into other forms of social & green investment. However, there are few platforms that aim to support green & social enterprises with equity, i.e. the so-called social investment crowdfunding platforms.

These crowdfunding platforms work as impact funds: they deploy equity to support early-stage and high-risk green & social enterprises that have the potential to grow and to scale their impact. Typically, they provide small tickets between EUR 50.000 and EUR 400.000, thus contributing to fill an important and widely acknowledged gap in the impact investment space. As impact funds, the investment managers of these platforms conduct due-diligence of the potential projects to upload on the platform online, assessing both financial returns and impact potential. The main difference between impact funds and crowdfunding platforms lies in the source of funding. These platforms rely on contributions from EUR 100 to EUR 10.000 coming mainly from individual investors. However, there are also cases in which individuals can invest less than EUR 100. Individuals usually hold from 30% to 100% of the shares, the remaining percentage is held by professional investors.

Social investment crowdfunding platforms gather different individuals who invest together because they believe in the impact of the underlying investee, and they are willing to sustain them. Some of these individual investors often provide advices in their area of expertise and promote the investees' activities throughout their network of friends, colleagues and family. This additional non-financial support is particularly valuable for them, especially during their early-stages in which they constantly seek exposure to potential customers and promoters.

The progress of technology and the diffusion of internet played an important role in the proliferation of these platforms. This technology is available at an affordable cost, which has also contributed to the diffusion of crowdfunding platforms in the last decade. They are also easily accessible by a growing share of the population.

As organisations mature and professionalise, social investment crowdfunding platforms face new challenges, like attracting follow-on investors and looking for potential exit opportunities. At this stage, investees have typically produced some track records and are ready to attract professional investors. As the practitioners interviewed reported, in the second round of fundraising, these organisations mainly leverage the platform's network of professional investors, rather than the crowd. Therefore, as the investees move to maturity, the risks and challenges of these platforms become similar to the ones of other investors *for impact*, e.g. providing access to networks and finding impactful exit opportunities. As these platforms have not become mainstream yet, the production of track records, especially on financial performance, are particularly important to build trust among the public and expand their radius of action during this phase. Social investment crowdfunding platforms represent the most successful attempt of democratisation of impact investment to date. Middle-income individuals, who traditionally rely on banks to manage their savings, have now the opportunity to invest in a more direct and impactful way, with low or no transaction costs.

#### 2.4 Corporate Social Investors (CSIs)

Corporate social investors (CSIs) are vehicles formally related to a company, and which aim to create green and/or social impact. Examples are corporate foundations, shareholder foundations, corporate social businesses, corporate social investment funds, and corporate social accelerators. CSIs are an important actor in the impact ecosystem, in which they play a specific role. CSIs can, at the same time, generate a positive impact on society (*direct impact*) and push the corporation to change its business practices, to become more sustainable (*indirect impact*). Historically, corporate foundations have been set up for various reasons, including to improve the reputation of corporations vis-à-vis the public opinion, to strengthen employees' motivation or to give charitably to various causes. Differently from other foundations, CSIs are linked to a corporation, with different levels of alignment and proximity.



CSIs perform a large number of activities, both in the *for* impact and in the *with* impact space, depending on their starting point. The left-hand side of the Impact Europe impact ecosystem spectrum includes corporate foundations and shareholder foundations, and all those activities that CSIs perform through grant-making. A corporate foundation is a purpose-driven non-profit organisation that has been set up by a company. Corporate foundations have an ongoing relationship with the company, which allows them – albeit to various degrees – to access financial and non-financial corporate resources which they leverage to create impact. Just like other foundations, corporate foundations have started in recent years to look at how to go beyond grant-making, experimenting with financial instruments such as debt and equity instruments. Corporate foundations remain investors *for* impact, focusing on supporting early stage entities that will either never become financially self-sustainable or that are just testing a potentially sustainable business model. Corporate foundations are still the most common form of CSI. Shareholder foundations are making a similar move towards experimenting with new instruments, although being somewhat more conservative. The term “shareholder foundation” refers to a type of corporate governance characterised by a concentration of firm ownership with a single non-profit entity (i.e. the foundation) holding all, a majority, or a blocking minority of equity shares. The foundation disburses the dividends that it receives as a shareholder towards one or more philanthropic causes, in accordance with a charter created by the founder.

On the right of the Impact Europe impact ecosystem spectrum are corporate social investment funds and corporate impact accelerators. A corporate social investment fund is a specific legal entity that is set up by a company to pool resources from one or more investors for investing activities in companies with outstanding social innovations. Corporate social investment funds are set up to invest in organisations that have the potential to become self-sustainable or even in organisations with a sustainable business model. A corporate social accelerator is a structure through which an organisation supports investment-ready social enterprises by providing them with business development support, mentoring, infrastructure, and access to relevant networks in order to help them grow. Corporate social accelerators are one of the ways through which CSIs provide non-financial support.

In the investing *with* impact space, are corporate social businesses, defined as structures created and designed by a company with a clear green and/or social purpose. The products and services provided remain close to the core business and activities of the company, but are developed to generate impact rather than commercial benefits. Corporate social businesses seek to be financially self-sustainable while generating social impact.

All the activities outlined above pertain to CSIs, the corporate social investors that are members of Impact Europe. However, in recent years a certain movement towards impact from the side of traditional companies can be observed. Corporate (impact) venturing represents the way in which corporations start experimenting with including environmental and social impact considerations into their decisions about whether (or not) to invest in promising start-ups.

## *Tips and Tricks for Green & Social Entrepreneurs*



- 1 In general, many impact investors will deploy non-financial support alongside financial support, remember the importance of it and define your non-financial needs as well when looking for an investor. Sometimes access to networks and talents, pro-bono expertise, training opportunities, etc. might be even more important than financial support to make your venture succeed. Impact Europe has published a guide to help you out in assessing your needs in terms of non-financial support that<sup>2</sup> you can download for free (link in footnote). Capital providers are equipped to offer different types of non-financial support and can be actively involved with different levels of commitment so be sure to assess if the non-financial offer fits your needs.
- 2 Impact funds deploy different forms of debt and equity to support innovative business models that tackle green and social issues and have the potential to scale. They usually target a financial return but the innovativeness of the business model of the enterprise in tackling an environmental/societal issue might be what makes impact funds decide to invest. Remember to highlight the innovation aspects of your venture when pitching to an impact fund.
- 3 Check out the investment criteria of the impact fund you are interested in: it can be focussing in a specific stage of development and it might have identified some specific sectors/social challenges or geographic areas they are investing in. This will help you save a lot of time if your venture doesn't fit with the fund investment criteria.

---

<sup>2</sup> A Practical Guide to adding value through non-financial support, EVPA (2015)  
<https://www.evpa.ngo/insights/practical-guide-adding-value-through-non-financial-support>

4 Foundations that are part of the investing *for* impact space, support a variety of organisations. They do not only finance NGOs and charities that are not – and will never be – financially sustainable, but also in some cases offer first-loss capital to organisations with a potential sustainable business model that need to start their activities (e.g. social enterprises in a start-up or in an early-stage phase). This first investment usually plays a catalytic role in attracting follow-on investors, keep this in mind when looking for investors in the early stages of an impact venture.

5 Social investment crowdfunding platforms represent the most successful attempt of democratisation of impact investment to date. If your venture is community based or there is a community that has a direct interest in the green and social impact your venture generates, then activating this community to invest in your company through a crowdfunding platform it's definitely an option to consider. Unfortunately, although the number of existing social investment crowdfunding platforms is growing, they are not as of today active in all regions.

6 Corporate social investors (CSIs)<sup>3</sup> are vehicles formally related to a company, and which aim to create green and/or social impact. Their connection with the corporate can be a very interesting factor to consider when engaging with them for networking, innovation, technical expertise, market opportunities, etc.

---

<sup>3</sup> More information on Corporate Social Investors can be found here:  
<https://www.evpa.ngo/stream/corporate-initiative>  
<https://www.evpa.ngo/insights/rise-corporate-social-investor>



Photo by SwitchMed

### 3. Financial Instruments for Impact Driven Businesses

Financial instruments (FIs) are contracts involving monetary transfers through which investors for impact financially support impact driven organisations, such as green or social enterprises. The most common FIs are grants, debt instruments, equity instruments, and hybrid financial instruments.

### 3.1 Grants

Grants are a type of funding in the form of a cash allocation that investors *for* impact can offer to grantees. From their perspective, grants do not foresee any type of repayment or any financial returns to be given back to the investor. From the investors' perspective, grants do not establish any ownership rights. Grants are particularly well suited to situations where the possibility of generating earned income is highly unlikely, undesirable or difficult to achieve within the investment horizon of the investor *for* impact. Grants are fundamental to creating a market or to financing a public good that no private investor would support at any point in time. Grants help build proof of concept at seed stage. However, grants have the potential to create a situation of dependency of the grantee, if not provided with adequate non-financial support to strengthen the financial sustainability and organisational resilience. Grants might give organisations little incentives to maximise efficiency of funds, scale operations, and reach sustainability.

### 3.2 Debt Instruments

Debt instruments are loans investors *for* impact can provide green and/or social organisations with charging interest at a certain rate. The interest charged can vary depending on the risk profile of the investee; on its potential green/social impact; and on the securitisation and repayment priority of the loan (e.g. senior vs subordinated loan). Debt instruments are considered when the investor *for* impact is looking for a fixed term and fixed return. For the investor, they are “safer” than equity, but they do not allow the investor to have any control over the decisions of the investee. Additionally, investees in the very early stage of development might not have any collateral to offer, which implies that the exposure of the investor *for* impact might end up being the same as if it was investing through equity.

### 3.3 Equity Instruments

Equity instruments are contracts through which investors *for* impact provide funding to green/social organisations and in return acquire ownership rights on part of the investees' businesses. This form of capital can be appropriate when the prospect of a loan repayment is low or non-existent. If the investee is successful, the equity share holds the possibility of a financial return in the form of dividend payments and/or the capital gain at the exit. In addition, it allows for the possibility of a transfer of ownership to other funders in the future. Equity instruments should be considered when there is, or is likely to be, a market available for the investees' products / services / activities. For the investor, equity guarantees a participation in the financial upside of the business but implies to also share risks and liabilities with the investee. The return on investment may take place over a very long time period and may require significant amounts of other sources of capital (e.g. grants) to achieve it.

### 3.4 Hybrid Financial Instruments

Hybrid financial instruments (HFIs) are monetary contracts that represent a variation or combine features of the traditional FIs (grants, debt instruments and equity instruments) in order to achieve the best possible alignment of risk and impact/ financial return for particular investments. Even though HFIs can be very useful to better customise the support to green/social organisations, they require financially-literate organisations to invest in, which can understand the way of functioning of such instruments.

**Mezzanine finance** is a hybrid of debt and equity financing, usually used to fund the scaling of an organisation. Although it is similar to debt capital, it is normally treated like equity on the organisation's balance sheet. Mezzanine finance involves the provision of a high-risk loan, repayment of which depends on the financial success of the investee. This hybrid financial instrument bridges the gap between debt and equity/grant through some form of revenue participation.

**Convertible loans** (or convertible debt) are loans that may be converted into equity. Convertible loans are most often used to support organisations with a low credit rating and high growth potential. Convertible loans are also a frequent vehicle for seed investing in start-up organisations, as a form of debt that converts into equity in a future investing round. It is a hybrid financial instrument that carries the (limited) protection of debt at the start, but shares in the upside as equity if the start-up is successful, while avoiding the necessity of valuing the company at a too early stage.

**Recoverable grants** (or convertible grants) are grants that investors *for impact* use to fulfil a role similar to equity. Recoverable grants may include an agreement to treat the investment as a grant if the impact-driven organisation is not successful, but to repay the investor *for impact* if the organisation meets pre-agreed KPIs with success. Recoverable grants are designed to focus the organisation on sustainability and to reduce its risk of grant dependence.

**Soft loans** are debts investors *for impact* offer to impact-driven organisations with no interest (i.e. 0% interest rate loans) or with a below-market rate interest. The main difference with recoverable grants lies in the repayment scheme, which is agreed *ex-ante* between the two parts and it is not conditional to any specific KPI.


**Revenue sharing agreements** (or royalty-based financing) are hybrid financial instruments in which the investor *for impact* lends money to the impact-driven organisation against its future revenue streams. The initial capital plus an additional interest has to be repaid by the company until the pre-established amount is paid back (so called royalty cap), with repayments only starting when the company generates positive cash flow. Investors obtain returns as soon as the investees reach an agreed level of revenue.

**Forgivable loans** are the opposite of convertible grants. They are loans which are converted into grants in case of success. If the impact-driven organisation reaches the goals agreed on beforehand by the investor and the investee, the loan does not have to be repaid. The organisation bears the full risk of project success and, on top of that, has a strong incentive for making it happen as planned.

### 3.5 Tailored Finance – Which Financial Instrument for Which Venture?

The high level of heterogeneity of green/social entrepreneurs results in a different set of financial and non-financial needs. As shown in the [Interactive Impact Europe Industry Survey 2020](#), different organisations attract different sources of capital. For example, for-profit organisations with social/green impact were financed mainly by repayable forms of finance, while non-profit organisations have been financed almost entirely through grants and debt. Another factor that determine the financial needs of an impact-driven organisation is its stage of development. Organisations in the incubation and start-up stage significantly attract grants compared to organisations at validation and maturity stage, which are mainly financed through repayable forms of finance such as debt and equity.

Finding the right match between the FI available and the needs of the investee is fundamental to avoid distortions of the market (by, for example, subsidising a green & social enterprise through a grant that could be financed through equity) and to make sure to set the right expectations.



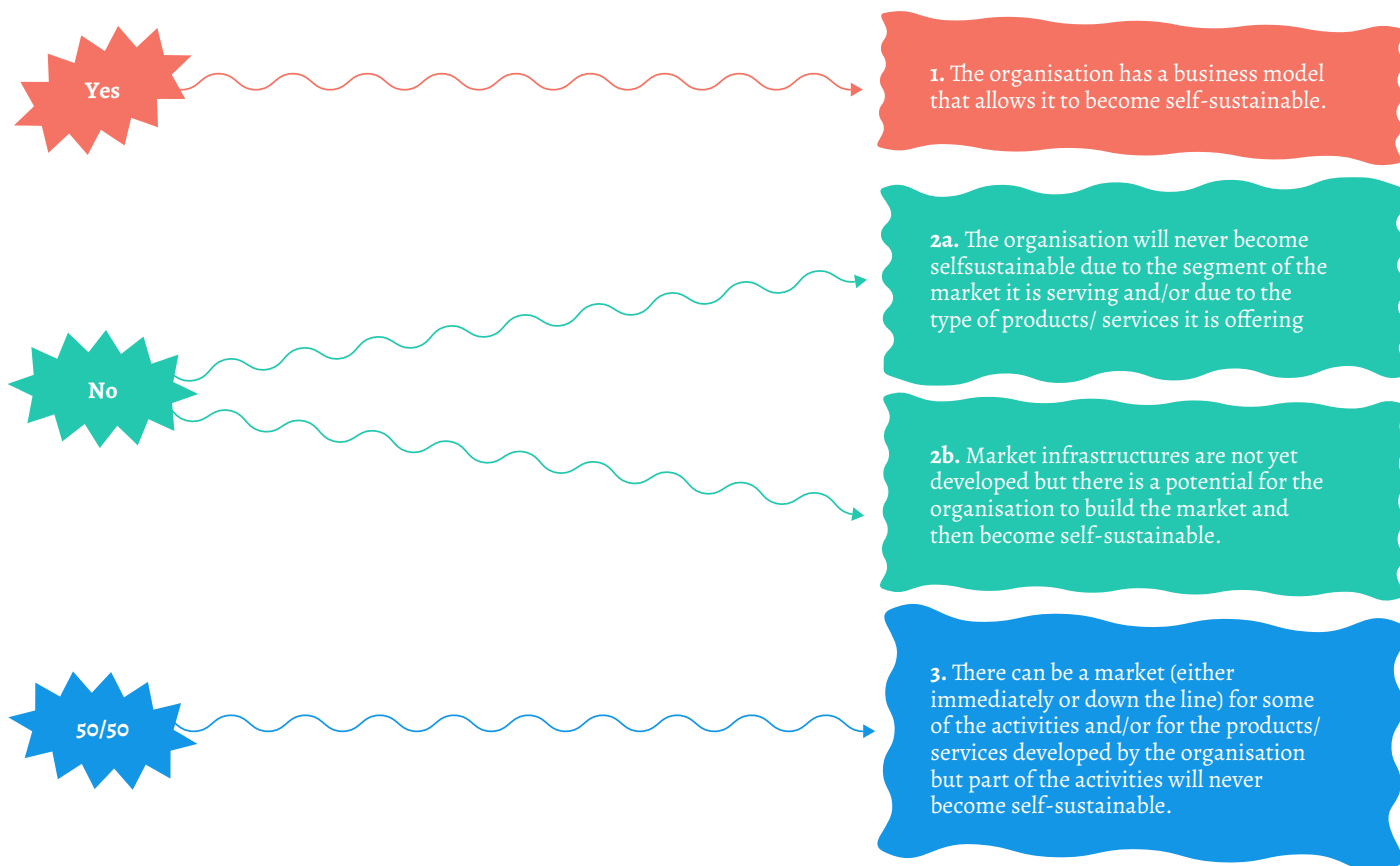
The first question for an impact-driven organisation to ask is: “Does a market exist for my products/services or my activity?” (see figure below). Answering this question opens up four scenarios.

If the answer to this question is **yes (1)**, the organisation has a business model that allows it to become self-sustainable, so it will choose an organisational structure that is very close to a traditional commercial organisation (although its primary aim remains the achievement of a green/social impact). The organisation will most probably not change through its life cycle (although the amount of investment needed might change).

If the answer to this question is **no**, there are two options. **(2a)**. The organisation will never become self-sustainable due to the segment of the market it is serving and/or due to the type of products/services it is offering. In this case the organisation will choose an organisational structure close to a traditional charity/NGO. The business model and the organisational structure of the organisation will most probably not change through its life cycle (although the amount of investment needed might change). **(2b)**. Market infrastructures are not yet developed but there is a potential for the organisation to build the market and then become self-sustainable. This is one of those cases in which the organisation will need to change its organisational structure while it evolves, moving from a grant-based model to a social-investment model. After the grant phase the organisation will need to take a moment to re-assess its business model (by answering the first crucial question), to see whether the development towards a social investment model is happening as expected.

The answer however can also be **mixed (3)**, meaning that there can be a market (either immediately or down the line) for some of the activities and/or for the products/services developed by the organisation but part of the activities will never become self-sustainable. This case implies that the organisation has a hybrid business model, which combines marketable products and services with activities for which there is no market and there will never be. The organisation will then have to set up a hybrid structure, and will need to combine different types of funding already at the early stage.

Does a market exist for the impact-driven organisation?

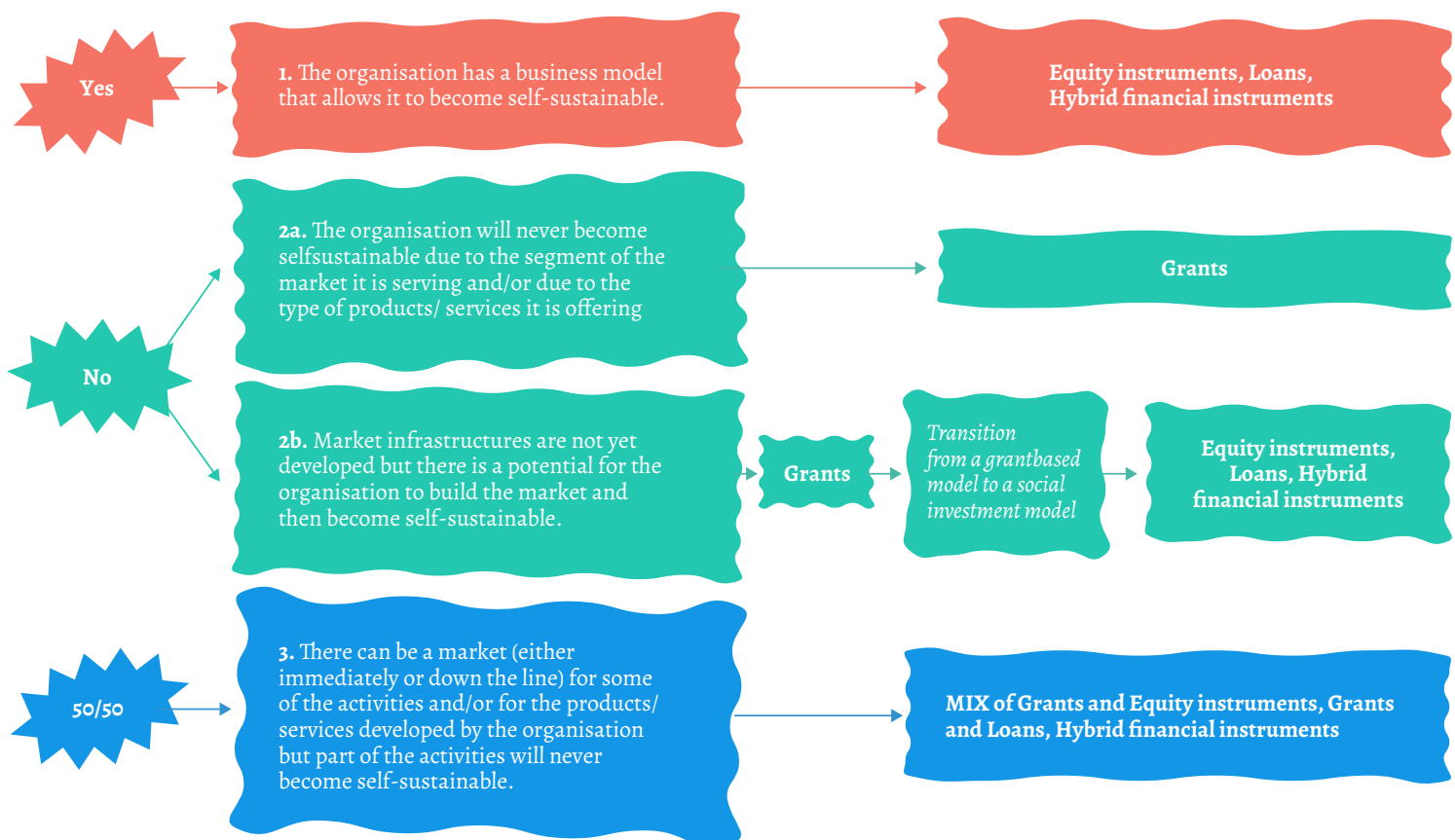


**Following these four scenarios, several further options open up (see figure below):**

1. If the impact-driven organisation has a business model that allows it to become self-sustainable, it will choose an organisational structure which is very close to a traditional commercial organisation. In this case the organisation ideally has access to impact investment already in the early stage of development (so access to very patient **equity, loans and hybrid financial instruments**).



- 2a. If the organisation has a business model that will never become self-sustainable, it will take a charity/ NGO status and will need to be financed through **grants** throughout its existence (eventually with different amounts, depending on the decision to scale or not to scale).
- 2b. If market infrastructures are not yet developed but there is a potential for the organisation to build the market and then become self-sustainable, we argue that an investor for impact will need to provide **first grants, and then social investment** (in the form of patient **equity, loans and hybrid financial instruments**). This is one of those cases in which an organisation will need to change its organisational structure while it evolves, moving from a grant-based model to a social-investment model.
3. If there can be a market (either immediately or down the line) for some of the activities and/or for the products/services developed by the organisation but part of the activities will never become self-sustainable, the organisation will take a **hybrid structure** and will need to have access to a **mix of grants and social finance**, provided often by different actors. It is important to stress that, from the point of view of the organisation, the decision to set up operations as a hybrid structure (i.e. a combination of a for-profit entity and a not-for-profit one) is an innovative way to address the issue of access to finance. By setting up a hybrid structure, the organisation can attract grants through the non-profit entity and social investment through the for-profit entity, hence increasing the pool of resources available while channelling them in the most effective way.



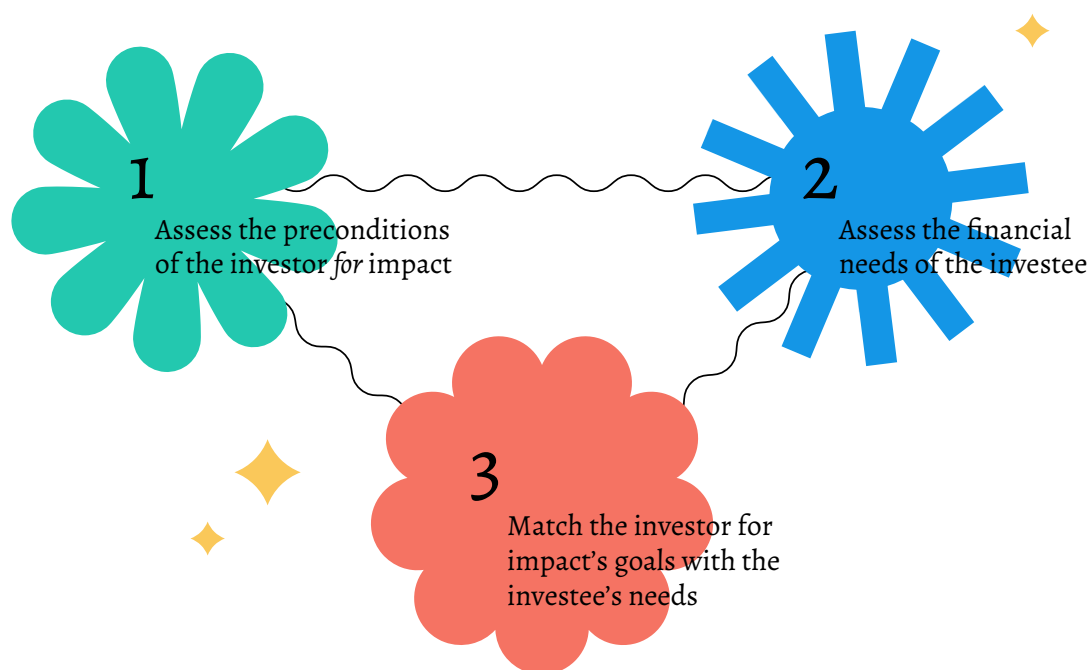
### 3.6 The Impact Europe 3-steps framework for Tailored Financing

In the report [Financing for Social Impact | The Key Role of Tailored Financing and Hybrid Finance](#), Impact Europe presents a process of tailored financing that is composed of three steps.

**Firstly**, investors *for impact* “assess their preconditions”, i.e. the different options available have been assessed (including also expectations in terms of financial and impact return / risk).

**Secondly**, the investor focusses on the investee and its needs, which may depend on a series of external and internal factors. The internal factors include the stage of development of the investee and the potential for financial sustainability of its business model. External factors include the macro-environment in which the investee operates, and stakeholders. The assessment of the internal and external influencing factor will also be useful to determine the most appropriate non-financial support to strengthen the investee.

**Thirdly**, investors and investees match the offer with the needs and, if an agreement is found, the deal is signed.



As more instruments become available within the impact ecosystem, it becomes particularly challenging to find the right balance between concessionary and commercial capital to nurture the establishment and the growth of investees' and ensure lasting impact. On the one hand, grants and other forms of concessionary capital face the risk of distorting the market, since these instruments could deter some investees to strive for self or financial sustainability.

On the other hand, patient and concessionary forms of funding are particularly relevant for enterprises at seed stage, as they need it to professionalise and expand their impact activities. Impact Europe has advocated for the importance of conducting in-depth assessments of the needs and requirements of the investee before providing them with both financial and non-financial support.

Finally, in the future further convergence between philanthropic and traditional investors can be expected. Foundations will increasingly use repayable forms of finance and use their endowments to make mission-related investments.

Traditional investors will deploy more patient and flexible capital, to increase the green and social impact generated by their investments. In this respect, one of the main challenges for investors is to adapt to their national legal framework, which could limit the possibilities for innovation.

## *Tips and Tricks for Green & Social Entrepreneurs*



- 1 Tailored financing is the approach to capital deployment that is undertaken by investors for impact, which means the FIs deployed will be designed and adapted to the needs of the enterprise to support its growth in the best way. Be sure to understand all the existing options before starting a conversation with an investor.
- 2 Different FIs might be needed at different stages of development of the enterprise and the capital provider that is best suited to deploy that financial support might change over time. Always assess beforehand which type of financial and non-financial support can be deployed by a capital provider as very often their options are limited.
- 3 Always assess the impact and market dimension and potential of your venture before selecting your potential investors in each phase.
- 4 Be informed of the specific characteristics of FIs as these might have consequences on the ownership of the company and the decision-making power. For example, equity instruments give investors some ownership in a company and some options may come with voting rights.



Photo by SwitchMed

## 4. How much external finance should you raise?

After having presented the impact ecosystem and the spectrum of capital, the capital providers active in the space and the financial instruments usually deployed to support green and social entrepreneurs, it is now time to put ourselves in the shoes of an entrepreneur who has to decide how much and what type of finance should be raised for its venture to strive.<sup>4</sup>

How much finance a green/social entrepreneur should raise is a delicate act of judgement. The more finance raised, the faster an enterprise can grow and the less it has to worry about potential cash shortfalls. On the other hand, finance comes at a cost: unless only donations and grants are raised, an organisation will have to either sell shares (i.e. equity) or borrow debt that must be repaid with interest. Therefore, one should not raise too much finance too soon. Ideally an entrepreneur should aim to raise enough finance to get comfortably to the next major 'funding milestone' (see below), when they will be able to raise more funds on better terms.

Finance is not usually a single one-time act, but comes in successive increasing rounds of funding, usually spaced several years apart, as an entrepreneur can usually raise finance on better and better terms as the company grows and becomes more established.

---

<sup>4</sup> This information comes from the [Social Investment Toolkit published by Ashoka](#) that is meant to support green & social entrepreneur that are looking for investment. The Toolkit is divided into 8 modules and this text on how much finance should be raised is taken from module 7: Financing Terms - Choosing a Financing Option.

## 4.1 Financial Milestones

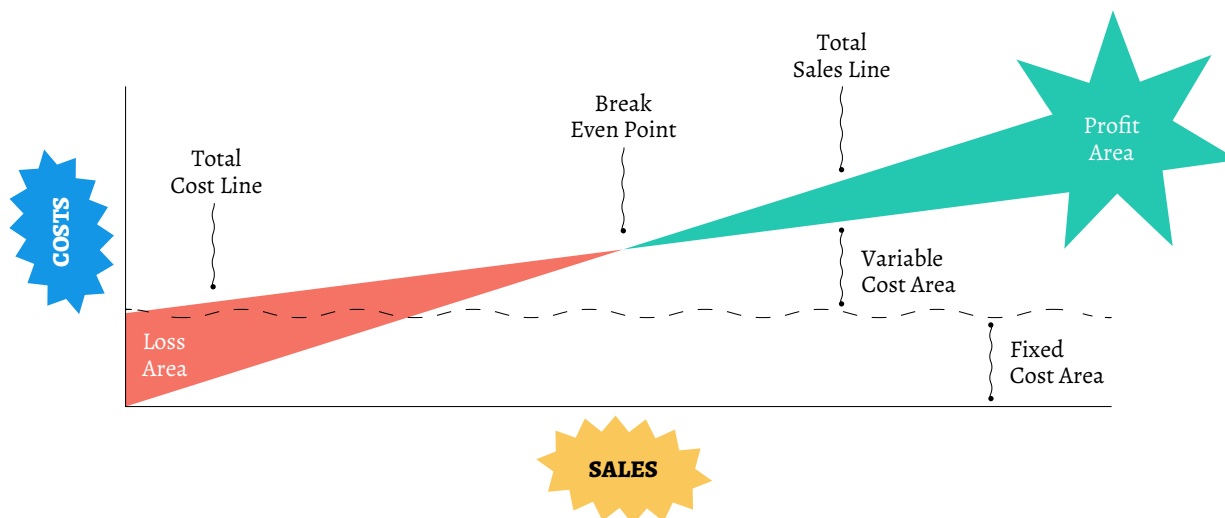
A key concept to help entrepreneurs decide how much funding to seek is the idea of 'funding milestones'.

The life-cycle of a venture, undergoes certain stages, which typically include a 'Pilot', 'Minimum Viable Product', 'Launch' and 'Growth' phase. Each of these stages is often marked out by a specific 'milestone' – a moment which marks the successful completion of that stage.

The pilot stage, for example, is often marked by the successful completion of a pilot study, often with a report indicating the results of the pilot study. The launch phase is marked by the moment when an entrepreneur begins making their first sales to customers and/or serving beneficiaries. Stages may be further broken down into smaller milestones. This might be having a finished working product, for example, or making the first customer sale. It might be landing the first large customer order, or securing a major supply contract. The milestones are always specific to a certain venture.

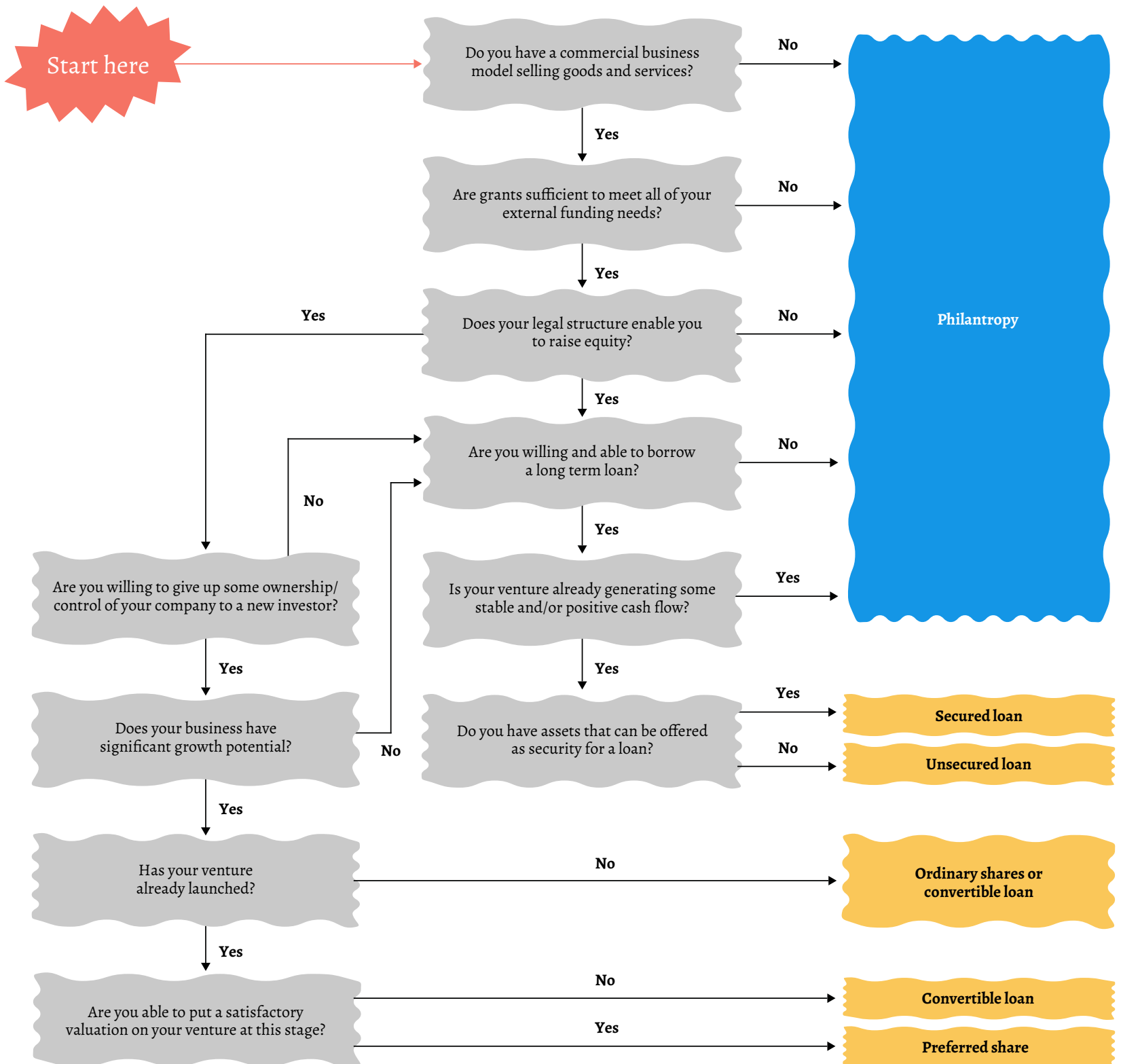
Each milestone represents either a strong step-up in service delivery, or a significant reduction in risk for the venture, or both. Raising funds is therefore about asking for enough funding to help getting to a particular milestone. With each milestone crossed, an entrepreneur should be able to go back to investors for more funding on better terms.

A particularly important milestone is the moment when a venture generates sufficient sales to cover all of its costs including overhead. This is called the 'break-even threshold'. The break-even threshold is important because it is the moment that a venture is no longer dependent on external financing in order to survive. It is the point where raising external financing becomes a choice, not a necessity. It is also the moment from which an enterprise starts to generate surplus funds that could be used to repay investment. Investors will therefore be very focused on how quickly an investee can reach break-even, and funding through to break-even is a common milestone.



## 4.2 Which Finance Option Should You Choose?

The following chart can be used as guide on which financial option to choose. We recommend that you use this with guidance from a finance advisor, as not every option may be available in every situation:



## *Tips and Tricks for Green & Social Entrepreneurs*



- 1 The more finance raised, the faster an enterprise can grow and the less it has to worry about potential cash shortfalls. On the other hand, finance comes at a cost: unless only donations and grants are raised, an organisation will have to either sell shares (i.e. equity) or borrow debt that must be repaid with interest. It's important therefore to raise only what is necessary and to be well aware of the consequences in terms of ownership structure and obligations that comes with a specific FI.
- 2 Raising funds is about asking for enough funding to help getting to a particular milestone. With each milestone crossed, an entrepreneur should be able to go back to investors for more funding on better terms.



Photo by SwitchMed

## 5. The Social Investment Process

### 5.1 The investment process from the entrepreneurs' point of view<sup>5</sup>

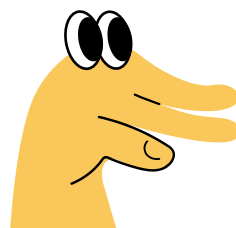
Approaching social investors is the final stage of the investment raising process, and should only be done once you have completed all of the preparations discussed in the prior modules. This part of the process can easily last several months just by itself, but having a good roadmap will greatly speed up your journey.



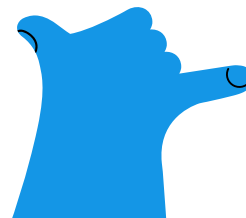
**1. Investor Mapping**



**2. Approach**



**3. Pitch**



**4. Follow-Up**



**5. Expression of Interest**

This final stage of the process can be broken down into the following steps:

- 1 Investor Mapping:** during this phase you are actively mapping out potential social investors. You will be working out which funders invest in your type of venture, how much they invest, what kind of investment they make (debt, equity, grant) and what requirements they might ask for (e.g. board seat). You will be using your networks to find such funders as well as researching online. You will be compiling a shortlist of suitable funders. It is important to be selective in your shortlist as sending an unsolicited investment pitch to a funder without doing your homework on that funder is a waste of time.

---

<sup>5</sup> This information comes from the [Social Investment Toolkit published by Ashoka](#) that is meant to support green & social entrepreneur that are looking for investment. The Toolkit is divided into 8 modules and this text below on how to deal with investors is taken from module 8: Approaching Investors.



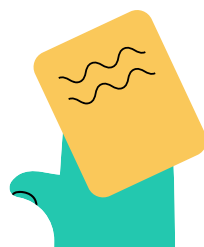
- 2 **Approach:** once you have a carefully chosen shortlist of potential funders, you will then start to approach funders. This is sometimes done by applying to funders online, for those that have online application processes. More often the best opportunities come about through personal introduction. We discuss below how to set up those introductions and how to position yourself in the best way to get invited to pitch.
- 3 **Pitch:** if your funder approach is successful, you will be invited to meet with the potential funder and to make an investment pitch. This will be usually in the form of a short (20 minutes or so) presentation backed up by slides, followed by questions and answers. We discuss below how you should manage the investment pitch.
- 4 **Follow-up:** following the investment pitch, you will follow up with the investor by sending more detailed information about your venture, including any specific answers to questions that the investor has. We show you the materials that you need to have ready to send to the investor immediately after your first pitch (not before – you don't want to bombard investors with information too early, and you want to control the flow of information to ensure that it is tailored to what investors have asked for).
- 5 **Expression of Interest:** the follow-up phase should conclude with getting a firm expression of interest from the investor in whether they wish to continue into the next phase of negotiation with you. It's important to be clear whether an investor is actively considering to invest or not, and to cut out discussions with those that aren't serious as soon as possible.



6. Due Dilligence



7. Negotiation of terms



8. Documentation



9. Financial Close

If they say yes, then the discussion moves onto negotiating the actual details of the investment. At this stage, the process splits into two processes that can run in parallel: due diligence, and negotiation of terms.

- 6 **Due Diligence:** in the 'due diligence' part of the investor process, the funder learns in detail about your venture, to satisfy themselves that you are a proper organisation that is ready and capable of receiving investment. This part of the process will involve providing the investor with a lot of information about your venture and how you operate, including your audited financial accounts, details of your financial and information management systems, your legal status etc. In the section below, we discuss the key information items that you will need to prepare

in advance, and how to manage this process to make it as efficient as possible for both you and the investor. If the funder discovers a fact that might make them pause (for example, you don't have the patent rights to your intellectual property), they may either pull out of the investment or you will need to find a way to mitigate the problem to their satisfaction (e.g. file a patent for your intellectual property). The investor may require the problem to be fixed before they will invest (a requirement known as a 'condition precedent'). The due diligence process is therefore very useful for both sides and is designed to flush out any issues that may later cause you trouble. You should welcome a full and vigorous due diligence, as it will help you become a better organisation and help you identify and reduce any business risks. Moreover, you should anticipate what the investor will look for, and be ready to address issues in advance.

- 7 **Negotiation of terms:** In parallel with the due diligence process, you will enter into negotiations with the investor on the actual terms of your investment. If you are selling equity, how many shares will you sell and at what price? What rights are you willing to offer the investor? By this stage, you should have a financial term sheet completed and ready to send to investors as part of the Investor Materials that you send in the follow-up. This contains all of the key terms that you are willing to offer investors. This phase concludes with both parties signing the Term Sheet once all terms have been agreed.
- 8 **Documentation:** once the Term Sheet as been agreed and signed, the deal moves into its final phase: formal legal documentation. Your lawyers will be responsible for this part of the process. They should prepare the final Investment Agreements, which will be based on the agreed Term Sheet. The documents will also be reviewed and marked-up by the Investor's lawyers, and there may still be some further negotiation over the finer points of the deal. However, all of the main points should have been covered in the Term Sheet phase. The Documentation phase ends with a specific signing date on which all signatories sign the final agreed document. This is also the moment when you can finally celebrate!
- 9 **Financial Close:** once the documents have been signed, the deal officially closes once the funds are actually transferred into your venture's bank account. The date on which funds are transferred is known as the 'Financial Close'. Investors will only transfer funds once their lawyers have made a final check that all 'conditions precedent' have been met. These are all the conditions that investors asked for during the Due Diligence phase that must be met before the deal closes. This might include for example successfully obtaining a key license that your venture needs to operate, or the signing of any key contracts that are necessary for your Venture's business plan. Please note that Financial Close can be over a period of time, not just on a single day, giving you the opportunity to bring in more investors over a period of several weeks. This is known as a 'rolling Close'. All investors must however sign up on exactly the same terms during a rolling Close.

## Tips and Tricks for Green & Social Entrepreneurs



- 1 Remember the importance of doing your homework on potential investors and making a targeted approach to investors. Look for those that are truly matched with your venture's needs.
- 2 Using your personal networks to find social investors is more efficient. Nothing beats the power of personal introduction from a credible source. This includes your board members, supporters, current investors, donors and all others who have supported you and want you to succeed.

### 5.2 The investment process from the capital providers' point of view

As in venture capital, impact investors follow an investment process as outlined below. The impact investor should handle this process to maximise the achievement of the social and financial return and make the most impactful use of its resources. The final aim of the impact investor is to plan, oversee and execute the investment and the exit while leaving behind a green & social enterprise with a stronger business model and organizational structure capable of attracting and managing the resources required to achieve its social impact mission in the long term.



After considering the key elements of its investment strategy, the impact investor assesses the investment opportunities available (deal flow). Following a first screening, a detailed analysis (or due diligence) supports the impact investor's investment decision in choosing which green & social enterprise to invest in and how to structure the deal (deal structuring).

The investment management comes after the investment appraisal phase. The exit will be conducted when the impact investor can no longer bring value to the green & social enterprise, when the objectives have been achieved, or when the predefined duration of the investment has come to an end.

### **5.2.1 Investment appraisal**

As in venture capital, the effort of the impact investment needs to be proportionate to the potential benefits that may result – both at the green/social and at the financial level. The key elements of the investment appraisal process are deal screening, due diligence and investment decision and deal structuring. The impact investment appraisal is different from the process undertaken for venture capital as each element will include an assessment related to the impact measurement practice, the non-financial support needed and the consequences of the exit strategy at the environmental level.

### **5.2.2 Deal Screening**

The first phase of the appraisal process is a preliminary screening of the investment opportunities available (the deal flow) in order to eliminate applicants that do not fit the basic standard requirements (first screening). This first step requires initial application documents only. Impact investors often have to create the market when getting started and may need to contribute at an earlier stage than initially anticipated by engaging in market-building activities and even setting up their own incubators.

### **5.2.3 Deal Flow**

There are many ways of identifying potential impact investment targets; among these, the impact investor should consider networking activities related to the field of interest, speaking at sector-specific conferences, desk research and connecting with other traditional funders that have dropped deals that may be suitable for the impact investor. Open competitions for green & social business plans can be an interesting option to raise interest about impact investor activity. However, the impact investor has to consider the considerable effort in terms of time and resources related to such a procedure.

### **5.2.4 First Screening**

The impact and financial objectives of the impact investor will guide the deal screening in the investment process in order to select green & social enterprises that will fit the overall investment strategy. The impact investor will evaluate the expected outcome of each investment in a green & social enterprise, which is the result of the expected outcome of the enterprise and of the impact investor's expectations to contribute to achieving this outcome.

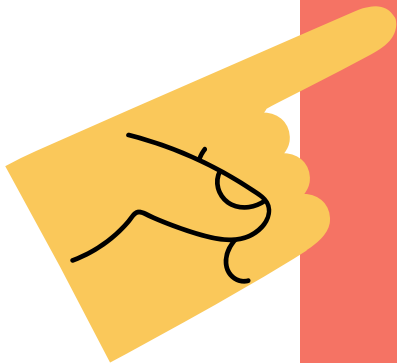
At the impact management level, the impact objectives set by the green & social enterprise - which is the green or social issue to be solved and its theory of change (inputs/activities and expected outcomes) – must match the impact investor overall strategy to pass the preliminary screening. This phase corresponds to Step 1 of the impact measurement process outlined at the end of the document. The impact investor also has to assess the needs of the enterprise (light assessment)

from the non-financial support point of view in order to ensure that the general needs of the enterprise can be efficiently and successfully addressed by the impact investor's core non-financial support strategy. Finally, in this first screening, the impact investor will have to look at the exit strategy, assessing how the key elements of its investment strategy relating to an investment opportunity are going to influence the exit and its results.

### 5.2.5 Due Diligence

Detailed screening is usually performed through analysis and validation of a business plan (for the entrepreneurs' perspective, see chapter 5.1). The investment proposal is thus presented to the investment committee to make the final investment decision. The stakeholder analysis that corresponds to Step 2 of the impact measurement process should be a fundamental part of the due diligence phase. This includes defining who the direct and indirect contributors and beneficiaries are and setting up a system to verify and value expected results. To avoid wasting resources, the impact investor can progressively increase the intensity and the number of stakeholders involved as the prospect that the investment will be realized grows. Key stakeholders should be consulted to double-check the impact objectives, and any major change related to impact goals must be properly shared.

The detailed screening process will cover all the traditional elements of the venture capital screening process at the financial sustainability level plus the following items focused on assessing the green/social impact, peculiar to the impact investing due diligence:



**Theory of Change** – The impact investor should, first of all, have a detailed understanding of the current and expected impact of the green & social enterprise. For this reason, it is helpful if the enterprise has already developed an impact measurement process that is sufficiently solid to prove the green/social outcome has been achieved. For younger, less mature enterprises, the impact investor may need to provide the necessary expertise to help the potential investee articulate its theory of change and impact objectives.

**Impact measurement systems** – The impact investor should check whether the enterprise has an impact monitoring and assessment system that works sufficiently well; if not, it should include the development thereof in the budget.

**Organisational Resilience** – The impact investor should analyse the management and governance of the potential investee. Impact investors report that investments have failed due to inadequate attention to the power of the board and an overestimation of the capability of a charismatic management team (common mistakes in venture capital also).

The impact investor should develop an in-depth assessment of the enterprise in order to understand the organizational capacities needed in subsequent years and to decide whether the impact investor will be able to provide adequate non-financial support.

### **5.2.6 Investment decision and deal structuring**

This phase corresponds to a set of terms and conditions that specify how the agreement between the impact investor and the enterprise invested in is to be defined. The impact investor should ensure that the green & social enterprise leadership is truly and deeply committed to the environmental mission of the organisation, is on top of the business plan and its future needs, and is prepared, in term of skills and expertise, to execute its plans effectively.

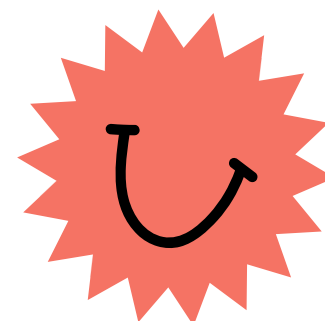
The financial considerations are similar to those affecting for-profit deals, although there is a wider variety of financial instruments (see chapter 3). Once the deal is structured, the impact investor and the green & social enterprise should work jointly to develop a non-financial support plan and an exit plan.

### **5.2.7 Non-financial support plan**

The development needs of the green & social enterprise must be assessed and identified before signing the deal and defining a non-financial support plan. The impact investor and the green & social enterprise should then agree online, for each development area, the priorities to address. The non-financial plan includes the baseline, goals, milestones and target outcomes to be reached by the green & social enterprise. The objective is to monitor the progress made on the three dimensions of financial sustainability, organizational resilience and impact objectives. The plan should refer explicitly to the support that the impact investor will provide to the green & social enterprise to boost its capacity to achieve the planned goals and concrete deliverables.

However, the resources of a green & social enterprise are always limited, and impact measurement is an essential tool. The core of the impact investing approach relies on impact measurement, and although the rigour and depth of the impact analysis can differ from case to case, the impact investor plays a fundamental role in convincing the investees of the value of impact measurement.

Before structuring the deal, the impact investor should ensure that, at the green & social enterprise level, an impact measurement system is set up to measure results: outputs, outcomes, impact and indicators related to the objectives of the investee. It is also important to decide who is responsible for collecting what type of data. Decisions need to be made about the amount of time and resources that a green & social enterprise should dedicate to impact measurement. The costs of supporting and maintaining a green & social enterprise's impact monitoring system (including personnel time and costs) should be part of the enterprise's budget and hence part of the negotiation with the investor in order to decide how costs should and/or could be split.



### 5.2.8 Exit plan

Before the investment is finalized, the impact investor should co-develop an exit plan with the enterprise. The plan should consider the expectations of both parties and define a scenario based on the key points related to the exit, including the need to preserve the capacity of the enterprise to pursue its environmental/social mission, the general goals of the investor related to the financial, organizational and impact outcomes to be achieved, and the timing of the exit. Both investor and investee should ensure openness and transparency in aligning their expectations.

#### The key elements to define in an exit plan are:

- 1 Investment goals of the overall investment strategy of the impact investor;
- 2 Goals to be achieved by the green & social enterprise as defined in the non-financial plan that determine when exit readiness is reached;
- 3 Timing of the exit that should be determined in relation to the financial instrument used;
- 4 Mode of exit that influences the how and whom to exit to, both of which elements are largely influenced by the financing instrument used;
- 5 Resources available and included in the non-financial support plan to monitor the investment and execute the exit plan;
- 6 Exit market scenarios that envisage to whom the impact investor will exit and what the market context will be at that time.

## Tips and Tricks for Green & Social Entrepreneurs

- 1 In the impact investment process, a key role is played by impact measurement and management alongside financial sustainability considerations. Be sure to have an impact measurement system in place – even if at a very early stage of development – to match the expectations of impact driven capital providers. Assessing your own green or social impact is a key aspect of dealing with social finance providers and become investment ready.

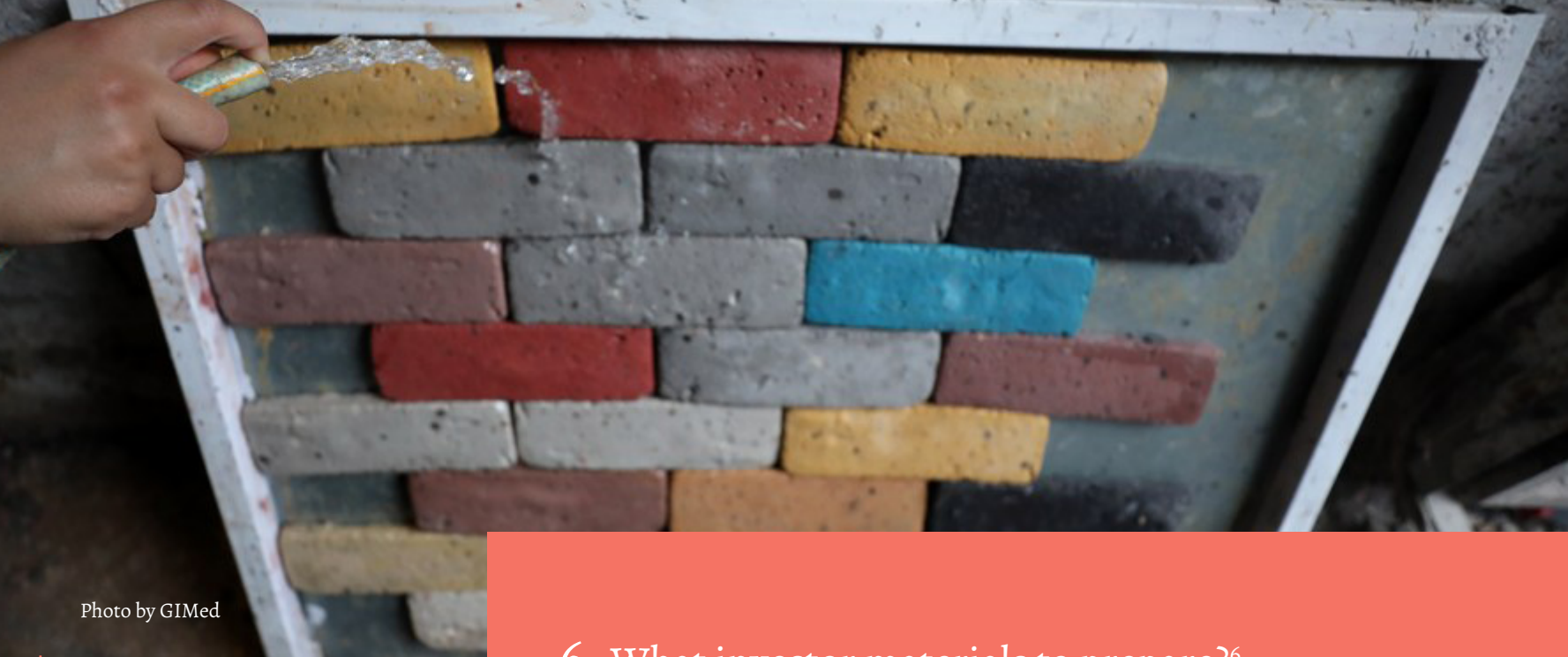


Photo by GIMed

## 6. What investor materials to prepare?<sup>6</sup>

Once you've pitched to an investor, you need to be ready to follow up with your Business Plan as well as all of the follow-up Investor Materials that they will expect to see from you.

You will present your investment story to investors in a number of different formats. You need to compile a pack of information that you can hand over to investors once you have begun the pitching process. You don't want to be compiling information on-the-go once discussions have begun, as this can delay the process and will look to investors like poor preparation. You should have a single set of documents to present to all investors. This ensures a common understanding by all parties, and prevents different discussions taking place based on different information.

**The key items for your Investor Pack are:**

- 1 **Business Model:** a business model canvas provides an overview of the business' value proposition as well as the main building block of the business model (stakeholders and clients, customer segments and channels, activities and resources, revenue model). You can develop your Green Business Model through the tool available in [The Switchers Toolbox](#).

---

<sup>6</sup> This information comes from the [Social Investment Toolkit published by Ashoka](#) that is meant to support green & social entrepreneur that are looking for investment. The Toolkit is divided into 8 modules and this text below on what investor materials to prepare is taken from module 8: Approaching Investors.

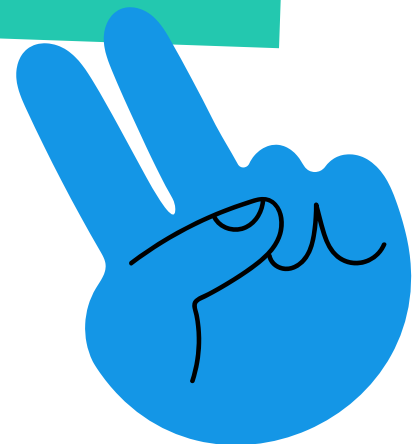


- 2 **Business Plan:** a detailed write-up (usually up to 30 pages) that provides all of the key information about your venture. You can develop your Green Business Plan through the tool available in [The Switchers Toolbox](#).
- 3 **Executive Summary / Investment Teaser:** a condensed 1-3-page version of the Business Plan (often used as the Introduction of the Business Plan). The Executive Summary is usually the first document that you provide to investors to solicit interest. You can then follow up with the full Business Plan and/or Investment Slide deck if the investor expresses interest.
- 4 **Investment Slide Deck:** this is the same information as in your Business Plan, but formatted as slides with extensive use of pictures and graphics. Some teams only prepare an Investment Slide Deck and skip writing a formal Business Plan. We recommend that you do both, as some investors prefer the Business Plan format, but the choice is up to you. If you only pick one, we suggest go for the Investment Slide Deck, as most investors are very busy and prefer easy-to-digest information.
- 5 **Investment Pitch:** this is a short version of the Investment Slide deck (probably no more than ten slides, with very little text), designed for you to use in a ten-minute verbal presentation. A 10-20-minute pitch, followed by questions and answers, is the typical format offered to entrepreneurs in investment pitch events. You will need to get very practised at delivering this pitch.
- 6 **Elevator pitch:** The 'elevator pitch' is a two-minute verbal pitch of your impact venture made without any slides or other materials. Again, you need to be very practised at making this pitch. You will use it in conferences and chance meetings with potential investors where you need to explain in no more than two minutes exactly what you do and why your venture is exciting. A huge number of opportunities arise in chance meetings and you need to have the key facts, figures and phrases at your fingertips if the opportunity arises.
- 7 **Financial Model:** The Financial Model is an [Excel-based spreadsheet](#) projecting your cash flows for the next few years. Ideally, you should send investors your Financial Model showing various growth scenarios that you are projecting.
- 8 **Financing Term Sheet:** The Term Sheet is a short summary setting out the key terms of your financing offer to investors. It is not a legally binding document. It is a way for you to have a discussion with investors on all of the key points for negotiation concisely.

## Tips and Tricks: When to send Investor Materials

The typical timing for sending these Materials to investors is as follows:

- 1 First, begin by sending your Executive Summary or Investment Teaser to potential investors to solicit interest.  
  
When invited to make a Pitch, present using your Short Form Investment Slides.  
  
After your first pitch, for those investors who wish to continue conversations you should sign a Confidentiality Agreement. Please note not all investors will sign a Confidentiality Agreement and it's up to you to decide if you wish to proceed with such investors. We generally recommend that, unless your venture relies on highly confidential trade secrets, you send your information anyway, as the value of reaching more investors usually outweighs the risk/damage from a potential breach of confidentiality.
- 2
- 3 You can then send all of your other follow up Investor Materials: Business Plan and/or full Investment Slide Deck, Financial Model and Financing Term Sheet.
- 4 The Investor Due Diligence and Term Sheet Negotiation phases will then start in parallel.



# Tips and Tricks: Telling your Impact Investment Story

Whichever format you use to present to investors, whether as a business plan, investment slide deck, or personal pitch, it's important to remember that you are telling a story. By story, we mean providing information in the form of a narrative arc that answers all of the key questions in an investor's mind. Any impact investor considering your venture will have four questions uppermost in their mind:

- 1 Are you tackling a sizeable environmental and social problem? (i.e. is there a big 'market' for your idea?)**
  - Who are your customers & beneficiaries?
  - Will you have many potential customers/beneficiaries?
- 2 Does your solution solve the problem?**
  - Does your solution tackle the root cause of an issue? Is it scalable?
  - Is this the best solution relative to competing ideas?
  - Why is your solution impactful?
  - Is there a viable business model that can deliver this solution in a financially sustainable way?
- 3 Are you the best team to implement this solution?**
  - What unique advantage (if any) do you have over your competitors?
  - Who's on your team and what do they offer?
- 4 What are the proposed terms of the investment?**
  - How much money do you need?
  - What is the social and environmental impact per \$ invested?
  - What is the potential financial return on this investment?

Ideally these questions should be answered in this order. If you can't convince the investor that there is a meaningful social problem here, then telling them about your wonderful team is useless.

Note that talking about the actual terms of the finance comes last. If you can nail the first 3 points, then you're actually more than 90% there. Discussion of the proposed terms of the financing is always how you should close out the conversation once the investor is convinced on the rest.

## 7. Impact Measurement & Management

At the end of this Handbook, it is particularly relevant to stress the importance of impact measurement and management (IMM). Being able to account for its own green and social impact with transparency and credibility is the bridge that will allow green & social entrepreneurs to access this new pool of finance opportunities that invest for impact.

Out of the three core practices of investing for impact, IMM has certainly been the most debated. Since venture philanthropy and investing for impact started and, even earlier, when grant evaluations started gaining traction, investors have been looking for ways to measure, compare and sometimes manage impact. However, investors often face a number of challenges, including finding common indicators to compare the impact achieved by different organisations, aggregating impact results at portfolio level or finding the one silver bullet indicator that can be used to decide where to invest – just like ROI is used to make financial decisions.

Historically, investors/grant-makers and investees/grantees focused on measuring **outputs** but considered outcomes less often. Outputs are the tangible products and services that result from the organisation's activities (e.g. the number of clicks on an employment service offer), while **outcomes** are the changes, benefits (or dis-benefits), learnings, or other effects (both long and short term) that result from the organisation's activities (e.g. percentage of increased employment based on the service offer). They are, hence, more complex to identify and measure than outputs are. Due to the complexity in identifying outcome measures, several organisations, investors and investees, limit their measurements to outputs. However, we see that investors *for* impact increasingly strive to measure outcomes.

The biggest challenge is the definition of what impact is. The term “**impact**” does not have one unique definition, and is often used in a broad sense. Actors refer to “impact” whenever a social or environmental challenge is tackled and there is the possibility to generate whatever impact. This implies that, despite being rigorous in measuring and managing impact, investors and investees have to recognise **(i)** that a degree of uncertainty is impossible to avoid and **(ii)** that different approaches, frameworks and tools may be developed for responding to different needs and may provide different results.

You can set your own environmental, social and economic indicators and goals through the Impact Measurement toolkit available in [The Switchers Toolbox](#).

## 7.1 Impact Europe's 5 Step Framework

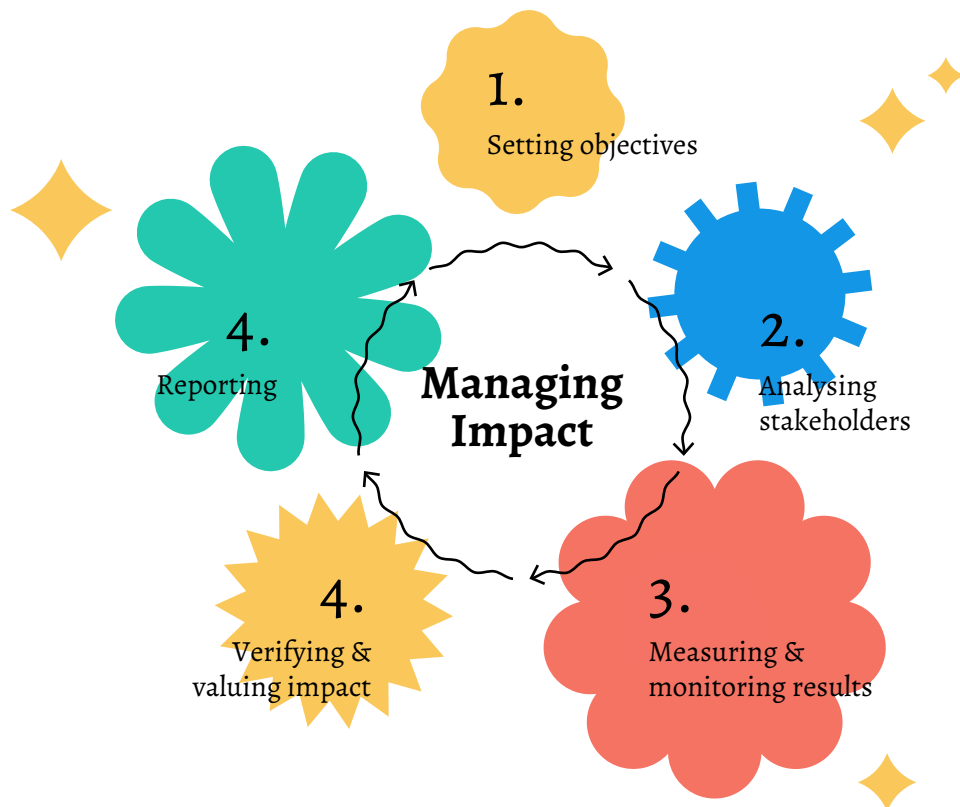
Impact Europe has developed a five-step process to measure and manage impact along the investment journey that can be applied by both investors and investees, which is presented in Impact Europe's "Navigating Impact Measurement and Management". As shown below, the framework is a "circular process" because an organisation is supposed to go through it more than once to constantly improve its impact measurement and management system. Furthermore, the five-step impact measurement and management framework of Impact Europe has informed the European Standard for IMM developed by the European Commission's expert group on social economy and social enterprises (GECES, Groupe d'experts de la Commission sur l'entrepreneuriat social).

The **first step** consists in *setting objectives*, and it usually goes hand-in-hand with the **second step**, i.e. *analysing stakeholders*. During this initial phase, investors should set long-term objectives, focusing both on the investor's and the investee's level. While doing so, it is important to involve all the key stakeholders, which can affect or can be affected by the investors' activities, to have in-depth understanding of the intended impact.

In the **third step**, investors build their *measurement process*, starting from long-term objectives identified in step one, and proceeding backwards defining outcomes, outputs and inputs, and selecting "SMART" indicators that are able to capture the progresses towards or away from the intended outcomes. There is a wide variety of impact indicators available worldwide (e.g. IRIS, GRI, PRI), but usually investors for impact follow a bottom-up approach, co-developing customised indicators with the underlying investee/grantee.

During the **fourth phase**, investors *verify and value the impact* that has been generated, comparing the different measures and using them to improve their impact strategies. Indeed, "everything that gets measured, gets managed", it is used by investors to refine their target outcomes and related indicators, in order to maximise their impact. During this phase it is important to involve the main stakeholders, and in particular the investees and their final beneficiaries, who are the best positioned to assess the value of the impact generated.

In the **fifth and final step**, investors and investees assess whether the progress is in line with their intended objectives, and find the most appropriate way to *report back* to their stakeholders and to the broader community.



## 7.2 Challenges and Opportunities

There are several limitations and challenges of the existing impact measurement and management approaches. **Firstly**, impact always comes with a certain degree of *subjectivity*, since it can vary across different individuals due to different perceptions and experiences. Indeed, there are cases in which impact is perceived as positive by one category of stakeholders, but could be considered neutral or even negative by another category. For example, a social enterprise that provides access to water in underserved villages through small single-use plastic bags has undoubtedly a positive impact on the communities that lacked access to water, but can be perceived as negative by local authorities that need to deal with a significant addition of plastic waste in the streets. From this example it is clear how impact considerations change across stakeholders, making it difficult for investors to balance the different interests in some cases.

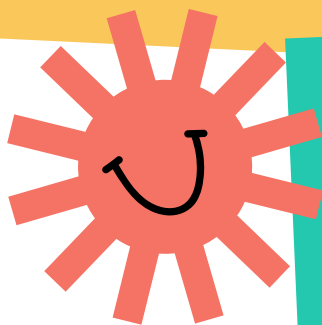
It is important to manage those negative consequences to eventually improve impact, the issue does not stop at subjectivity.

**Secondly**, for small organisations, the costs linked to *setting up and managing an IMM process* are an impeding factor. That is why it is very important that investors *for impact* offer financial and non-financial support to them, to develop and improve their IMM practices. Supporting the investee/grantee in defining the IMM system is particularly important for investors *for impact* as they are the first supporters of new ventures. If the system to measure and manage impact is properly set up from the early stage, the organisation will have more chances to succeed and find follow-on investors (e.g. investors *with impact*) to help it scale.

Only by being able to show data and track record, a green/social organisation or enterprise can become attractive for investors *with* impact, for example. When approaching IMM, investors *for* impact take a bottom-up approach. Starting from the business model of the investee, they co-create objectives and indicators that each investee can use to monitor and adapt its product and services, to better serve its final beneficiaries. For financing this bottom-up approach, more and more companies and social enterprises are actively looking for investors *for* impact, as they know they will have a sparring partner to develop a strong social impact strategy. However, the principle of **proportionality** is to be kept in mind: Not all investors *for* impact can support organisations or enterprises in defining a fully-fledged IMM system but they can consider the extent of what they are requesting to be reported back according to the investee's capacity.

**Additionally**, as social and environmental challenges are very diverse, it is particularly difficult to compare outcome and even output measures across the portfolio. In this sense, the approach of investors *with* impact has been to look for different sets of indicators to systematically measure and compare environmental and social impact. Although a certain level of comparability has been desired by investors *for* impact, their focus has been mainly on managing the impact, creating frameworks that could be constantly refined thanks to the information collected. Investors *for* impact have sought in-depth impact insights that could help them take better informed decisions, and, ultimately, maximise their impact. The need for valuable impact insights usually translates in a search for outcomes measures and a direct involvement of the end beneficiaries.

## Tips and Tricks for Green & Social Entrepreneurs



- 1 IMM is a learning process that continues year after year, therefore there is no need to start with a perfect system in place but it can be built over the years.
- 2 Due to the complexity in identifying outcome measures, several organisations, investors and investees, limit their measurements to outputs. However, we see that investors for impact increasingly strive to measure outcomes and impact. Green & social entrepreneurs should make that effort and go beyond output measurement to start their learning journey to maximise their impact on the long run.
- 3 IMM efforts and budget should be proportionate to the resources of the enterprise in terms of budget and human resources. It is possible to shift to outcome measurement with a low budget by selecting the fundamental indicators that should be measured.

## 8. Bibliography

Impact Europe (formerly EVPA), [2020 investing for impact survey](#)

Impact Europe, [A practical guide to adding value through non-financial support](#)

Impact Europe, [Financing for social impact. The key role of tailored financing and hybrid finance](#)

Impact Europe, [A practical guide to measuring and managing impact](#)

Impact Europe, [Navigating impact measurement and management](#)

Impact Europe, [Corporate social investment](#)

Impact Europe, [The rise of corporate social investors \(Stanford Social Innovation Review\)](#)

Impact Europe, [Strategies for foundations: when, why and how to use venture philanthropy](#)

Impact Europe, [Glossary of key terms](#)

Ashoka, [Social investment toolkit](#)

The GIIN, [2020 annual impact investor survey](#)



## 9. List of capital providers active in the MENA region

There are several capital providers of different kinds that are active in the MENA region and that fund and support green and social entrepreneurs & projects. Below, you will find a list of relevant actors, divided by type of capital provider they represent and where to find more information about their work.

### 9.1 SOCIAL IMPACT FUNDS

#### **Alfanar**

<https://www.alfanar.org/>

#### **Amundi**

<https://about.amundi.com/>

#### **Finance in Motion**

<https://www.finance-in-motion.com>

#### **Impact Partners**

<https://www.impactpartner.co/>

#### **INCO**

<https://www.incubators.inco-group.co/>

#### **Kois Invest**

<https://koisinvest.com/ourreach/#info>

#### **MIROVA**

<https://www.mirova.com/en/>

#### **PhiTrust**

<https://www.phitrust.com>

#### **Roots of Impact GmbH**

<https://www.roots-of-impact.org/>

#### **Symbiotics SA**

<https://symbioticsgroup.com>

### 9.2 FOUNDATIONS AND ENGAGED GRANT MAKERS

#### **ito4 Foundation**

<https://www.ito4.ch/social-businesses>

#### **Co-Impact**

<https://www.co-impact.org/grants/>

#### **Stichting DOEN**

<https://www.doen.nl/en/projects>

#### **Draper Richards Kaplan Foundation (DRK foundation)**

<https://www.drkfoundation.org/portfolio/>

#### **Fondation de France**

<https://www.fondationdefrance.org/fr/appels-a-projets>

#### **Porticus Amsterdam CV (Porticus Global)**

<https://www.porticus.com/en/our-hubs/>

#### **Rothschild & Co**

<https://www.rothschildandco.com/en/global-advisory/global-scale/>

#### **Fondation de Luxembourg**

<https://www.fdlux.lu/en/page/project-showcase>

#### **Hear the World Foundation**

<https://www.hear-the-world.com/en/engagement/aid-projects/overview>

#### **Medicines for Malaria Venture (MMV)**

<https://www.mmv.org/access/product-availability-maps>

#### **Open Value Foundation (OVF)**

<https://www.openvaluefoundation.org/>

#### **Swisscontact**

<https://www.swisscontact.org/en/countries>

### 9.3 CORPORATE SOCIAL INVESTORS

#### **Air Liquide Foundation**

<https://www.fondationairliquide.com/en/map-projects-air-liquide-foundation>

#### **Cartier Women's Initiative**

<https://www.cartierwomensinitiative.com>

#### **Chanel Foundation (Fondation Chanel)**

<https://www.fondationchanel.org>

#### **Boehringer Ingelheim GmbH**

<https://www.boehringer-ingelheim.com/>

#### **Robert Bosch Stiftung GmbH**

<https://www.bosch-stiftung.de/en/>

#### **Help Alliance gGmbH**

<https://www.helpalliance.org/en/our-work/regions/>

#### **Ikea Foundation**

<https://ikeafoundation.org/gcrant-dataset/>

#### **Jacobs Foundation**

<https://jacobsfoundation.org/en/>

#### **L'Oreal Foundation (L'Oréal Foundation)**

<https://www.fondationloreal.com>

#### **The Philips Foundation**

[https://www.philips-foundation.com/a-w/knowledge-hub.tag.\(philips-foundation++platform-type+knowledge-hub+region+middle-east-africa\).html](https://www.philips-foundation.com/a-w/knowledge-hub.tag.(philips-foundation++platform-type+knowledge-hub+region+middle-east-africa).html)

#### **Schneider Electric**

<https://www.se.com/ww/en/about-us/sustainability/foundation>

#### **Siemens Stiftung**

<https://www.siemens-stiftung.org/en/projects/>

#### **Trafigura Foundation Switzerland**

<https://www.trafigurafoundation.org/programmes/>

#### **Tui Care Foundation**

<https://www.tuicarefoundation.com/fr/programmes>

#### **Vitol Foundation**

<https://www.vitol.com/about-us/operating-globally/>

#### **Swiss Re Foundation**

<https://www.swissrefoundation.org/what-we-do/projects.html>

### 9.4 OTHERS (MICROFINANCE, DEVELOPMENT AGENCIES, ETC.)

#### **ADA**

##### **Fund Management Company**

<https://www.ada-microfinance.org/en/ssnup/projects>

#### **Ashoka**

[Incubator/Accelerator \(providing capital\)](#)

<https://www.ashoka.org/en-us/our-locations>

#### **EBRD (European Bank for Reconstruction and Development)**

<https://www.ebrd.com>

#### **The SwitchersFund**

<https://www.theswitchersfund.eu/en/>

#### **SOS Group**

<https://www.groupe-sos.org/le-groupe/nos-etablisements/liste/?region=&secteur=Action%20Internationale>

#### **Swiss Agency for Development and Cooperation SDC**

<https://www.eda.admin.ch/deza/en/home.html#>

#### **GIZ Gesellschaft für Internationale Zusammenarbeit**

<https://www.giz.de/en/html/index.html>



