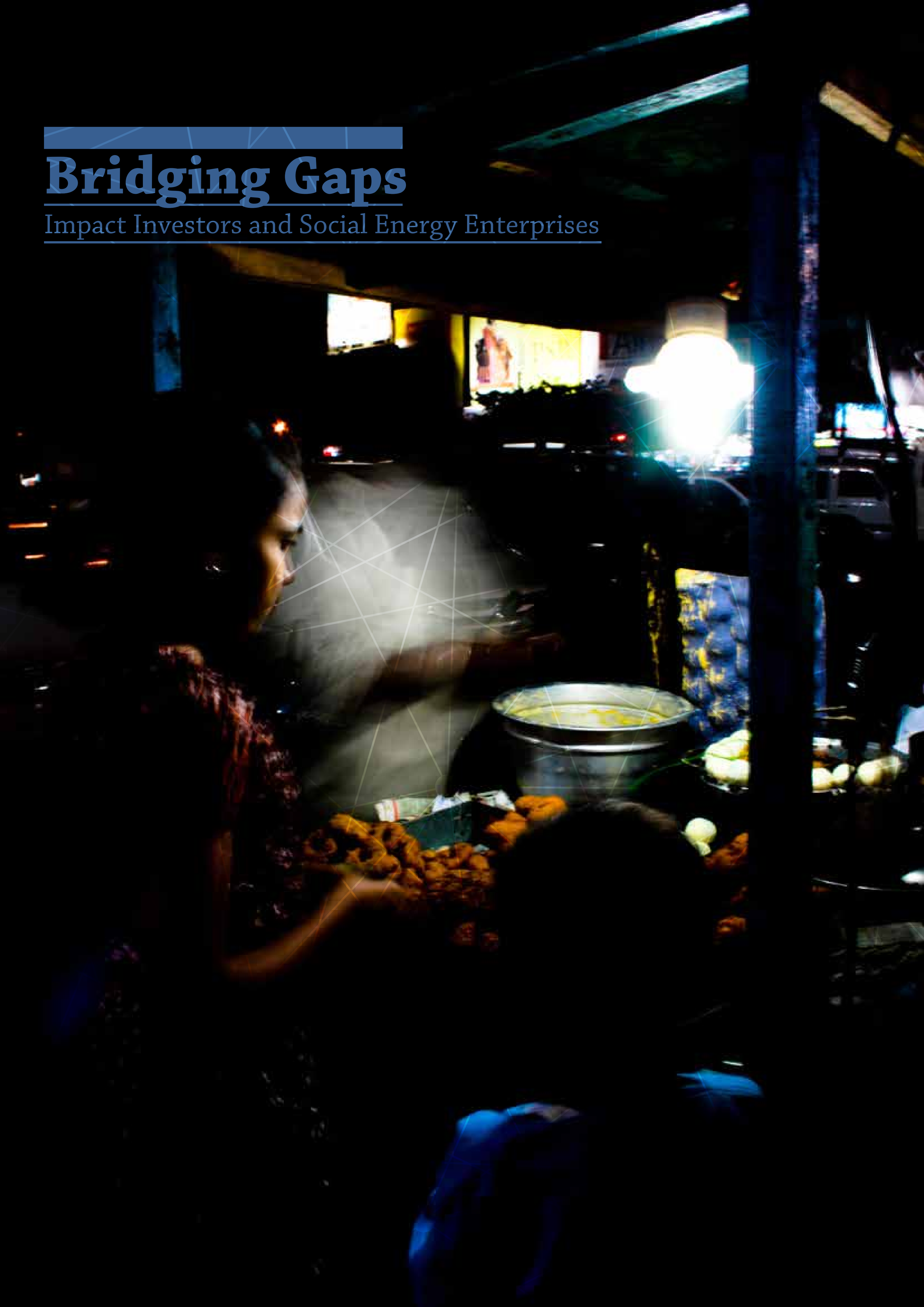
Bridging Gaps

Impact Investors and Social Energy Enterprises



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Executive Summary

Social enterprises cut across different sectors such as agriculture, energy, water/sanitation, health, education and so on. The nature of their missions leads to operations in extremely challenging environments. Despite varied sectoral differences, these organizations work in a nascent arena balancing socio-commercial objectives and therefore experience similar obstacles that are well documented such as high operating costs, scarcity of trained human resources, constrained access to capital, dearth of processes that transition grassroots R&D to practical adoption, end user financing, ill-defined standards of impact assessment, conflicting expectations of scale, stifling domestic policies and a host of other issues related to an underdeveloped ecosystem.

This paper addresses one critical aspect of that ecosystem- access to enterprise financing- and was borne out of a largely shared viewpoint by social enterprises that although there has been a widespread effort to capture the difficulties in accessing capital, there is limited insight into expectation gaps between the investment and practitioner community. While the impact investment market has enormous potential, there is a considerable amount of hype over the subject. The market is not ready to absorb commercial capital on the scale talked about and expected widespread profits and returns are probably some time away and in many cases will never be along the lines expected.

Therefore, the paper seeks to inform the reader with:

- An insider's perspective of on-the-ground challenges faced in balancing the right mix of investments impact on missions of social enterprises
- Recommendations that could help guide the growing social investment arena on how to support the development of sustainable social enterprises

The paper is shaped around the investment experience of a two decade old social enterprise in the energy sector and builds on this experience with a round-table discussion held in April 2014 between investors and energy enterprises.

SELCO is a social enterprise that delivers energy solutions to low-income communities in a financially and environmentally sustainable manner since 1995. As one of the early entrants to a socio-commercial approach to solving a basic public necessity, SELCO lacked a precedent and in many ways had to architect solutions in a relatively unknown space of enterprise financing to suit its model.

From SELCO's experience it was apparent that a hybrid approach to investment was necessary i.e. layering investment instruments such as debt and equity with soft funds to strengthen conditions under which enterprises could thrive. SELCO incurred an added cost of raising and investing resources (in addition to its own) that not only built the ecosystem for itself but the sector itself. The transaction cost of building the eco-system had to be borne out of the softer funds – like training of local bank managers. Some may have seen this as a counter strategy but it was a necessary step that SELCO had to take else the sector would never have been built in the right way. Allocating or diverting expensive resources to building the eco-system contributed to SELCO's early losses and in many years much lower profits as preferred by regular investors.

SELCO observations

1. Short periods of turnarounds
2. Short term exits
3. Differing view on pace of scale
4. Misleading Internal Rates of Return
5. High cost of raising capital
6. Results not processes

Unveiling Expectations Gaps, April 2014

Building on SELCO's experience, a round-table discussion was organized between investors and practitioners in April 2014 to jointly discuss some of the expectation gaps in the sector followed by a set of qualitative recommendations as a first step to closing the gap on both sides.

1. Building the right investor front-line team
2. Accountability beyond the entrepreneur
3. Partnerships vs hierarchical relationships
4. Changing the terms of engagement
5. Imbalanced views on investment criteria
6. Overhyping, overselling innovation
7. Cumbersome approval periods

Key Actions

1. Exposure programs: immersion tours + practitioners joining advisory boards
2. Promote domestic front-line investment advisors with field experience
3. Leaner due diligence process
4. Strengthen the role of incubator vehicles
5. An impact reporting framework
6. Forming and strengthening alliances among practitioners, incubator vehicles and investor circles
7. Annual meeting that seeks to strengthen messaging and body of work on sustainable investments

1. Introduction

Multiple approaches have been adopted to tackle the problems faced by the world's poor. Over the years it has been mostly via NGOs or the Government. The approach that is gaining popularity is through an enterprise driven approach. The social enterprise sector is often viewed as the missing piece among the traditional worlds of government, nonprofit and business. They are expected to be more efficient than governments, more sustainable than the nonprofit sector and more socially oriented than traditional business. In many cases they could also be trend setters for the government and NGOs, thus leading to faster solutions for the difficult social problems. This type of organization is popularly known as.

For the scope of this paper a social enterprise is defined by these three main characteristics

- adopts principles of business to generate sustainable profits
- primary mission to create a positive social and/or environmental impact and finally,
- itself follow sustainable and socially responsible practices

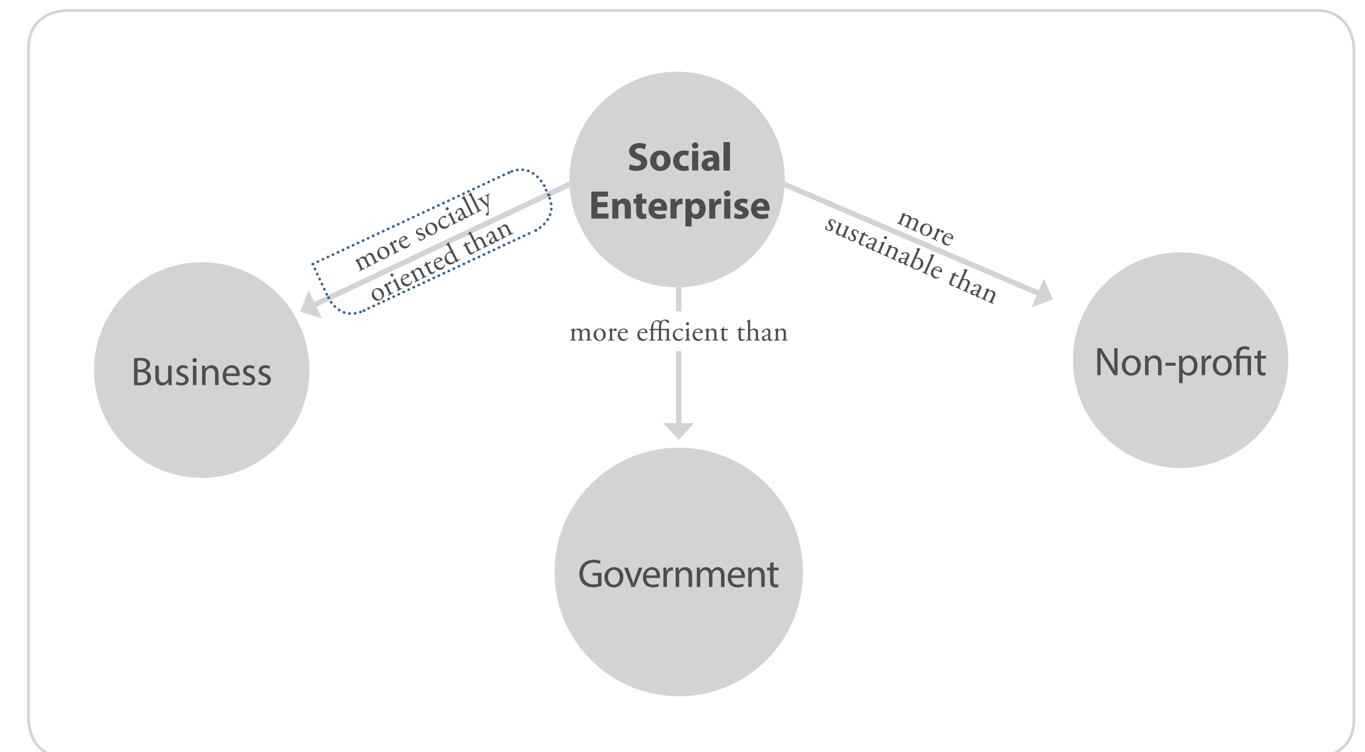
What is a social enterprise?

Given the nature of their missions and their target customers, social enterprises operate in extremely challenging environments. Social enterprises cut across different sectors such as agriculture, energy, water/sanitation, health, education and so on. Despite varied sectoral differences, these organizations work in a nascent arena balancing socio-commercial objectives and therefore experience similar obstacles that are well documented[1][2] such as high operating costs, scarcity of trained human resources, constrained access to capital, dearth of processes that transition grassroots R&D to practical adoption, end user financing, non-uniform standards of impact assessment, conflicting expectations of scale, stifling domestic policies and a host of other issues related to an underdeveloped ecosystem.

In order to grow an enterprise the most fundamental need is the right type of capital. However, there is little documentation out there that puts forward the practitioner's perspective around investor dynamics which heavily reduces its ability to create sustainable growth and achieve long term scale.

1 The Challenges for Creating Greater Social Good: The inherent conflict between intent and resolve. Report. August 2012. Innovation Social Consultants

2 Energy Access Practitioner Network, United Nations Foundation. June 2012



2. Primer on Impact Investing

Q Why do social enterprises need a mix of funding?

Social enterprises develop and implement new delivery models many of which are untested, unfamiliar, not highly profitable in the long term and therefore getting access to investors with a risk appetite are remains a huge challenge.

Given the nature of market and the related eco-system, most social enterprises have to undertake non-revenue generating activities that are crucial for building a business that are time consuming and expensive. A detailed discussion of all the challenges faced by social enterprises is beyond the scope of this paper but since it is important to understand how these aspects influence the choice, quantum and use of investments by social enterprises they are broadly listed below:

1. **Enabling Ecosystem:** Lack of favorable physical, legal, regulatory, and political environment cripples entrepreneurs and industry when adopting market driven forces to deliver solutions.
2. **Lack of defined products and services for the poor:** There is a tendency to believe that affordability can happen only if there is mass standardization resulting in cheaper value. This assumes that the poorer societies are homogeneous in nature: which is not true. The needs and expectations of different segments are unique and solutions (technical and non-technical aspects) need to be tailor made.
3. **Capital and custom designed rural credit:** Poor can afford higher value quality product if there is appropriate doorstep financing. For example, energy services like solar systems needs to be viewed as assets that require cash flow based financing, which needs to be longer term at lower interest rates.
4. **Business development services:** A weak expertise in financial and operational management such as inventory, accounts, marketing etc. poses a significant obstacle to launch and run businesses and more so when there is a need to compete for investments.
5. **Training facilities and trained personnel** - There is a dearth of skilled personnel in the sector at all levels: technical staff, service providers, holistic planners, innovators, policy formulators
6. **Investment structuring**
   a. Social investors lack experience to make appropriate structuring of investments needed for social enterprises to grow. Under appreciation of investors to recognize challenges in setting up a social enterprise and hesitation of entrepreneurs to effectively communicate ground realities implies unrealistic expectations leading to failed ventures.
   b. Poor utilization in the ratio of financing instruments such as debt, equity and grants required at different stages of enterprise growth leads to affordable products but with expensive financing or product-oriented organizations that effectively channelize these investments into capital subsidies that create unsustainable business practices.
7. **Language:** The above barriers puts a person who lacks conventional management and English education at a disadvantage of starting and running an enterprise.

While social enterprises can be financially sustainable, the challenges highlighted will not make them deliver the returns as expected by the investors, which is always considerably higher or at par with commercial returns. Investor capital rarely supports transaction costs that are required to build the ecosystem described earlier (pg. 4). Without these vital inputs, the pace of growth for social enterprises towards sustainable models is slowed or worse, its survival is questionable.

Q Why is it a challenge to access capital?

This under appreciation of investors to recognize the challenges in setting up a social enterprise and hesitation of entrepreneurs to effectively communicate ground realities further drives the imbalance. This leads investors to resort to traditional business assessment and decision patterns that do not match the contextual requirements of investees in the social sector. More specifically, there is a poor utilization in the ratio of financing instruments such as debt, equity and grants (refer Table 1.) required at different stages of enterprise growth. An unhealthy mix of funds leads to expensive financing or product-oriented organizations[1] that effectively channelize these investments into capital subsidies to push down prices and create unsustainable business practices.

Q How is impact investing different from commercial investments?

The current financial system simply isn't designed to meet the needs of these hybrid organisations i.e. a mix of a business approach to address a social issue and uses different types of capital.

Table 1: Survey of funding requirements and related activities undertaken by social enterprises in India

Stage	1. Initial Planning stage	2. Testing and refining the business model	3. Developing conditions to scale model	4. Scaling up the enterprise
Activities	Understand customer needs Develop initial customer proposition Develop core Technologies and/or Product prototypes	Conduct market trials Test business model assumptions Refine business model, technologies and/ or product as required	Stimulate customer awareness and demand Develop supply chains, upstream and downstream Build organizational capability to scale: systems, talent, plant, etc.	Move into new geographies and segments Invest in assets and talent Enhance systems and processes Exploit scale efficiencies
Requirements	Innovation capability Strategy development and business planning Talent networks Seed funding	Operationalizing the model Focus on cost, value and pricing Learning orientation and flexibility Innovation capability Funds to facilitate market trials and refinement	Marketing strategy and execution Supply chain design and implementation Systems and processes Talent and networks Funds for marketing, supply chain, fixed assets, inventory	Competitive strategy Realizing scale efficiencies Risk management Formalization of impact standards and expectations Stakeholder management Funds to support expansion
Type of Funding Preferred (in %)	Equity :83 Grant:78 Debt: 35 No Funding: 0	Equity :87 Grant:57 Debt: 48 No Funding: 4	Equity :70 Grant:47 Debt:53 No Funding:13	Equity:73 Grant:45 Debt:64 No Funding:9

(Source: On the Path to Sustainability and Scale: A Study of India's Social Enterprise Landscape. Intellecap 2012)

Who is a social impact investor?

There are various ways of defining social impact investors. From the perspective of the for profit financial investor, social investments are defined in financial terms and range from 0% to standard financial market rates. On the one hand "full financial market" returns sought by a traditional venture capitalist do not explicitly take social return into consideration. At the other extreme, philanthropic organizations seek no financial return and seek to maximize social return. Social Impact Investors came in as investors who actively seek to place capital in businesses and funds that can provide solutions at a scale that purely philanthropic interventions usually cannot reach and at least return nominal principal to the investor. This capital may be in a range of forms including equity, debt, working capital lines of credit, and loan guarantees.

1 A product oriented business is one in which the product or technology becomes the core selling point and efforts are directed primarily towards building a strong product with little understanding around customer needs and support systems to enhance affordability and uptake.

In summary

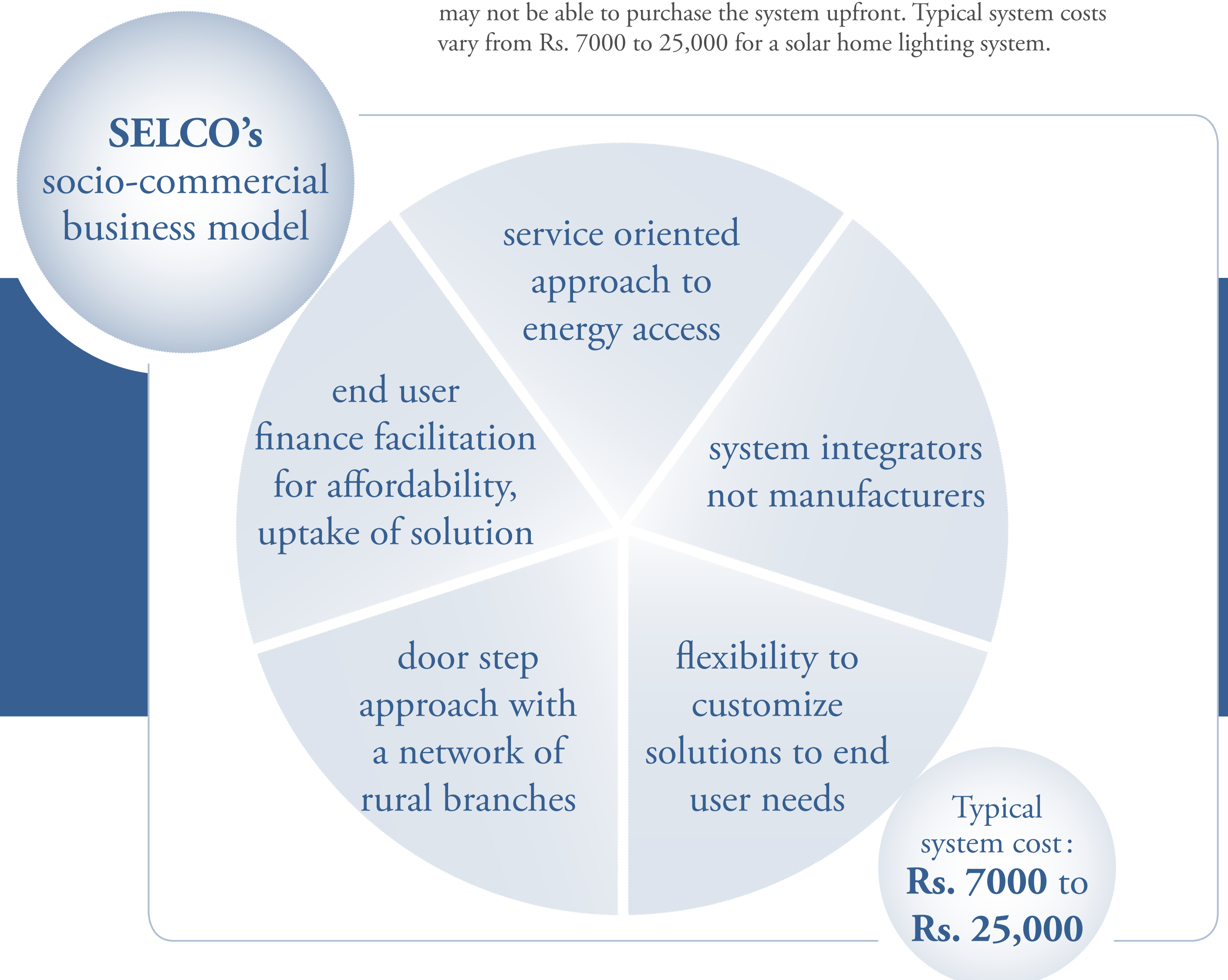
Impact investors are supposed to infuse a range of investments that should be tailored to meet the growing needs of social enterprises without compromising social missions. However, while intentions to invest in “social impact” models are growing there is an expectation gap among impact investors and practitioners. This gap is often overlooked as it is viewed as a softer side of cultivating similar mindsets towards sustainable growth. Both stakeholders can have diametrically opposing views on definitions of scale and expectations on return which need to be grounded based on realities in the field.

The following section highlights the journey of SELCO India, a social energy enterprise, and outlines challenges along the way that are similarly faced by young enterprises today. Further, a workshop conducted in April 2014 brought together investors and practitioners to openly discuss how to bridge the expectation and cultivate a mindset that promotes patient growth. These insights and recommendations have been incorporated into this report as a first step to outlining the way forward. »

3. A Practitioner’s Investment Journey- SELCO India

SELCO is a social enterprise that delivers energy solutions to low-income communities in a financially and environmentally sustainable manner since 1995. As one of the early entrants to a market based approach to solving a basic public necessity, SELCO in many ways had to architect innovations in a relatively unknown space of enterprise financing to suit its socio-commercial business model. In operation for almost two decades, SELCO’s experience can be used as starting point to draw lessons in seeking appropriate financing that are applicable across any social energy enterprise.

SELCO’s business model is built around a service oriented approach to energy access. They are system integrators not manufacturers and thus source components from different suppliers and are involved in assembly at the customer household. This gives it the flexibility to customize solutions to end user needs. Two core aspects are a door step approach which involves a network of rural branches that market, sell and service the solution and the other aspect is facilitation of end user financing to increase affordability and hence uptake of solution to customers who may not be able to purchase the system upfront. Typical system costs vary from Rs. 7000 to 25,000 for a solar home lighting system.



SELCO milestones

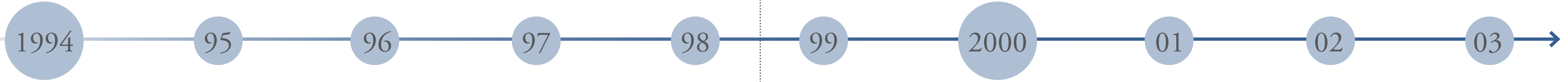
The founders in-order to ensure continuity in operations beyond dependency on pure grants decided to register SELCO, in 1994, as a private limited company: a very specific shift from traditional thinking of being an NGO (for the type of work it had aimed to do)

At the time there was no finance to kick start operations and systems were sold on credit with extremely limited cash in hand. Towards the end of 1996, the first major round of funding came in the form of a conditional grant/loan of INR 5million which was provided by a USAID funded program called RECOMM managed by Winrock International to fund projects that were commercializing renewable energy. The fund was structured in two tranches with specific deliverables. The principle amount was repaid completely between 1998 and 2003. The initial interest on the loan was pegged at 16.5%, which was very high, but was reduced later. In light of subsequent experience in setting up operations, the team approached the funding partner to urge them to consider waiving the interest. At the end of a 2 year renegotiation, the loan was made interest free.

From 1998 to 2001, SELCO received $750,000, in equity, from US based social investors E+CO and SELCO USA. In its early days, there were misplaced expectations by SELCO management that reasonable returns would flow within 5 years and this was quickly reset to a realistic vision at 1-2%.

In the late nineties, Development finance through the World Bank and bilateral funds were another source of low cost financing at below market returns. Through this channel in 2003, SELCO received US$1 million as a loan under the Photovoltaic Market Transformation Initiative (PVMTI), managed by International Finance Corporation (IFC) for expansion and inventory management. There was also grant component in the form of technical assistance of $100,000.

This type of low cost financing was vital for organizations like SELCO but it also came with significant costs in terms of high transaction costs (at times, 10-20% of the funding). The transaction costs were mainly due to the long due diligence processes and paper work which the management of SELCO was not experienced in. However during this period, SELCO broke even in 2001 and earned modest profits, peaking at $88,380 in 2005.

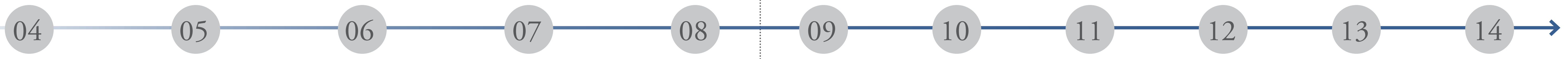


In the following years SELCO faced challenges from exogenous factors that threatened its existence in 2006. The German solar market spiked with high subsidies distorted the local markets as all Indian panel manufacturers began mass exports of high wattage panels while neglecting the production of smaller panels, leading to higher processes for the smaller panels. This lead to a downward spiral effect in two ways (a) an inventory crunch which left SELCO unable to supply systems in time and (b) Increased costs by more than 47%. In the mean time, SELCO USA the primary shareholder of SELCO India[1] filed for bankruptcy. This meant that SELCO India was directly exposed to the investors of SELCO USA – who had little interest in the social returns and objectives. There was considerable pressure on the management to sell and merge with other entities in India, which would have meant that the very objective of starting SELCO India would have been lost. With help from IFC, the prime lender, SELCO India management was able to push back the SELCO USA investors and paved way for new investors to replace them.

1 SELCO India was co-founded Harish Hande and Neville Williams and was to be supported by US based non-profit founded by Neville, Solar Electric Light Fund (SELF). At the time SELF took a majority stake in the new company. However due to foreign capital restrictions it was very difficult for SELCO India to take advantage of the funds available with SELF. In 1997, Williams created SELCO USA and the ownership of SELCO India was transferred under this new entity along with two other subsidiaries in Sri Lanka and Vietnam. Subsequently the founders had to overcome several legal hurdles to resolve ownership problems to delink SELCO India and USA since the latter had filed for bankruptcy in 2006. Today, SELCO Management collectively owns 1% stake while the balance is owned by Good Energies, Lemelson Foundation and E+CO.

SELCO raised fresh investments, and replaced the old investors of SELCO USA, from a consortium of three non-profit social investors, E+Co, Lemelson Foundation and Good Energies Foundation., SELCO crossed several legal hurdles to displace previous investors to make way for a new transfer of ownership. By 2008 the consortia was able to bring in fresh US$ 1.3 million in equity.

Meanwhile SELCO repaid the PVMTI loan to IFC and became a debt free social enterprise in March 2013, another milestone for SELCO.



Key considerations during the investment journey

- It was soon apparent that given the weak conditions SELCO operated in (refer page 2), a lot more time and resources were needed to plug in the gaps therefore these returns had to reflect these realities. SELCO's pitch to investors emphasized social returns, realistic financial returns and unpredictable timing of returns in formative years of the enterprise. While this may have narrowed the pipeline of investors interested, it also set the stage for SELCO to seek like-minded "patient" investors who were appreciative of its slow growth business model and hence willing to invest even if it was not predicated on the likelihood of high financial returns.

- Over the course of 18 years, along with debt and equity, SELCO has also raised small pockets of soft funding through awards, competitions, corporate social responsibility partnerships and trading in the voluntary carbon market. These nature of these soft funds-flexible, high risk- allowed SELCO to leverage the funds to:
    - Challenge itself to innovate through ideas that shifted the conventional thought process on energy delivery. For example renting lights to street vendors through an entrepreneur model rather than individual ownership.
    - To bridge gaps in its ecosystem such as capacity building among financial institutions for energy financing, breaking down first cost barriers for customers, experimenting with new models of delivery that engaged small scale entrepreneurs like the street hawker rental model among others.

- Importance of aligning with investors who were not so interested in how fast SELCO would grow but in its conviction that processes need to be created to change the perception of an energy solution from an expense to an asset. SELCO's investor partnerships are anchored in empowering the enterprise and sector where single digit returns is not seen as a trade-off between social and financial interests but rather a mutual value proposition.

- SELCO's human capital played a critical role in building the ecosystem it needed to survive. People maintained key relationships with different stakeholders including end users, product design and installation in specific regions, understanding of local conditions and so on. This institutionalization of memory due to low turnover has been leveraged over the years. Employees remain at the heart of the organization, SELCO's primary asset.

"SELCO's pitch to investors emphasized social returns, realistic financial returns and unpredictable timing of returns in formative years of the enterprise"

SELCO's Innovations in Enterprise Financing

1 Brokering third party end user financing

By capitalizing on the presence of local financial institutions and tying up with them to extend financing through which poor end users can afford to pay for solutions, SELCO reduced the burden of raising additional capital. Thus, it leveraged this external financing to extend credit toward financing energy services for the poor without trying to create its own financing unit within the organization to finance these systems.

2 Layering investments

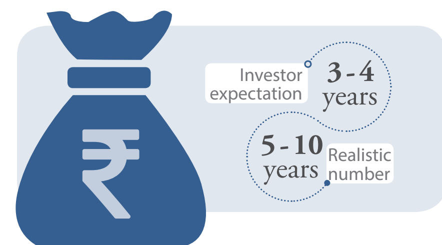
SELCO had to adapt to an environment of weak policies, low awareness, lack of skilled human resources, inappropriate technology, lack of tailored end user financial products, all leading to very immature eco-system. This in turn lead to modest margins, long gestation periods to grow, low rates of return which became an unattractive option for typical investors. Therefore SELCO used softer forms of capital, like carbon offsets, in conjunction with regular investments towards market development, which freed it from using precious equity or debt for purposes other than growth and expansion.

3 Long term capital, patient investors

SELCO actively sought investors who offered long term and low cost financing terms that were designed to empower the enterprise and sector rather than maximize financial returns. This meant investors who were amenable to single digit ROIs, willing to defer a financial return over an extended period of time and for whom social returns outweighed financial returns. At present, SELCO has three non-profit investors[1]. SELCO learned an important lesson to conduct its own due diligence on prospective investors to leverage the experience gained from their previous investments to ascertain the alignment in missions.

1 Significance of 3 non-profit investors: give higher priority to impact over financial returns, profits made by organization stay invested in the company in furthering the mission rather than profiting a few, and gives a lot of credibility to management and organization in its social mission.

SELCO's critical observations and learning



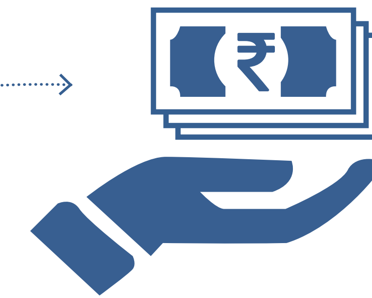
1. **Short periods of turnaround:** Some investors expectations were to turn around (profits) in less than 3-4 years. This was only possible if ecosystem is matured. If not a more reasonable expectation was of 5-10 years. However, some investors push for maximized returns in compressed time frames and this needs to be reassessed in the context of maturity of ecosystem.

2. **Short-term Exits:** most SEs are driven in the initial years by their founders and in most cases the founders are the active fund-raisers and thus it becomes a costly proposition even from the perspective of intellectual time taken away from growing the business. Moreover finding aligned investors takes a little longer. The added complication is that then investors look to exit in less than 5 years but social enterprises like SELCO need 8-10 years if working within a fragmented ecosystem.

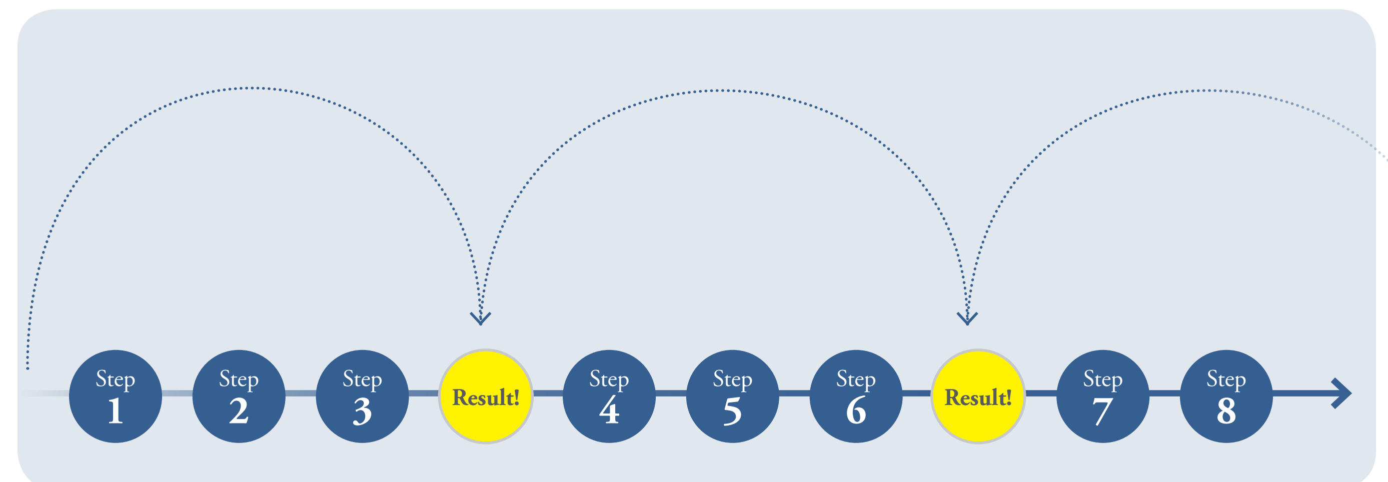
3. **Differing views on pace of scale:** The management set realistic (perceived as conservative by the investors) growth targets based on market realities and the maturity of the ecosystem which increased the time required for the business to break-even. Because of the immature ecosystem, the company had also projected very low financial returns to the investors (though the social returns were maintained high). This meant that the pipeline of interested investors would narrow down. Despite investors who tried to steer the management to think bigger and therefore present a more ambitious growth plan, SELCO resisted the temptation of projecting ambitious targets. Projecting a high growth at the time would have brought in more investors promising quicker turnaround and non-achievable financial returns However it is based on the premise that one can easily grow exponentially in a short period of time such as growth from 5 branches in year 1 to 100 in year 2 within a fragmented ecosystem. Besides if not properly monitored, this can also lead to mission drift. SELCO gradually built a process to balance social and financial returns by not only reaching their realistic targets but also placing proper checks and balances in its approach and policies to maintain this balance.

4. **Misleading Internal Rates of Return (IRR):** As a financial metric, IRR is used by investors to evaluate the desirability of investments or projects. It is essentially an approach to weigh the magnitude and timing of cash flow returns against the magnitude and timing of cash flow costs. Typically these are based on the valuation which as we have seen earlier can be projected ambitiously to double digit returns (around 15%). However in SELCO's experience the figure might be closer to single digit IRR (5-6%) which is more achievable given the constraining conditions that need to be overcome by the entrepreneurs themselves.

5. **Investors not Partners:** Investments are made on business plans and in many cases the quality of the management. In some cases, investors get impatient with the slow growth and in their quest to reach more numbers in a short period of time, even if it means compromising building processes over target numbers, threaten to buy out management and get more aggressive managers in place. Thus, there is an underlying mistrust that they are invested not in the management nor the mission but the potential to reach higher numbers at the cost of sustainability of the organization.



6. **Cost of raising Capital:** There are several funds that are established to improve financial resources available to enterprises working in the energy access space. However, the costs associated with accessing this capital can be of the order of 5% of the capital raised. The significance of this amount varies with quantum of investment. These transaction costs are mainly attributed to lengthy due diligence processes to understand the sector and organization leading to delays. Further, human resources need to be allocated to assist in the due diligence process plus closing of investment. Typically social enterprises do not have the resources to hire costly specialized services nor can the estimated profits be sufficient to recoup the cost incurred. Moreover between the time taken to close an investment can take 12-18 months and this has implications on the business plan as well. There need to be strategies in place that streamline financing and transaction costs with shorter turnaround times for funders and a compressed time cycle for the decision making process.



7. **Results not Processes:** A lot of money is raised in the name of social returns. However presently these returns are measured in commonly endorsed metrics of assessments such as number of households reached, number of cook-stoves sold, number of lights installed and so on. These metrics are not only easily quantifiable but represent a language of numeracy that is easily comprehensible. The danger in a mandate to quantify these sorts of metrics is the temptation to promise large volumes in order to attract investors-and as a consequence results are pursued over processes. While they may be easy to quantify they do not reflect a nuanced picture of social impact such as how many people received a loan for the first time through an energy solution, how many financial institutions designed loan products based on cash flows [financial inclusion]. Efforts to move beyond these quantifiable metrics are challenged as inaccurate and hence inappropriate.

4. Unveiling Expectation Gaps

In combination with SELCO's experience, a round-table discussion was organized between a set of investors and practitioners in April 2014to jointly discuss some of the expectation gaps that currently plague the sector followed by a set of qualitative recommendations as a first step to changing mindsets on both sides of the spectrum.

1. **Building the right investor team:** It is quite challenging to understand the realities on the ground particularly if the team is remotely located with limited bandwidth. It is observed that many who join investment circles have limited field experience and therefore understanding the language of the entrepreneur poses a steep learning curve. Typically, a front-line organization fills this gap however this requires careful selection as very often they are perceived to be far removed as well from the entrepreneur's vision and since this sets the tone of the discussion it can lead to widening gap of trust.

2. **Finding aligned investors among investor circles:** It has been difficult to find aligned investors looking at impact first with modest returns. In some cases, there are investors ready to invest in high risk, demonstrable models in order to bridge the gap for other investors, however latter stage investors who have a highly commercial vision can lead to divergent views on future of organization and hence drives a wedge in trying to combine scarce resources towards multiple needs of the organization that can lead to long term growth.

3. **Advocating with the missing middle:** Important to recognize that returns cannot be typical market rate there is an element of soft resources that needs to be injected into the system. This is the way all other industries have grown so it not unusual to say that this sector should focus on profits without an adequate amount of soft funding as well. There is large institutional funding that can be tapped into but requires loud, collective voice to release it to practitioners. The onus cannot only fall on practitioners but the investor community and other intermediary bodies need to lobby for this release.

4. **Change the terms of engagement:** The predominant language is in how profitable the business can be in the future and this is dictated by profit first investor community. Other stakeholder are lending themselves to this language and is probably one of the leading reasons why it is felt entrepreneurs are also largely speaking the same profit first language. This language of negotiation and reporting of impact needs to change otherwise it is a losing battle.

5. **Accountability beyond just the entrepreneur:**
   a. Impact of investors vs impact investors: Looking back at the MFI crisis very few questioned the model that was in place and the kind of lending practices. The original vision was to lend for livelihoods but once this was found not to be very promising, rather than digging deeper to understand why and correct these issues, they expanded their lending portfolio which ultimately led to an unsustainable model deepening poverty. There is a danger in repeating this general reluctance to reform the present model. Nobody wants to lose money and this risk averseness is not developing the appropriate instruments, risk appetite of entrepreneurs etc.
   b. Source of funding: There is sometimes a severe disconnect between the intent of the monies the investment vehicles have in their discretion and the conditions dictated to the potential investee companies. The practitioners feel that there lies a contradiction.

6. **Partnerships vs hierarchical relationships:**
   a. There is an engagement disconnect between investors and entrepreneurs to solve bottlenecks. This is further compounded by the due diligence process or interactions with teams or amount of control sought and how it is exercised which can lead to a general climate of mistrust that is built between the entrepreneurs and their investors. Entrepreneurs need to engage with investors and spend time understanding their perspective also. Over time one can align with like minded investors even if it calls for a few mistakes. There needs to be a balanced approach and one cannot be seen to take more risk than the other because that puts the partnership on a competitive footing.
   b. Ongoing dialogue: There is a need for ongoing dialogue between investors with entrepreneurs. Need for a mechanism like an alliance, circle of investors, to stay connected.

7. **More hype, less depth:**
   a. Beauty Contests: Pitching on both sides is akin to beauty contests which brings a high degree of visibility but with fewer meaningful impacts to justify the enormous amount of publicity. This could in part be due to a gap in appropriate impact reporting frameworks but also due to the need to garner high visibility to attract big investments in today's hyper connected world. However, this is more apparent in urbanized entrepreneurs who have access to these social media tools, language, and events. This can be misleading to investors but also inculcates an unhealthy culture among entrepreneurs more concerned with visibility than field work.
   b. Average case vs best case scenarios: This over-hype can lead to rosy, best case scenario projections that do not necessarily reflect the practical situation. If these rosy projections made during fundraising do not come to pass the entrepreneur is reluctant to reassess their strategy and recalibrate investor expectations.

8. **Identifying Grassroots Entrepreneurs:** There needs to be further exploration of channels beyond the traditional ones that may miss out entrepreneurs based on language, education, geography, culture and/other barriers which does not put them on the mainstream radar.

9. **Imbalanced views on investment criteria:** For practitioners, the differing requirements from various investors, the kinds of documents required, the overemphasis on excel sheets vs field realities which contribute to longer approval periods can lead to frustration among practitioners. For smaller entrepreneurs (less than Rs.50lakhs) unable to articulate their plans through excel sheets there are few alternatives developed to suit their ability to communicate their vision.
   a. On the other hand, investors view excel sheets are the simplest tool out there as part of the due diligence process especially when dealing with unsophisticated entrepreneurs. Entrepreneurs need to understand and trust that some conditions are put in there to give early investor some leverage with later investor, and are not going to be used against them.
   b. There is a need for a certain amount of accountability and one cannot forgo that to ease access to funds. In addition even if investments are built on relationships in order to maintain continuity (lessen delays) there is a need for records and hence the importance of these documents in the event individuals moves from the original investment team.

10. **Long approval periods:** Cumbersome approval processes can entail a minimum of 6 months to 1 year or more just to clear approvals. This is then followed by release of funding which can take up to 6 months. This is untenable - needs to made much shorter and faster and less painful.

11. **Careful use of commercial capital:** Practitioners need to be mindful of not over-promising to investors but instead focus on core of work and organic growth. There is an emerging need to raise funds and grow as fast as possible without creating processes and strengthening the core values of the organization. This can also lead to false perceptions of growth and ability to scale.

12. **Blended investments:** Mismatch between big and small monies and there is a need to combine grant funds with matching investor funds at different stages. There is no standardized instruments that have demonstrated this appropriate mix of investments and there is a need for this.

13. **Over-hyping, overselling Innovation:** Replication needs to be given its due rather than the over emphasis on innovation. While innovation is an important facet of the organization it is increasingly being given an overriding importance over the ability of the organization to replicate sustainable processes.

14. **Oversimplification of problems:** Complexity of issues not acknowledged in that different regions call for different solutions. The expectation of return cannot be uniform and it's a flawed approach to think that the same model or solution will work everywhere. There is an under appreciation of contexts.

15. **Policy frameworks:** Need to complement the industry and gain inputs from practitioners themselves. This need not always occur at the national level but can also lower decentralized levels as well. Policy frameworks need to be readjusted as well to stimulate the growing industry in order to mitigate risks for both parties fairly.

5. Recommendations

1. Cultivating a change in mindset:

a. Annual meetings that brings together these like minded players to further this change in attitude towards sustainable long term investing as a continuation of this meeting. Each invitee will be expected to bring an additional participant to expand the community of like minded investors and practitioners at different levels.

b. Forming an Alliance:

i. Practitioners: Bringing together collective voices in the space will make it easier to engage and lobby with different actors particularly government and policy makers. It also brings in continuity that is not dependent on any one organization or entity but is representative of the larger industry or sector. In this regard, coordinated efforts have lead to the creation of CLEAN earlier this year which can be that collective voice[1].

ii. Investor Circles: Bringing together different types of investors- high risk funds, intermediaries and long term patient capital into an aligned thinking and also assist in advocating for changes in line with practitioner alliances. This group is also better placed to influence its own circles on a changing attitude towards modest returns and sustainable investing.

iii. Incubation Centers: as intermediary vehicles who can bring in newer players early into this mindset and also serve as advisors between investors and entrepreneurs. Ultimately they are the middle organizations connecting these two entities and therefore they too need to be clued into these conversations.

1 'Clean Energy Access Network' (CLEAN) was created in 2014 in India as an overarching alliance that capitalizes on the strengths and expertise of existing networks or interested organizations. The network will focus on areas around clean energy, energy access and decentralized energy while creating the capacity to deliver innovative solutions for other parts of the developing world.

2. Exposure programs for Investors and practitioners:

a. Exchange Program: Moving beyond traditional sense of engagement and exploring an exchange program that enables the investors to witness and engage directly with enterprises on the ground to have a deeper understanding of ground level realities.

b. Practitioners joining advisory boards: Practitioners participating in advisory boards to assist in due diligence process to bring in a ground level perspective.

3. Pilot Model Investment Instruments: In order to invest more and invest early there is a need to look at a variety of ticket sizes in different forms. Currently there is a mismatch between big and small monies. For example soft funds are necessary in early stages especially for non tangible expenses (cost vs revenue) that can be used to raise equity funds targeted at organization growth. Therefore, In addition to outlining new sustainable blended investment instruments, it would of value to demonstrate its viability in reality. This can also demonstrate a new model of partnership between investors and practitioners.

4. Shorten the due diligence process

a. Standardizing application and assessment procedures: In order to ensure smoother negotiations, shorten due diligence periods and prepare practitioners. Perhaps a set of model documents can be developed by the broader impact investment community that can reduce time and resources-financial/human (refer model templates from National Venture Capital Association, http://tinyurl.com/ykdxq57)

b Domestic Front-line Investor Organizations: Whose proximity will help gain a better understanding of the practitioner and also assist the "remote" decision making team and minimize waiting periods for the practitioner. Also staffed appropriately with folks mindful of ground level realities.

5. Develop an impact reporting framework: keeping the metrics simple but effective enough to communicate impactful processes and results of the organization will also help as an additional tool in the investment due diligence stage. This work is already initiated to undertake a larger robust study to develop a reporting framework with appropriate indicators[1].

6. Strengthen the Role of Incubator Vehicles: Incubation centres can serve an intermediary role between investors and practitioners. They can be an effective first level interaction that can translate expectations from both sides particularly for smaller entrepreneurs who can engage their counsel to facilitate negotiations. Also, very importantly, to identify grassroots entrepreneurs, who has mentioned earlier may not come on the radar due to various features such as non-English speaking, education, remote location and so on.

7. Expand into other technology players in the energy access space that also shapes early on a holistic thinking around the need for a variety of instruments needed for multi-pronged solutions to solve the scale of the energy problem across the world.

1 CII-Centre for Sustainable Development is working with SELCO Foundation as one of the partners to develop a reporting framework for social enterprises. The intent is to relook at existing indicators that capture impact within the organization (its practices) and results (its outputs) across sectors and differing approaches adopted by enterprises.