

Management Response

Yunus Social Business (YSB) is a venture philanthropy fund providing access to finance and advisory services to early stage social businesses in emerging economies. Our long-term, patient loans and hands-on growth support are delivered by local investment professionals and tailored to social businesses in the so called “missing middle” with a financing need between 100 – 500 k USD. As of today, YSB has financed over 60 companies in East-Africa, Latin America and India, which already reach over 9 million people in poverty. Since 2016, YSB has been working in East Africa with the support of the Argidius Foundation.

YSB has deliberately, in alignment with our social mission, chosen to focus on a segment where support and access to funding is scarce. We finance early stage social business operating in developing countries, serving poor customer segments. Although this choice inherently comes with a certain amount of risk in the portfolio and limits the number of potential businesses for investment, we believe that the positive impact of such investments – if successful – goes beyond the impact of more traditional SME investments.

Investments into early stage social businesses at concessionary rates combined with tailored growth support play critical role in de-risking such companies for later stage impact investor or more commercial funders, creating a viable pipeline in environments where most investors, impact focused or commercial, are not yet ready to assume such risks. The evaluation performed by MSA looked at the effectiveness and impact of our work providing affordable finance as well as tailored business support pre- and post-financing to early stage social businesses in Uganda. The assessment has helped us to validate some of the measures we had already taken to improve effectiveness of our acceleration and financing activities as well as pointing out additional areas of improvement for example on data collection and validation or our Theory of Change. We have proactively taken a range of measures during the programme as well as after the evaluation to address issues identified by MSA as well as through our ongoing internal program evaluation.

I Post Investment Support & Monitoring

We offer soft, flexible loans combined with tailored business growth support post financing. This is important to secure our investment but also to unlock additional growth for our portfolio companies as the support ecosystem is often quite fragmented in the markets we are working in. It became increasingly important for us not only to track the impact of our access to finance programme but also the non-financial support we are providing. This required the standardization of our existing reporting and monitoring tools as well as designing a new set of metrics and instruments for non-financial support. Together with the Boston Consulting Group (BCG) we developed a framework to consistently measure the capabilities of our portfolio companies across several dimensions like Governance, Product Development, HR or Sales and to track the impact of our support interventions. We found that only few funds and accelerators have a systematic way and toolkit to track the impact of their non-financial support. We published our findings in a joint paper and shared the tool in common industry networks like EVPA and ANDE:

<https://www.bcg.com/publications/2018/strengthening-social-businesses-through-venture-philanthropy.aspx>.

Since the implementation of this capacity assessment tool in early 2018, it has significantly helped our investment teams to focus on these dimensions when discussing and implementing support areas for our portfolio social businesses.

II Acceleration Program & Investment Criteria

We believe that many SMEs in developing markets can benefit from acceleration services before receiving external investments. We have been running acceleration programs in Uganda with the goal to fast forward companies towards investment readiness for funding by YSB or third party investors. However, the first iterations of the acceleration programme did not meet our expectations in terms of unlocking growth for the accelerates and preparing companies for investment. Also as mentioned in the evaluation, the acceleration program turned out to be quite costly while delivering mixed results at best. Hence we redesigned the programme significantly in various ways like closer alignment with existing accelerators, smaller and more coherent cohorts focused on peer learning as well as closer alignment with our investment criteria. Applying a stricter selection for our acceleration programme and investment pipeline helped to reduce cost and increase the conversion into actual investments. We have published our findings and measures taken in a joint report with USAID “What we have learned”: <https://www.yunussb.com/blog/what-have-we-learned-report>

III Sustainability

Investing in emerging-market SMEs with a social mission requires the patience to test out new business models and the risk tolerance to absorb inevitable losses. There are a number of funds attempting to serve this market, but they have increasingly been driven to higher ticket sizes in order to reach sustainability on the fund level. This leaves many of the most promising businesses with no path and support to scale. While it is critical to fill that gap it has proven difficult to operate a fully financially sustainable fund. We have seen that in order to maintain a consistent pipeline and to make the economics work, many later-stage investors and funds have moved into more mature companies with higher ticket sizes. Our long term goal is to cover the local costs of sourcing and screening the companies as well as portfolio management and technical and strategic assistance through the interest rate earned on the patient loans. We have put in long term plans to project the necessary portfolio size to achieve this taking industry standard default rates into consideration. We believe that philanthropy still will play a pivotal role in the early stage segment, de-risking companies, bridging the pioneer gap and taking risks for more innovative investments where commercial investment vehicles fall short. It is important to note that even in more commercial settings in developed countries, the early stage segment is heavily subsidized by governments to support entrepreneurship and innovation, acknowledging that it is not a profitable segment. In developing countries, the government does not play that role, leaving it up to philanthropy to fill the void.