UNDERSTANDING SOCIAL ENTREPRENEURS IN SOUTH AFRICA

Experiences, Gaps and Opportunities

UNIVERSITY OF CAPE TOWN
GSB
BERTHA CENTRE
BERTHA FOUNDATION
SAB Foundation

Authors
Kelvin Ivankovic & Zak Essa

Contributors
Stephen McCallum, Bridgit Evans, Natasha Dinham & Tine Fisker Henriksen

WHY THIS REPORT?

While an early stage funding gap is anecdotally acknowledged, there has been **little research into the experience of early stage social enterprises raising funding in South Africa.**

There is a dearth of impact capital available for early stage social enterprises. South Africa is the **largest market** for impact investing in Africa but a **minority of funding reaches early stage businesses. Less than two percent** of capital has gone to investments with ticket sizes under **USD 1M** (Global Impact Investing Network [GIIN], 2016).

THE CHALLENGE OF RAISING FUNDING FOR EARLY STAGE SOCIAL ENTERPRISES

Around the world, a key challenge faced by early stage startups is **insufficient access to finance** (The World Bank, 2020). These startups are often considered, “too big for microfinance, too small for venture capital and too risky for the bank.” Without access to capital, startups are unable to build momentum and become trapped in stagnation.

Alongside this universal experience, early stage social enterprises in South Africa face additional constraints.

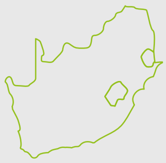
1

South Africa faces the triple burden of pervasive poverty, inequality and unemployment. Raising startup funding from friends, family and founders is not an option for many social entrepreneurs.

2

Social enterprises often operate in resource-constrained contexts and deploy novel business models, strategies and technologies. This amplifies both the perceived and actual risks of investing in these businesses.

STRUCTURE OF THE REPORT



To investigate the funding gap from an enterprise perspective, we surveyed **162 Social entrepreneurs** across South Africa to better understand:

THE SOCIAL ENTREPRENEURS WE SURVEYED

HOW WE REACHED SOCIAL ENTREPRENEURS

From the get-go, we attempted to reach a diverse set of social entrepreneurs across South Africa to get a sample that was as representative as possible. To do this, we **tapped into networks and databases** in the **private sector** (accelerators, incubators, investors), **public sector** (innovation agencies and departmental business competitions), **the third sector** (corporate foundations, nonprofits and NGOs) and the **higher education sector** (universities and university based competitions).

LIMITATIONS

1

Self-selection: our sample only includes entrepreneurs that already identify as social entrepreneurs. It is likely that there are businesses that would fall into conventional definitions of social entrepreneurship but choose not to identify or are unaware of the concept.

2

Representativeness of the sample: despite our attempts to survey a diverse set of social entrepreneurs, the size and composition of the social enterprise sector in South Africa is not known. Therefore, the findings cannot be generalised across all social enterprises in the country.

3

Self-reporting: all answers are self reported by the social entrepreneurs and cannot not been verified. This may lead to measurement error in some answers.

SOCIAL ENTREPRENEURS IN SOUTH AFRICA

Demographics, Education & Impact Goals

PROFILE OF THE

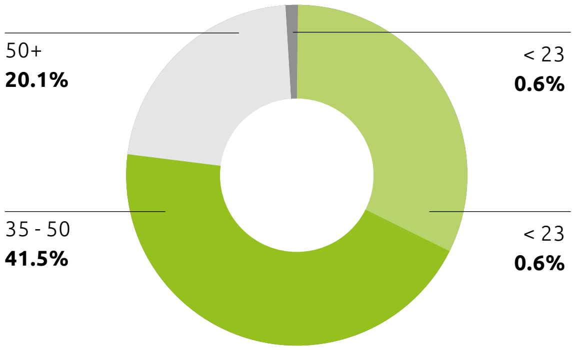
ENTREPRENEURS

In this section, we aim to understand the **demographic composition** of people that are drawn to social entrepreneurship. We investigate the **race, gender, age, education and experience** and impact goals of social entrepreneurs in our sample.

GENDER

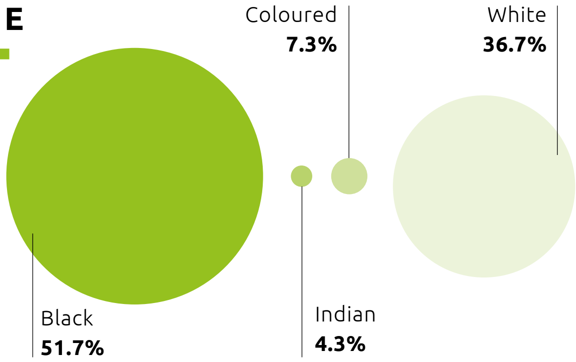
48% of enterprises in our sample are **owned by women**. This is a narrower gender gap compared to **commercial** micro, small and medium **entrepreneurs** where women are estimated to own **38%** of businesses. (The World Bank, 2018).

AGE



In our sample, **37.8% are between 23 - 35 and 41.5% are between 35 - 50**. While **less than 1%** of social entrepreneurs are **under the age of 23**.

RACE



In our sample, **Black South Africans** make up **51.2% of the social enterprises**. **White South Africans** own **37% of enterprises**. This is notably different to commercial micro, small and medium entrepreneurs where black entrepreneurs own 76% of all enterprises. (The World Bank, 2018).

EDUCATION

The social entrepreneurs in our sample are **highly educated**. More than **80%** have undertaken **post-school study**. Less than 2% do not have a **Matric** qualification.

41% have a postgraduate degree, **17%** have an undergraduate degree

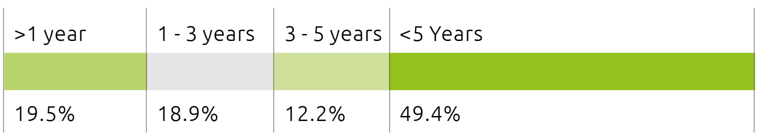
24% have received a diploma or postgraduate certificate

15% have a matric qualification

WORK EXPERIENCE, BACKGROUND AND TIME ALLOCATION

More than 80% of entrepreneurs report having at least one year of relevant experience before beginning their social enterprise. Just under **50%** report having more than **five years** of experience.

How many years of relevant experience did you have before starting your business?



46% of the social enterprises have at least one cofounder with a finance/economics background

61% have at least one co-founder with an IT/engineering/ science background

75% of the entrepreneurs work full-time on their start-ups

PROFILE OF THE

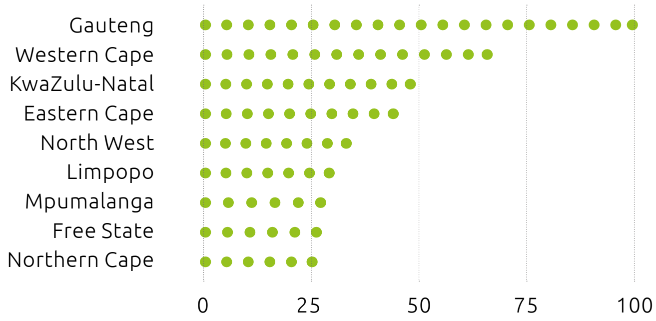
BUSINESSES

This section provides an overview of the social enterprises that the social entrepreneurs that participated in this survey have started. **Where do the social enterprises operate? What social issues do they address? How old are they? How many people do they employ?**

WHERE DO THEY OPERATE?

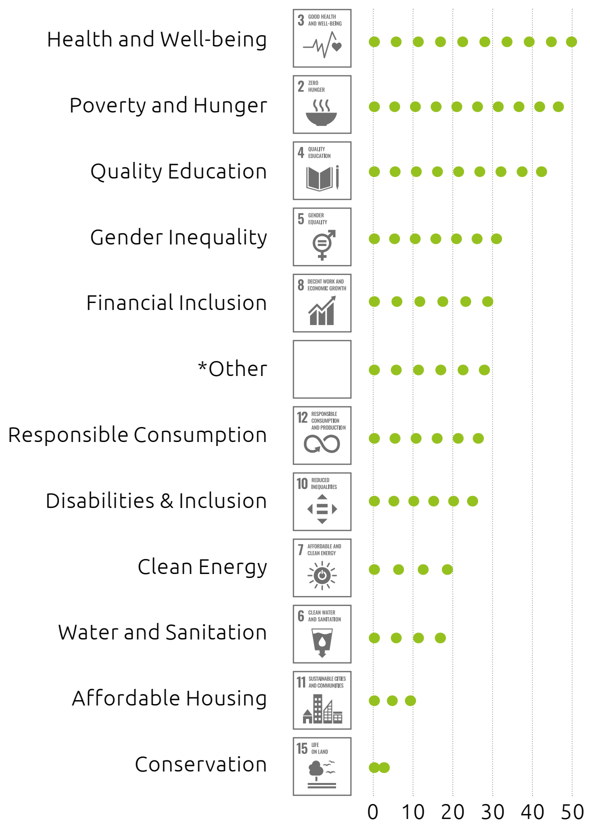
The activity of the social enterprises in our sample is largely concentrated in **Gauteng** and the **Western Cape**. The provinces with the lowest penetration are **Northern Cape**, **Free State** and **Mpumalanga**.

*Note: In this section, respondents could select multiple regions



WHAT SOCIAL ISSUES DO THEY ADDRESS?

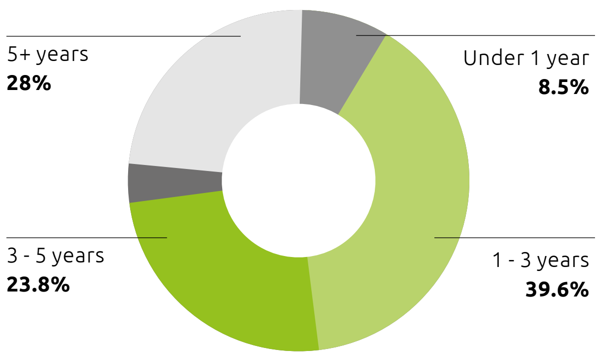
The enterprises in our sample **largely** address social issues that are **people-orientated**. Relatively **few** address issues associated with the **environment**, such as clean energy, water and sanitation, and biodiversity conservation.



Note: Respondents were able to select multiple social issues

*Other social issues addressed by the enterprises include: safety, gender based violence and crime

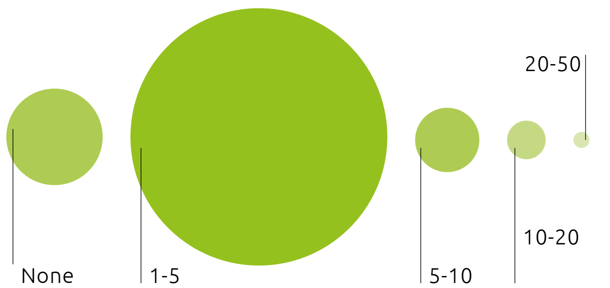
HOW OLD ARE THE BUSINESSES?



52% of the businesses are over **3 years old. 8.5%** are startups that have been operating for less than **a year**.

HOW MANY PEOPLE DO THEY EMPLOY?

The majority of the social enterprises **(56%)** employ between **1 - 5 people**. Just under **15%** have **zero employees**.



*Note: These employees do not include the founder/s

UNDER THE BONNET

Business Models, Strategies & Enterprises

WHAT IS HAPPENING

BEHIND THE SCENES?

Social enterprises have to reconcile the dual mandate of **solving social problems** and **returning a profit**. To take up this challenge, innovative business models and novel use of technology are often deployed. This raises some interesting questions: **What business models are the South African social enterprises using? Is the customer the same as the person paying? What is the role of technology in the business? Are social enterprises profitable? How does cash flow? How are businesses measuring their impact?**

This section looks under the hood of the social enterprises in our sample to better understand the unique strategies and business models they deploy.

BUSINESS MODELS, CUSTOMERS, CASH FLOW AND IMPACT

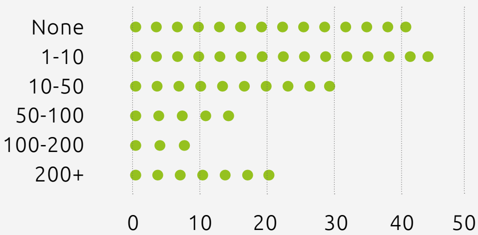
TYPES OF MODELS

Direct to Consumer
In this model, a social enterprise focuses on providing a product/service directly to a customer who pays for it. Sometimes, innovative techniques are used to improve affordability including: flexible repayment options, subscription models, pay-as-you-go offerings, or providing financing (Acumen, 2018).

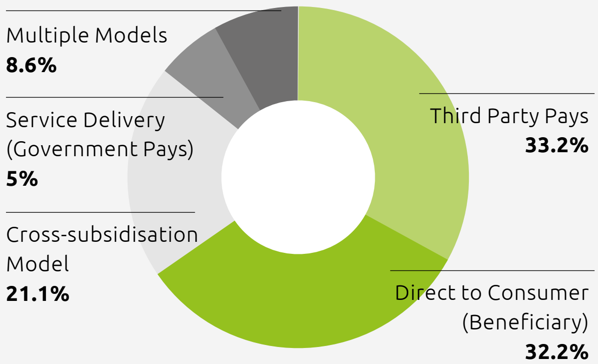
Cross Subsidisation
Under this model, a business will sell a product/service to a customer segment with a greater ability to pay. This income is then used to fund (subsidise) the sale of the product/service to low-income customer segments (Acumen, 2018).

Third-Party Pays or Government Pays
Under these models, a third party who is interested in certain outcomes could pay on behalf of the end-user for the product/service (Acumen, 2018).

HOW MANY PAYING CUSTOMERS DO YOU HAVE?

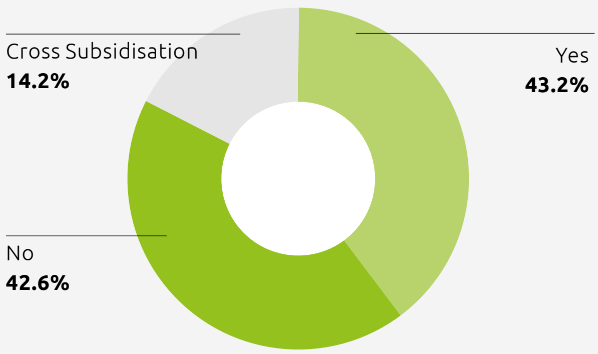


BUSINESS MODELS USED BY THE SOCIAL ENTREPRENEURS

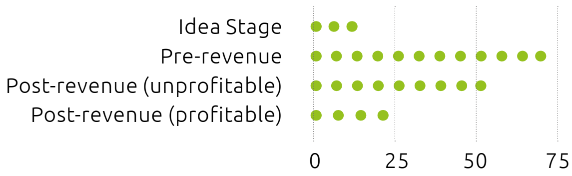


The two most popular social enterprise business models used are getting a **third party to pay** for the service or **selling directly to the consumer (beneficiary)**. Moreover, it predictably follows that direct to consumer models have more paying customers than other business models.

IS THE USER OF THE PRODUCT/ SERVICE THE SAME AS THE PERSON PAYING?

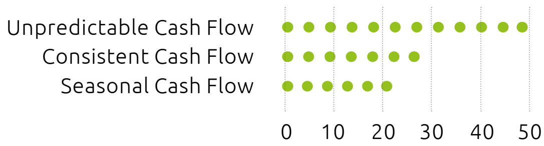


BUSINESS STAGE



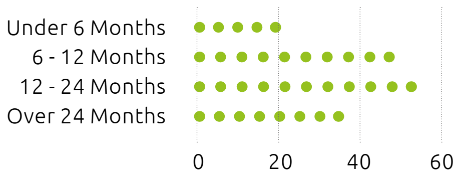
Most of the businesses in our sample are still in the pre-revenue or post-revenue unprofitable stages of the business life cycle. **Only 14% of the social enterprises have already reached profitability.**

CASH FLOW



Most of the social enterprises indicated that their **cash flow is unpredictable**. This may be due to the age and size of these businesses. However, it may also speak to lumpy cash flow that is dependent on factors outside of the business's control (Burkett, 2010).

WHEN DO THE BUSINESSES EXPECT TO BREAKEVEN?

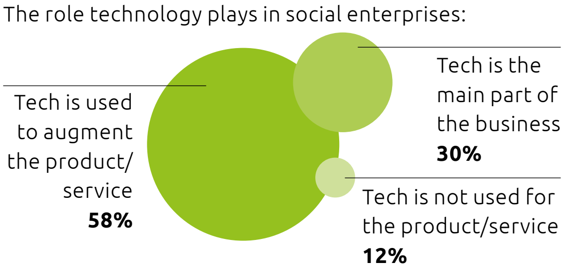


Most of the businesses that are not yet profitable expect that it will take **between 6 and 24 months** before they breakeven and become self-sustaining.

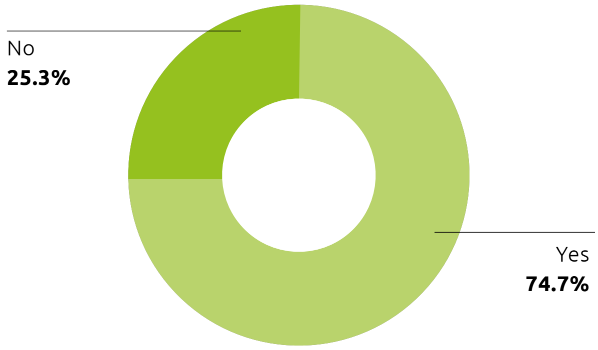
THE ROLE OF TECHNOLOGY

Technology plays an important role in most social enterprises in our sample. For **30% of the enterprises**, technology is the central aspect of their offering. **For 58%** technology is used to augment their offering. **Just 12%** do not use technology for their offering.

The role technology plays in social enterprises:

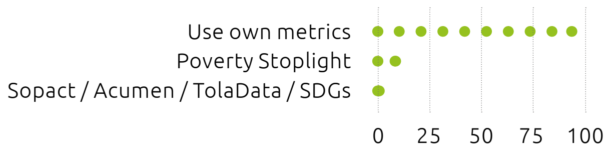


DO SOCIAL ENTERPRISES MEASURE THEIR IMPACT?



About one quarter of social enterprises in our sample report that they **do not** measure their impact.

HOW DO THEY MEASURE THEIR IMPACT?



76% of social enterprises in our sample who report that they do measure their impact **use their own metrics**. For the remainder, the most popular platforms are: **Poverty Stoplight, Sopact, TolaData, and Acumen Lean Data**. None of the social enterprises in our sample uses **IRIS**+, a common platform for impact investors.

EXPERIENCES MEASURING IMPACT

"We have anecdotal, success stories, but no formal monitoring and evaluations. This would be something that we would like to develop but it is expensive to do so."

"We use basic metrics like "plastic bags replaced" but nothing proper. This is something we would really like to throw a lot of focus on in the future."

"We kind of measure our impact, but not as well as we would like to. It is very back of a matchbox right now."

KEY INSIGHTS

1

Most social enterprises in our sample are early stage startups at the pre-revenue or early revenue (unprofitable) stage. These enterprises will need access to early stage funding to enable them to grow and expand.

2

Social impact measurement is not standardised among social entrepreneurs in our sample. More than 90% of enterprises who report measuring their impact use their own metrics or anecdotally. Consequently, there is a disconnect between outputs, outcomes, and impact.

3

Traditional funding instruments might be less effective for social enterprises. More than two-thirds of social enterprises report unpredictable or seasonal cash flow and there are a wide variety of business models that are employed. Fund managers should structure funding instruments in a way that reflects and addresses both the uncertainty of cash flow and novel business models used.

4

There is a lack of technical know-how and resources for effective impact measurement. For early stage investments, fund managers should provide guidance and resources to establish effective monitoring and evaluation of the investee's operations.

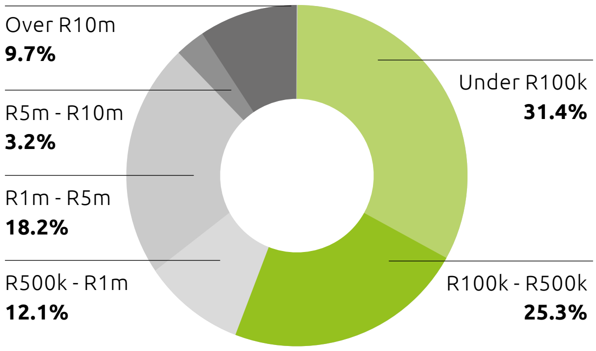
FUNDRAISING BARRIERS

WHAT ARE THE BARRIERS IN

RAISING FUNDING?

By and large, social enterprises in our sample have raised relatively small amounts of money. **69% of entrepreneurs** interviewed have **raised under R1m in funding**. Just under a third of social enterprises have raised under R100k. In this section, we pose the question: **what are the barriers preventing social enterprises from raising funding?** This can help us to understand the structural barriers that entrepreneurs face as well as social enterprise models that attract less funding.

FUNDING RAISED BY THE SOCIAL ENTREPRENEURS



WHO RECEIVES WHAT FUNDING?

Before delving into barriers in raising funding, it is worthwhile to first unpack the type of funding received by gender and race. Here we ask the question: **who raised what type of funding?**

*Debt funding was excluded due to a limited sample size.

GRANT FUNDING

The **racial composition** of entrepreneurs that successfully raised grant funding **closely follows** the overall composition of the sample. **Women** are **slightly under-represented** as recipients of grant funding.

COMPETITION FUNDING

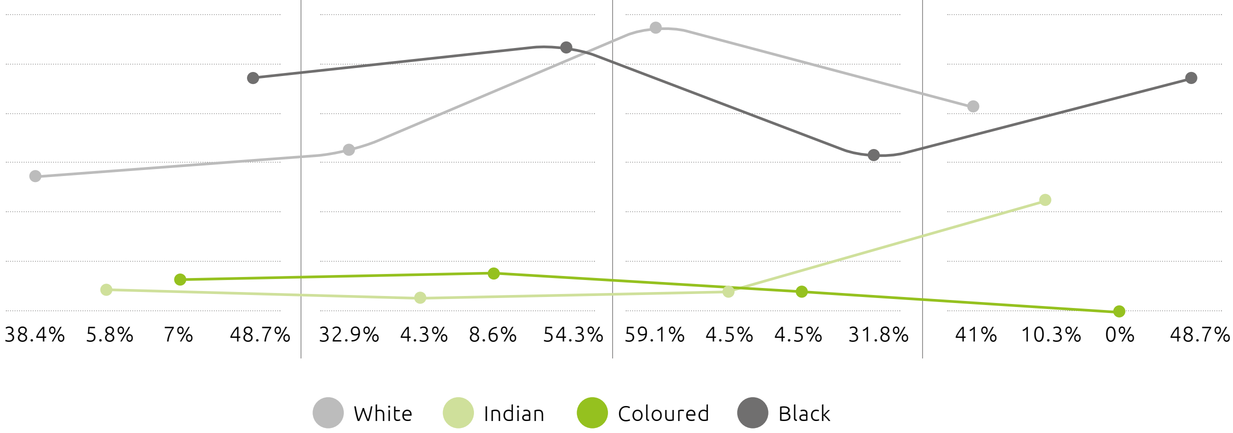
The **racial composition** of recipients of competition funding is **tilted** towards **black South African's** relative to the sample composition. **Women** in our sample are **under-represented** as recipients of competition funding.

EQUITY FUNDING

Black South Africans are under-represented in the **racial composition** of entrepreneurs that successfully raised **equity funding**. **Women** in our sample are **under-represented** as recipients of equity funding.

INTERNATIONAL FUNDING

The **racial composition** of entrepreneurs that successfully raised funding **internationally closely follows** the overall composition of the sample. **Women** in our sample are **under-represented** as recipients of **international funding**.



EFFECTIVE AND CONSTRAINED FUNDRAISERS

To better analyse the barriers in raising funding, the social enterprises in the sample are divided into two groups. Those that have raised over R1m are considered **effective fundraisers** and social enterprises that have raised under R1m are **considered constrained fundraisers**.

HOW DO EFFECTIVE FUNDRAISERS DIFFER FROM CONSTRAINED FUNDRAISERS?

94%
Use technology as their main product or to augment their service

They are largely tech focussed

77%
Had more than 3 Years of experience before starting

They had more experience before starting their businesses

63%
are male

They are more likely to be male

57%
Hold a postgraduate degree

They have more years of education

53%
are white

They are more likely to be white

WHAT ARE THE SIGNIFICANT BARRIERS TO BECOMING AN EFFECTIVE FUNDRAISER?

While there are bound to be differences between constrained and successful fundraisers, this is not enough to determine the most significant barriers that the social entrepreneurs face in raising funding. For this reason, a **regression analysis** is employed to determine which business and individual characteristics are correlated with fundraising success.

WHAT IS A REGRESSION?

Regression is a statistical tool used to model relationships between an outcome (dependent variable) and independent variables. The **dependent variable** that we are interested in is the amount of **funding raised**. The **independent variables** are various characteristics that we believe **impact the amount of funding raised**. This could include demographic-related data (age, education, business age, gender, race), business-related data (cash flow, business model, use of technology), or other characteristics (experience, background, etc.).

The regression results allow us to determine what is strongly correlated to the amount of funding raised.

LIMITATIONS OF A REGRESSION ANALYSIS:

1. Correlation does not imply causation. For instance, education could be positively correlated with more funding being raised but we cannot say that it caused it.
2. There are missing variables that could impact the amount of funding raised (like number of personal networks) that are not included in the regression equation and may bias the results.
3. The categorical nature of much of the data means that the coefficients and magnitude of the variables have unclear meanings.
4. The entrepreneurs who filled out the survey self-selected themselves as social entrepreneurs causing a biased sample.

REGRESSION ANALYSIS

When controlling for the age of the business, the number of employees, education, age, and experience.
The following 4 characteristics were found to be important determinants of raising funding:

1. **Race:** Black social entrepreneurs are more likely to be constrained fundraisers which suggests structural barriers in raising substantial capital outside of grants.
2. **Working full-time:** Working on a social enterprise fulltime significantly improved the likelihood of becoming an effective fundraiser.
3. **Tech:** Businesses, where technology is the main aspect, are significantly more likely to raise more money compared to businesses that use technology to augment their service or do not use technology at all.
4. **Business model:** Businesses that use direct-to consumer or cross-subsidisation models are more likely to be constrained, fundraisers. The most effective fundraisers employ multiple models or models where a 3rd party pays for the service.

KEY INSIGHTS

1

Social entrepreneurs in our sample are mostly well-educated; there could be many hidden 'social enterprises' that do not identify with the concept or are unfamiliar with the jargon of social impact.

2

Based on the entrepreneurs we interviewed, systemic barriers for black entrepreneurs and women were identified and should be addressed in the way early stage funds are structured.

3

Entrepreneurs that work on their business full-time are more likely to raise more money. Investors should acknowledge that a significant portion of funding at an early stage will go to salaries to provide the necessary room and time for social entrepreneurs to focus on growing their businesses.

4

Based on our sample, women are severely under-represented as recipients of equity funding and international funding. This is significant as these sources of funding generally have ticket sizes that are higher than grants and competitions.

5

As enterprises raise more money, they tend to diversify their business models. Direct-to-consumer businesses tend to raise the least amount of money. This could indicate that as social enterprises grow, they can target revenue from government, NGOs and multi-laterals which allow them to diversify their business models.

6

In our sample, black South Africans are successful at raising grants or competition funding but are not as successful at raising equity funding. This inhibits and constrains their growth capacity due to the low ticket sizes in grant and competition funding.

WHO GETS WHAT FUNDING & WHY?

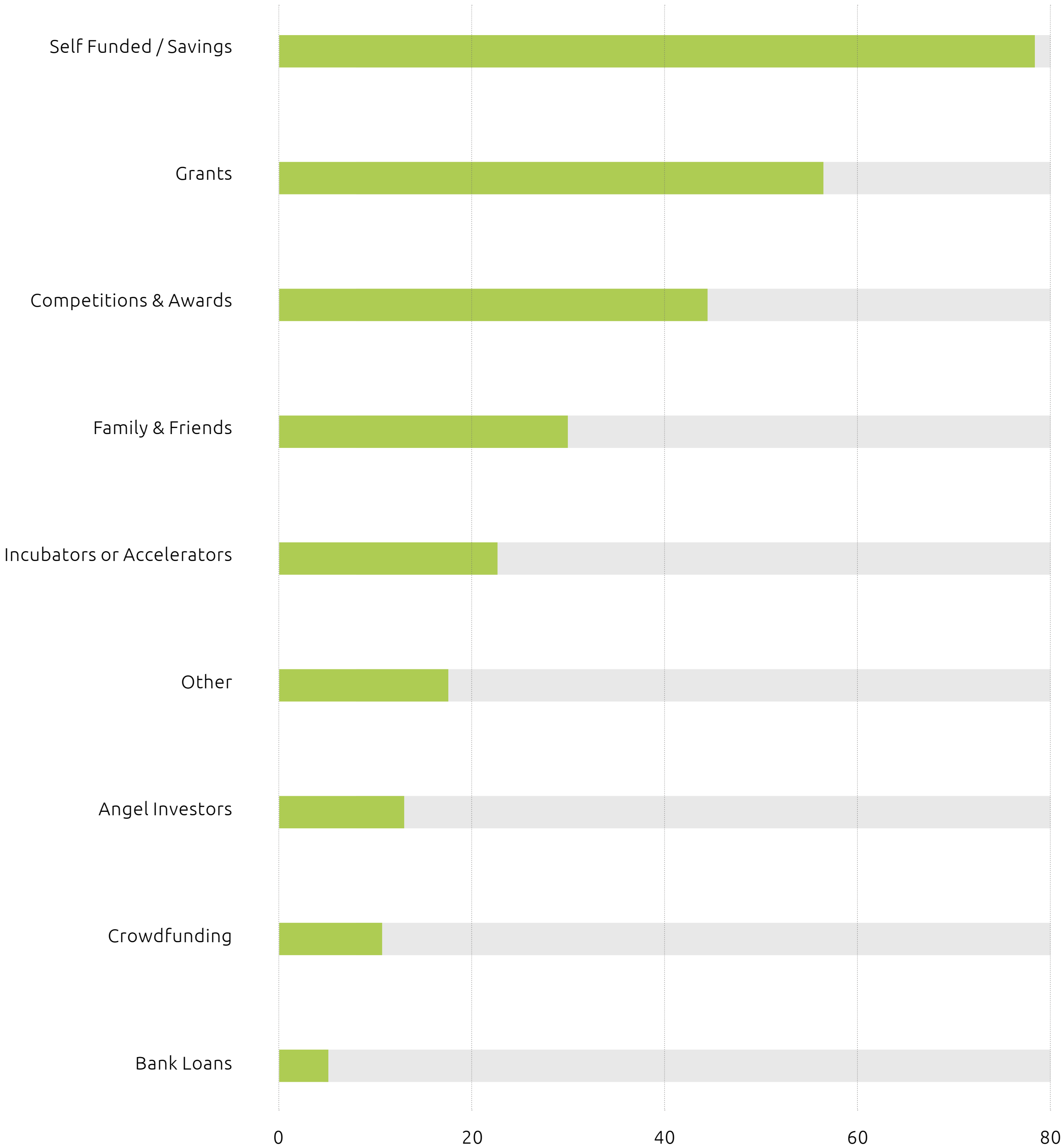
Experiences When Raising Funding

HOW HAVE THE SOCIAL ENTERPRISES

BEEN FUNDED?

SOURCES OF STARTUP FUNDING

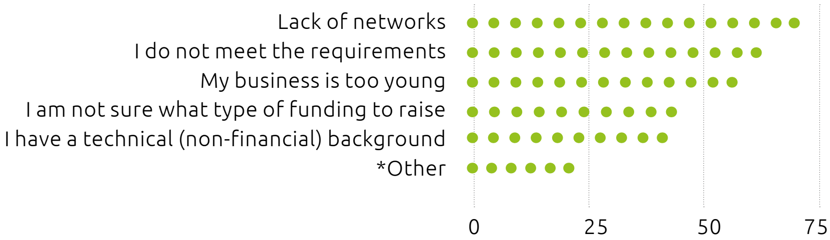
When starting up, the **most common** way for social enterprises to bootstrap their operations is by using their **own savings**. This is followed by **grants**, **competitions**, and **awards**.



Note: Respondents could select multiple sources of funding

OVERALL CHALLENGES OF RAISING FUNDING?

A common challenge for social enterprises is **insufficient access to finance** - especially at an **early stage**. In this section, we aim to understand the **sources** of startup funding, **challenges** in raising funding, the **experience** of trying to raise money using various funding instruments, and how **local** enterprises view **international** investors.



Note: Respondents could select multiple options

*Several examples of the challenges included in the other category are presented below

PERSONAL EXPERIENCES

"Our business is still a very new concept in the market - both our product and business model. Local investors understand the need but are risk-averse and would rather see an immediate profit. International investors understand the business model and cash needs but lack local context."

"The funding landscape is complex and frag-mented. It's not clear who has funding available. It is also time-consuming to shop around for funding while trying to get the business operational and keep up with the day job so we can run the business."

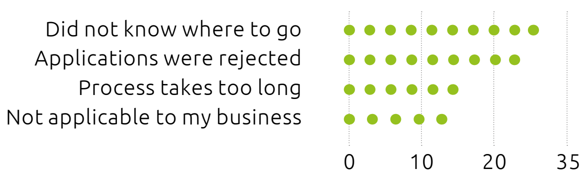
"There is a lack of understanding and bad communication from gate keepers. This leads to long delays and no idea of what is needed to resolve or move ahead."

THE ROLE OF GRANT FUNDING

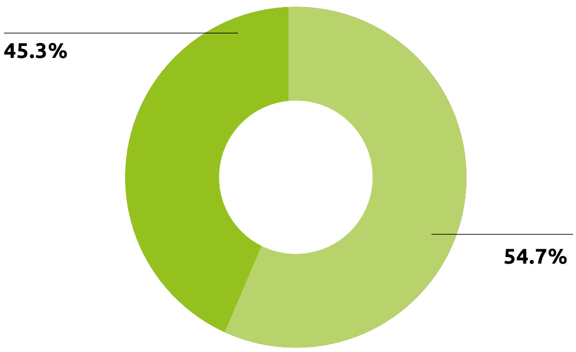
Outside of personal savings, grant funding is the largest source of funding for social entrepreneurs in our sample.

BARRIERS IN RAISING GRANT FUNDING

For businesses aiming to raise grant funding, **information-related problems** are the largest barriers - specifically not knowing whom to go to. This is followed by **applications being rejected**.



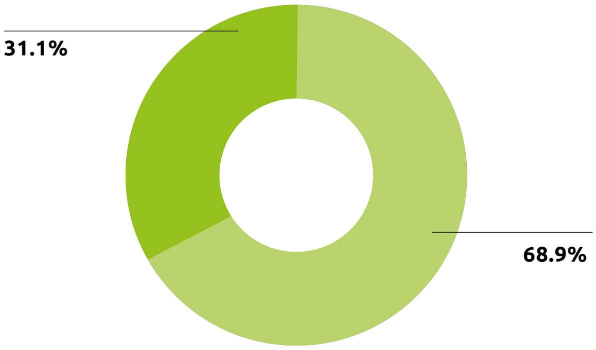
Note: Respondents could select multiple options



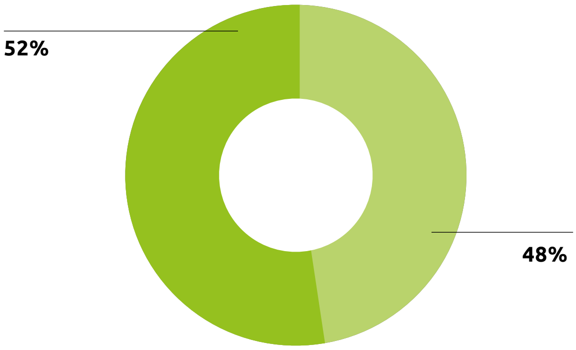
54.7% of businesses **have raised grant funding**

THE ROLE OF COMPETITIONS

Competition funding is the **second most important** source of external startup funding for social enterprises in our sample. **69% have tried** to enter a business competition and **48% have been successful** at raising funding from a competition they entered.



69% of social enterprises have **entered one or more competitions** for funding



48% have **received funding from a competition** they entered

WHAT ARE THE CHALLENGES OF RAISING FUNDING FROM COMPETITIONS?

For businesses aiming to raise funding from competitions, the biggest barriers are the **time and effort requirements**. Business competitions require both an effort and a time investment with **no guaranteed returns**. Competitions require a lot of effort to raise small amounts of funding, making it difficult for entrepreneurs to grow their businesses.

PERSONAL EXPERIENCES

"I have applied for every opportunity suitable to secure funding, biggest challenge is that we are a young Non-profit Company and don't have credibility. Despite our business model being solid, no one wants to take a risk on a new organisation with a new innovative idea that has not been tested in the South African market."

"From issuing the call to the actual fund being deposited to the winners, this takes such a long time. It takes between 8 - 12 months."

"The people on the panel are primarily not engineers and have not worked with or partnered with companies that build core engineering products. So they don't understand how the technology works even after seeing it work."

"I found that entering competitions was not hard but getting value from those competitions is hard. Apart from exposure, it is hard to correlate the benefits of the competition with the day-to-day challenges related to having the business."

"Most competitions focus on for-profit models or high-tech solutions. The majority of SA and Africa live in poverty. Technology and social innovation in these contexts should be sustainable and measured on impact, not on profit alone. Moreover, the technology which is most sustainable must be relevant, applicable, accessible, and affordable. There are few competitions for non-fancy tech."

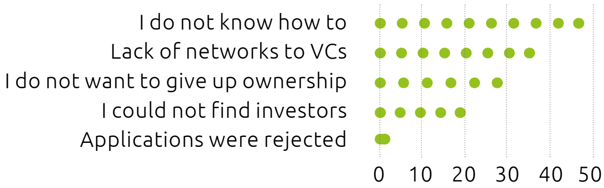
"There is a lengthy process for little money with low odds of success. I feel like I am fitting to competition requirements rather than market needs."

THE ROLE OF EQUITY FUNDING

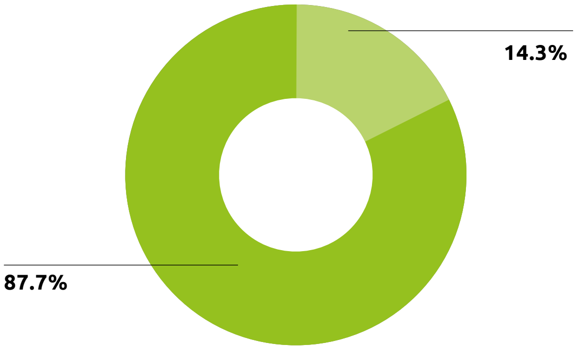
Equity is not a common way of raising funding for social enterprises in our sample. Equity is most common among tech-based businesses.

BARRIERS IN RAISING EQUITY FUNDING

For businesses aiming to raise equity funding, **the biggest barrier is not knowing how to**. This is followed by a **lack of networks** and an inability **to find investors**.



Note: Respondents could select multiple options



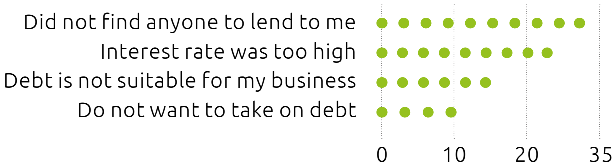
14.3% of businesses have **raised equity funding**

THE ROLE OF DEBT FUNDING

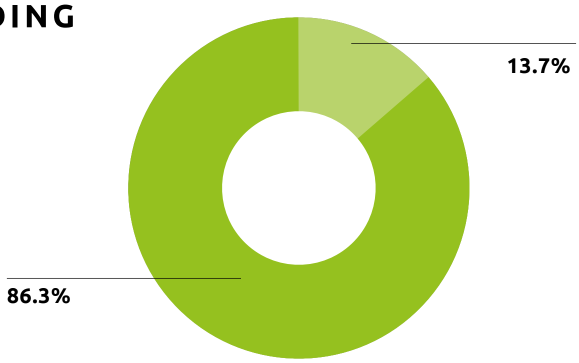
Debt is the **least popular** way of raising funding for social enterprises in our sample. This is expected given that most of our sample is either prerevenue or unprofitable making debt unsuitable for such enterprises.

BARRIERS IN RAISING DEBT FUNDING

For businesses aiming to raise debt funding, **the largest barrier is not being able to find anyone to borrow from**. This is followed by **high interest rates**.



Note: Respondents could select multiple options

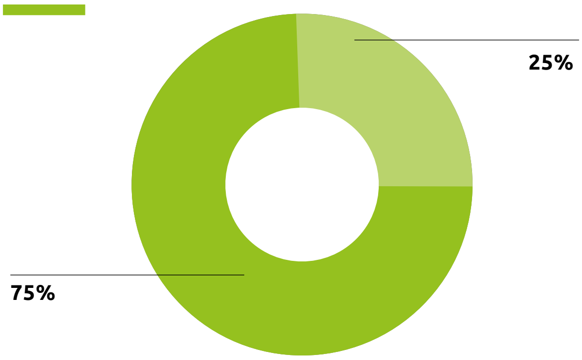


13.7% of businesses have **raised debt funding**

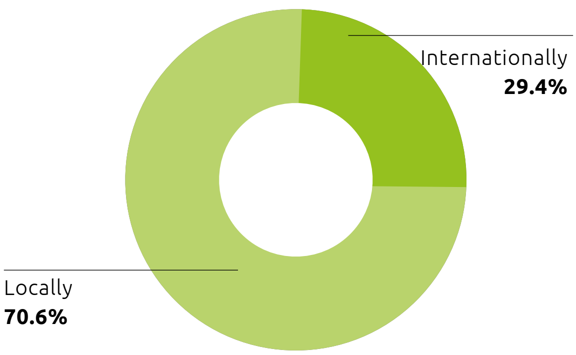
THE ROLE OF INTERNATIONAL FUNDING

A quarter of social enterprises in our sample have **raised funding internationally** from investors, foundations, or multilateral institutions.

IS IT EASIER TO RAISE FUNDING LOCALLY OR INTERNATIONALLY?



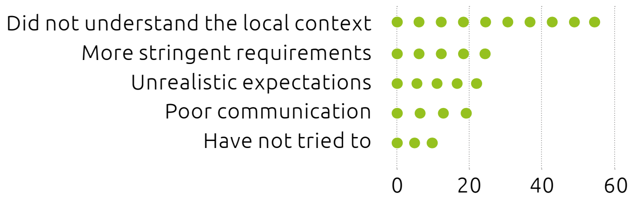
25% of businesses have **raised funding internationally**



Almost **30%** of social enterprises believe that it is easier to raise funding **internationally** than locally.

WHAT ARE THE CHALLENGES OF RAISING FUNDING INTERNATIONALLY?

Social enterprises report that a **lack of understanding about the South African context** is the largest barrier to raising funding from international investors.



Note: Respondents could select multiple options

PERSONAL EXPERIENCES

"I don't even know how to break into this area if I'm not breaking into my local investment pool."

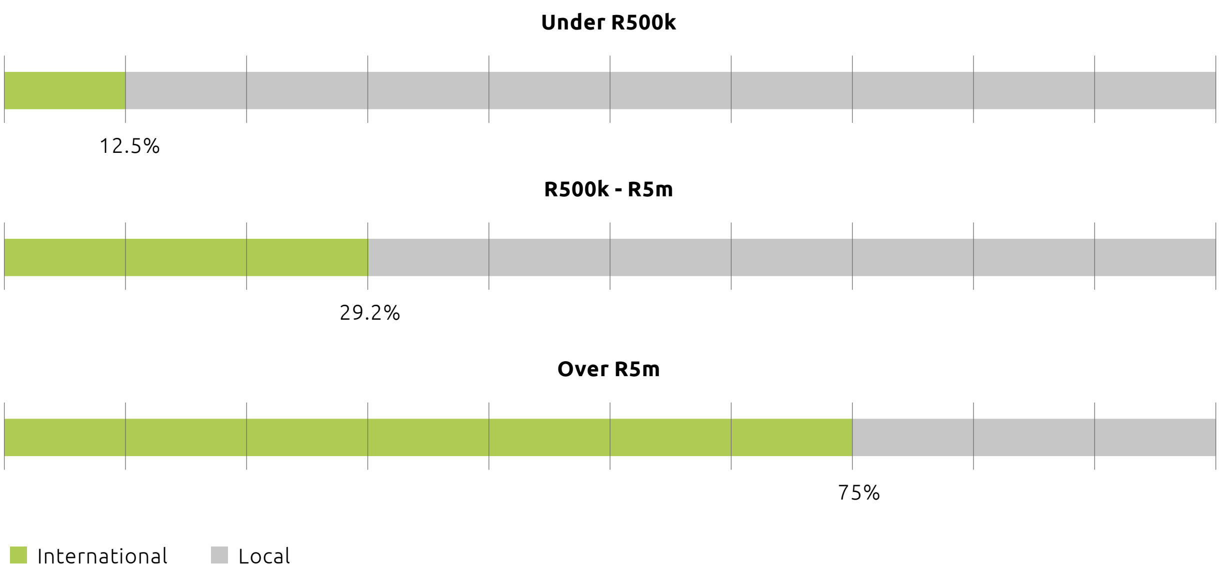
"International investors seem to be concerned over the security of their investment due to the political climate and corruption."

"International investors often do not have local representatives and find what we do hard to believe."

"I do not think it is easier for either local or international. If you have all requirements in place it is just about timeframes. The only thing making it easier for me is I have more contacts locally."

HOW IS INTERNATIONAL FUNDING DISTRIBUTED?

As social enterprises grow and search for more funding, they tend to turn to international investors. Only **12.5%** of businesses that have raised **under R500k** have raised funding from international investors. However, as social enterprises are looking to raise more money, they tend to turn towards international investors, this is likely because there are more international investors willing to provide capital for larger ticket sizes in Southern Africa (GIIN, 2016). **29.2%** of social enterprises that have raised between **R500k - R5m** have raised funding internationally. For large ticket sizes o**ver R5m, 75%** of social entrepreneurs have raised funding internationally.



KEY INSIGHTS

1

There is a startup and early stage funding gap. Most social enterprises are self-funded - which explains why they are generally highly educated and older. The gap in early stage funding within the local ecosystem for potentially talented entrepreneurs who do not have savings or the risk appetite for using their own savings could be a lucrative area of investment for fund managers.

2

The largest reported barrier to raising funding is a lack of networks. By enabling social entrepreneurs to reach them more easily, fund managers can establish more robust and diverse pipelines.

3

Funders who host competitions should carefully consider the time commitment for early stage social entrepreneurs who will likely have to take time away from their core business to enter. They should also consider whether their competition criterion are informed by market needs.

4

Traditional debt and equity funding seem to be inappropriate for early stage social enterprises. Less than 15% of the entrepreneurs have raised funding using debt or equity. Here, innovative finance instruments can bridge the gap between return on investment and social impact.

5

By spending some more time understanding the local context, international fund managers can make more informed and consequential impact investments in South Africa.

6

As social entrepreneurs look to raise higher ticket sizes, they increasingly turn to international investors suggesting that there may be a lack of growth capital available among local funds.

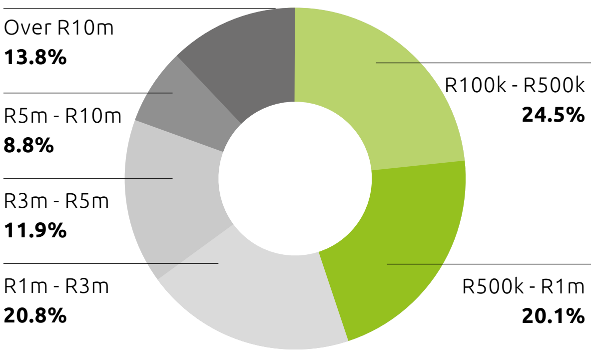
WHERE TO FROM HERE?

Future Funding Aspirations & Growth Plans

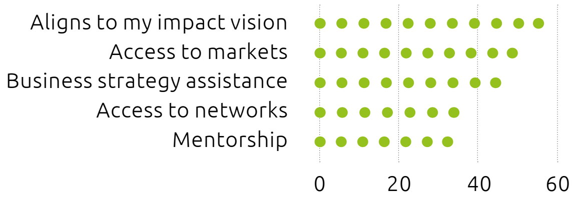
ASPIRATIONS FOR FUNDRAISING

There is a high demand for small ticket investments. Social enterprises in our sample **aim to raise relatively small amounts of capital** in their next fundraising round. More than **two-thirds hope** to raise **under R5m**. Just under a half of all enterprises expect to raise under **R1m**. **Under 15%** expect to raise over R10m.

HOW MUCH FUNDING ARE YOU PLANNING TO RAISE IN YOUR NEXT ROUND?



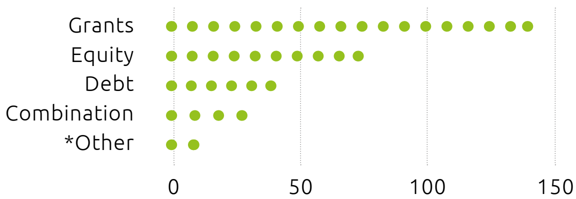
ASIDE FROM FUNDING, WHAT DO YOU LOOK FOR IN AN INVESTOR?



For the social enterprises, **the most important** trait in an investor is **alignment with their impact vision**. This is followed by **access to markets**.

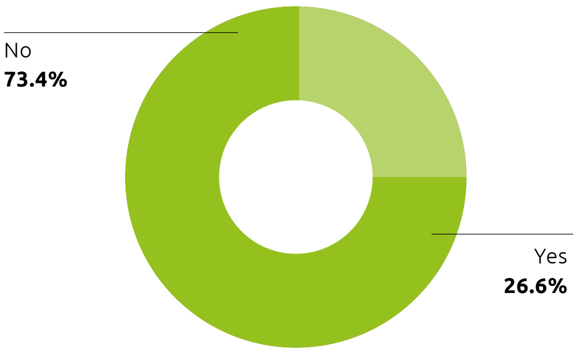
STRATEGY FOR RAISING FUNDING AND AWARENESS OF NON-TRADITIONAL INSTRUMENTS

In their next round of funding, most businesses aim to raise grant funding.



*Other includes additional sources of funding such as convertible notes

ARE YOU AWARE OF ANY OTHER INTERESTING FUNDING INSTRUMENTS?



There is **minimal awareness** of non-traditional financing instruments. **Just over 25%** of the entrepreneurs are aware of instruments outside of debt, equity, and grants. Out of those who are aware of innovative financing instruments, **less than 10%** aim to raise funding using non-traditional methods.

KEY INSIGHTS

1

The high demand for small ticket sizes further reaffirms a need for more early stage funding for social entrepreneurs. With almost two-thirds of entrepreneurs looking to raise between R100k - R3m, there is an opportunity for investors to expand their offerings to accommodate smaller investments.

2

There is minimal awareness of non-traditional or innovative financing instruments. This presents a unique opportunity for the emergence of funds using novel instruments to provide appropriate investment to social enterprises.

3

Beyond investment, social enterprises are looking for fund managers who can provide non-financial services (such as access to markets & networks) as well as purpose-driven investors who align with their vision.

SHAKING UP THE EARLY STAGE ECOSYSTEM IN SA

The Gaps & Opportunities

THE BIG GAPS	THE BIG OPPORTUNITIES
Evidence suggests that there is a substantial early stage funding gap for social enterprises Less than 2% of impact capital goes to ticket sizes under R15m and over two thirds of entrepreneurs in our sample aim to raise under R3m in their next round.	**Starting an early stage fund** Building an impact fund that invests with ticket sizes between R100k and R1m could strengthen the pipeline of investable deals at a later stage and provide capital to early stage social enterprises with high growth potential.
Old ways of funding businesses do not always work Traditional equity and debt instruments do not always work for early stage social enterprises which often have no clear path to exit, varying cash flow cycles and novel business models.	**Using a new toolkit of financial instruments** By utilising innovative finance instruments that are self liquidating or take into account uncertain cash flow, investors can open a box of new investable opportunities.
Investors accessibility A lack of networks to reach investors is the largest self reported barrier social entrepreneurs mention when trying to raise funding.	**Making investors accessible to social entrepreneurs** By connecting deal pipelines to innovation agencies, accelerators & incubators, as well as establishing and marketing open application portals, investors could open up access to entrepreneurs with fewer networks.
Women and black entrepreneurs hold untapped potential for investment Women and black entrepreneurs receive the lowest amount of funding, especially for larger ticket sizes and instruments outside of grants.	**Investing in black and women entrepreneurs** Growing evidence indicates that diverse leadership teams result in higher revenue and profitability (WEF, 2019). Investing with a gender and racial lens has the potential to deliver attractive returns and address inequalities.
There is a need for simple impact measurement processes There is a lack of technical know-how and standardisation among social entrepreneurs for impact measurement and reporting at an early stage.	**Providing technical assistance for better impact measurement** Early stage impact investors should take an active role in assisting portfolio companies in measuring their impact and to encourage the use of frameworks and tools that where there is increasing coalescence such as the Impact Management Project, IRIS+, SDGs etc.

UNIVERSITY OF CAPE TOWN

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@BerthaCentre + Bertha Centre for Social Innovation & Entrepreneurship

9 Portswood Road, Green Point, Cape Town, South Africa | +27 (0) 21 406 1033

berthacentre@gsb.uct.ac.za | www.gsb.uct.ac.za/berthacentre