

Focus :

FUNDING ISSUES

ROUNDTABLE

[FIN4]

Room Mohammad Yunus
Palais Brongniart

Thursday, September
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FUNDING A SOLIDAIRTY-BASED PROJECT: MATCHING RESOURCES WITH PROJECTS

MAIN FINDINGS

The speakers from Acumen Fund, France Active, Babyloan, Handicap International and Husk Power System insisted on the need for financial tools to be differentiated in accordance with the development stage of the business; firstly subsidies are needed, followed by patient capital investment. Patience should also be applied when the social impact of projects is being measured: sometimes one has to settle for simple indicators even if investors are expecting rapid social feedback. The speakers agree that returns for solidarity-based enterprises could never be the same as those which are expected from conventional venture capital companies. In the same way, forms of financing for solidarity-based enterprises are different in the Global North and South, given the specific aspects of both: resource scarcity, availability of subsidies, the extent to which the country is developed, etc. The difficulties that NGOs face in turning themselves into companies must also be highlighted.

SPEAKERS

Béatrice Bayo
Resources Officer, France Active

Sandrine Chopin
Paris Representative, Handicap International

Arnaud Poissonnier
Founder and Chairman, Babyloan

Manoj Sinha
Co-founder and Director, Husk Power Systems

Rik Vyverman
Europe Representative, Acumen Fund

MODERATOR

Marie-Hélène Loison
Deputy CEO in charge of investments, PROPARCO

SUMMARY OF INTERVENTIONS

Different finance models: The experience of Husk Power System and Acumen Fund

Manoj Sinha explains that Husk Power System (HPS) was founded in 2007 in order to supply energy to people who earn less than \$2 per day. HPS uses biomass fuel such as rice husks to produce electricity which is then supplied to homes and small shops. The business was set up with investment from the founders and then by forming a strategic alliance with the Shell Foundation, which has been providing grants and other assistance since 2008. Consequently, HPS attracted media attention and this is how Acumen Fund bought into the company along with other venture capital firms (IFC, Bamboo Finance, LGT Venture Philanthropy). They will help the business grow from the original 10 plants in India towards 1,000 in both India and East Africa. Financing this type of business does not follow the classical model. Investors looking for an IRR of 25-30% will probably not reach their targets with a company like HPS, whose aim is to supply good quality, plentiful energy to the world's rural population. Another difference with the standard model of venture capital is that the investment horizon has to be longer, closer to seven years than the standard three or four. HPS currently has 85 plants which supply electricity to 300 villages, touching the lives of 250,000 people.

In reply to Manoj Sinha, **Rik Vyverman** explains how Acumen Fund works. They invest what they refer to as *patient capital* in social enterprises that supply essential goods and services to customers with low incomes. These essential goods and services are sanitation, housing, healthcare, energy, agriculture and education. Patient capital investments are ones that: 1) Have a higher tolerance to risk than traditional investments, 2) are focused more on maximising social impact than on returns to investors, 3) operate over a longer timeframe 4) are accompanied by management and strategic support to entrepreneurs. Acumen Fund has a loan portfolio of €76 million invested in 65 different companies. The investments affect the lives of over 90 million people and have created 65,000 jobs. The fund is based in New York, USA, but Acumen believes in the importance of a strong local presence in the field. Offices have been set up in India, Pakistan and in both East and West Africa. The funds come from philanthropic sources, foundations and large donors. Acumen invests in businesses that have just been

launched and they know from experience that these companies need time to grow and become profitable. Currently, only a small number of the businesses that they support are breaking even. In 2009, Acumen started a new small investment fund specifically to lend to businesses that are at a more advanced stage. This shows that investment objectives must be kept realistic in this sector and that start-ups need time, innovative solutions and perseverance in order to achieve profitability and economies of scale.

France Active, Babyloan and Handicap International

Beatrice Bayo talks about France Active (FA), founded in 1998 to work with the unemployed and companies that either employ people in difficulty or produce goods or services for them. The work that FA does consists of helping entrepreneurs who do not have access to traditional finance methods to create a business plan in order to obtain leverage. FA never actually finances an entire project. They offer different financial tools that are tailored to the project and its stage of development. Funding is made available through an intermediary, the *Fonds de Confiance* [Trust Funding Body] which makes loans in partnership with regional and local authorities at a rate of 2%. For larger investments, the organisation's investment company takes over, financed by institutional donors and employee savings plans.

Arnaud Poissonnier explains that the concept behind Babyloan was inspired by the crowdfunding platform used by Kiva. The Babyloan community now boasts 18,000 internet members who have to date made loans totalling €4 million to 10,500 micro-entrepreneurs in 15 different countries. Babyloan works through patient capital and is a social enterprise which has gained the French "Solidaire" [Caring Company] award. Initially, Babyloan raised funds through philanthropic investors (Love Money invested € 1 million). It then raised €2.5 million through more traditional investment, followed by a further €1 million in 2012. Babyloan's evolution has been that of an internet start-up business. It takes time for the business to mature. For the first two years there is a honeymoon period during which investors do not take much interest from the accounts. For the companies that survive, the following seven or eight years represent the hardest time to raise capital, until the business breaks even. In response to the question on the difference between normal companies and solidarity enterprises, Arnaud Poissonnier explains that you need

to know how to manage the expectations of investors over time.

Sandrine Chopin explains that Handicap International (HI) is an international, independent solidarity organisation which provides assistance before, during and after crisis situations. This is achieved by preparing communities to cope with natural disasters, by offering emergency relief, reconstruction support, and development assistance. Disability affects 15% of the world's population and 80% of handicapped people live on less than 1\$ per day. 48% of HI's financing comes from public funds: The European Commission, The UN, and other backers. Functional rehabilitation programmes and emergency relief need significant budgets over a number of years. Public finance is essential but it is often restrictive and can take a long time to access. It is also not always impartial. It can be hard to finance projects that help highly marginalised communities in forgotten conflict zones. In order to intervene and raise awareness whilst respecting the four humanitarian principles: Humanity, humane treatment where people are in need, 2) neutrality, 3) impartiality, and 4) independence, private funding is vital. It makes up over 50% of the organisation's budget and can be linked to a specific project or aid programme, which is often the case with funds from foundations. Non ring-fenced funds mostly come from the generosity of the general public or from companies. The only drawback with private funding is that it is dependent on the economic climate. Sandrine Chopin believes that new finance models for projects need to be pursued and that common ground between different solidarity actors should be explored.

SUMMARY DEBATE WITH THE AUDIENCE

How do you reach a sufficient critical size?

The challenge **Manoj Sinha** wants to pursue is to find more capital, despite the fact that it is a high-risk investment with low returns. The second challenge is to find the human capital to put large scale projects into place. With regard to obtaining grants, **Marie-Hélène Loison** explains that it may be necessary to raise funds on a project-by-project basis and this may require splitting up the organisation's activities.

For **Arnaud Poissonnier**, the challenge is that crowdfunding platforms are highly membership-based. They do not charge high rates and thus have to gain high volumes. This in turn can generate high costs,

particularly communications costs. **Sandrine Chopin** agrees and says that Handicap International faces the same issue.

How does the business model adopted by Hulk Power System compare to that of Grameen Energy?

Manoj Sinha explains that the products that Grameen Energy supplies are highly subsidised, which distorts the market and pushes out the solutions that the private sector can offer. Hulk Power Systems, on the other hand, will have to repay their loans despite working closely with India's Ministry for Renewable Energy.

How do you manage the shareholder community over time?

For **Arnaud Poissonnier**, people need to have access to information on the internet, but MFIs already have a lot of work. If they are burdened with requests for information, it becomes counterproductive.

Why is there such a large disparity between funding rates in the Global South and North?

We need to make sure that we are asking the right questions. The high rates in the South can be explained by the fact that MFIs in the South are self-financing. We should state that 90% of the MFIs in the south are not in profit. **Béatrice Bayo** points out that France Active's investment company's rates are low because they are publicly subsidised.

Does Handicap International plan to offer microfinance?

Sandrine Chopin says that Handicap International's strategy is to create more partnerships with local stakeholders through microfinance in order to provide long-term funding for projects. For example, helping handicapped people gain access to financial services.

Would it be of interest to develop an organisational model that is a hybrid of an NGO and a business?

Arnaud Poissonnier finds it interesting to imagine a business that could receive donations and employ volunteers but at this stage cannot see that this is a worthwhile idea.

REPORTER

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- Acumen Fund: www.acumenfund.org/ten
- Babyloan: www.babyloan.org/en
- France Active: www.franceactive.org
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- Husk Power Systems: www.huskpowersystems.com