Funding of Social Enterprises
A case study of high investor engagement funding practices on for-profit social enterprises

Bachelor's Thesis 15 hp
Department of Business Studies
Uppsala University
Spring Semester of 2016

Date of Submission: 2016-06-07

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Abstract

This bachelor thesis evaluates how high-engagement investors contribute to the development and growth of for-profit social enterprises by providing both funding and non-financial advisory services focused on organisational capacity-building. Case studies on three social enterprises describe the structure of funding deals, what considerations affected these due to the high social character of the ventures, and inquire into the relationship between social enterprise and their investors to evaluate how the investors provide value for their investees beyond capital. The investor types involved include commercial venture capital funds, angel investors, accelerator programs and venture philanthropy funds; a sort of social impact investment fund which combines the high-engagement mentoring of venture capital funds with lower expectations on financial returns in exchange for higher demands on social impact.

The findings indicate that high-engagement investors in general provide a wide range of services to the social enterprises studied, where strategic advisory services and networks introductions are identified as key enablers for development. Aligning philosophies on the combination of business and social impact is also identified as critical for a constructive relationship between investor and investee. The perceived value of venture philanthropy funding diverges between the cases; while filling an empty space in the social enterprise capital market, some findings question their capabilities and investment model. Apart from the initial research questions on how high-engagement investors add value to social enterprises, the study raises further questions on social enterprise funding in general and the issues that obstruct these organisations from introducing innovation and growth to underdeveloped markets.

Keywords: Social Enterprise Funding, Social Enterprise, Social Entrepreneurship, Social Entrepreneurs, Bottom-of-the-pyramid, BoP, Venture Philanthropy, Impact Investing, Venture Capital, Angel Investors, Accelerators
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List of Abbreviations

BoP Bottom-of-the-pyramid

CAPEX Capital Expenditures

IPO Initial Public Offering

R&D Research and Development

VC Venture Capital

VP Venture Philanthropy
Glossary

Accelerator
Organisations providing time-limited, cohort-based development programs for early-stage and growth ventures or social enterprises, often in combination with an investment.

Angel investor
Individual investors investing their own capital, resources and time in ventures or social enterprises, typically at a very early stage of development and in exchange for equity stakes in the venture.

Bottom-of-the-pyramid
The poorest and largest socio-economic population of the world (Prahalad & Hart 2002).

Social enterprise
Organisations seeking to introduce entrepreneurial solutions to address social issues through business-oriented, financially sustainable approaches.

Venture capital
Investment framework targeting early-stage or growth ventures with a high potential return on investment. Provides high-engagement advisory services and performance metrics to help the funded venture reach growth and profitability targets.

Venture philanthropy
Investment framework targeting social enterprises with high potential of social and financial returns. Provides high-engagement advisory services and performance metrics to help the funded venture reach social impact and business targets.
1 Introduction

Innovation and growth in the developed world have been largely driven by startups backed by venture capital (VC) investors during the last decade. The VC model of investment is characterised by funding companies in startup or growth stages through equity or debt based deals combined with a high investor engagement in terms of strategic advisory services, provision of network introductions and overall support in organisational capacity-building. Typically, VC investors take on a high-risk approach to investment in the sense that most of their backed startups fail while those losses are offset by extraordinary returns on a few investments. In the United States, while VC firms invest in only 0.19% of all new businesses, 57% of the market capitalisation and 82% of the R&D investments out of all public companies come from VC-backed companies (Strebulaev & Gornall 2015). Matching bold entrepreneurs attempting to introduce disruptive business models, products and services with risk-prone, seasoned investors has thus shown to be a highly successful model for growth and innovation.

While many VC-backed companies such as innovative biotech or clean energy ventures may have a clear social benefit apart from being commercial successes for their investors, they do not typically focus on the economically underdeveloped, low purchasing power BoP (bottom-of-the-pyramid) populations of the world - perhaps the ones in deepest need of innovation. To mitigate this problem, social enterprises, organisations which aim to solve social problems through business-oriented solutions, have started to enter these markets (Magistretti 2016).

The creation of disruptive innovations is however often dependent on investors with a high tolerance for risk, and the capital market for the funding of social enterprises has so far remained thin and fragmented (Martin 2011; John 2006). While the actual business opportunities of BoP markets are contested (Karnani 2007), part of the explanation for this could also lie in investment practices. Issues such as valuation, investment structure, ownership and expectations on rate of return can be a challenge even for commercial start-ups and VC investors - but in the social enterprise sector, best practices on funding are much less established (Nicholls 2008).

At the center of the issue there is also the question on whether the objectives of providing social benefit and achieving market rate returns are compatible or mutually exclusive (Tan 2014). So called venture philanthropy (VP) funds base their investment strategy on the reasoning that social enterprises operate in the middle ground between charitable or philanthropic non-profits and commercial startup ventures. Thus, they lower their standards on achieving market rate returns in exchange for continuously validating the social impact of the ventures they invest in, while adopting a high-engagement relationship with their investees in a way similar to commercial VC practice. But not only social impact-driven investors operate in the space of funding social enterprises. As will be exemplified in this study, actors such as angel investors, accelerator programs and VC
funds also invest in social enterprises; whether they do so primarily out of philanthropic motives or simply because they see both a commercially and ethically sound opportunity remains unknown. What is known is that funding processes in social enterprises is a topic that needs to be studied further. Funding processes in the social enterprise sector are understudied, lacks well developed best practices and theoretical frameworks in comparison to its commercial counterpart - particularly from the social entrepreneur’s point of view (Herrold 2006). The creation of financially sustainable organisations that can help solve social problems while remaining operational without need for grants has been identified as crucial in long-term development policies, while appropriate support from investors is needed to facilitate establishment of such organisations in all relevant areas of action (Wachner et al. 2015). As high-engagement investors have proven successful in unleashing growth and innovation of their investees in the developed world, it is relevant to investigate how such investment frameworks could benefit growth and innovation also in social enterprises and BoP markets.

1.1 Purpose
Finding successful models on how to leverage investments and investor resources as a social enterprises is concludingly a challenging but promising task. It is therefore of interest to delve deeper into the subject by examining the funding processes of social enterprises which have managed to raise venture investments successfully, to uncover and present mechanisms of how social enterprises can leverage funding and investor engagement in order to develop and grow.

As such, this study aims to evaluate how high investor engagement funding practices contribute to social enterprises development from the perspective of the social enterprise, including both the financial investment per se and non-financial services provided by investors such as strategic advisory services, network introductions and overall support in organisational capacity-building.

1.2 Research questions
Frontier Markets, Trine and Esoko are all examples of social enterprises targeting BoP markets who have managed to find an innovative and viable business model in the startup phase and continued to scale their operations in or towards growth stages. All three organisations have utilised funding which incorporate high investor engagement by raising capital from VC or VP funds, angel investors, accelerator programs, or a combination of these. Based on this, the research questions for the study is the following:

- How are high investor engagement funding practices perceived to contribute to the development of these social enterprises by the social enterprises themselves?

- How are VP practices in particular perceived to contribute to their development?
2 Theory

This section will set a theoretical frame of reference to the study by presenting contexts and definitions on key themes and concepts around social enterprises, investment actors funding them and the investment models they utilise. The outline will be the following; firstly, a background on social enterprises will be given leading up to a formal definition of the term. Secondly, the investment concepts of VC and VP will be presented to explain the characteristics of such funds, the type of investment models they apply and their relationship to social enterprises. Thirdly, two other types of high-engagement social enterprise investors are presented in a corresponding manner; angel investors and accelerators. Finally, based on the theory presented on these different investor types, a model on the ecosystem of high-engagement social enterprise funding is suggested.

2.1 Social Enterprises

The concept of a social enterprise is at the core intertwined with the entrepreneur. Originally being French for “one who undertakes” (Martin & Osberg 2007), Austrian economist Joseph Schumpeter defined his version of the entrepreneur, the Unternehmer, as an individual who identifies a commercial opportunity and organises a venture to implement it, whether it be with a new product, service or business. These individuals and their actions in the market formed the basis for what Schumpeter called creative destruction - the dynamic by which a new economic and technological paradigm replaces the previous (Schumpeter 1975). From this perspective, entrepreneurs are an important force in the reinventing process of society and the economy and key for technological development (Martin & Osberg 2007). Martin and Osberg (2007) further describe the entrepreneur as an opportunity sensing, determined and out-of-the-box thinking individual with “an exceptional ability to see and seize upon new opportunities, the commitment and drive required to pursue them, and an unflinching willingness to bear the inherent risks”. The entrepreneur is described to be inspired to alter the equilibrium, think creatively to develop solutions that dramatically breaks with existing ones and takes direct action rather than wait for someone else to solve the problem.

As for the social entrepreneur, the addition of “social” merely modifies this description. To explain what truly differentiates the commercial from the social entrepreneur, they dispel the notion that it is simply a question of different motivations - that money incentivises entrepreneurs and altruism social entrepreneurs. Since entrepreneurs generally faces incredibly low odds of making lots of money, there should be another primary motivator. Rather, both the commercial and social entrepreneur seem to find their motivation by pursuing their identified opportunity and vision relentlessly while deriving satisfaction from the prospect of realising their ideas (Martin & Osberg 2007). Instead, the differences lies in the value proposition. Unlike the value proposition of the entrepreneur which assumes that a market demand is there to pay for innovation, the value
The proposition of the social entrepreneur instead targets “under-served, neglected or highly disadvantaged population[s]” who, on the contrary, lack financial means or social power to create transformative benefits of innovation on its own (Martin & Osberg 2007). However, this does not imply that social entrepreneurs avoid profit-making value propositions - ventures of social entrepreneurs can certainly generate income and can be organised as both a non-profit, for-profit or as hybrids as long as the social benefit is a primary objective (Martin & Osberg 2007).

Semantically, a social enterprise would then be the venture of the social entrepreneur. Based on numerous definitions (John 2006; Investopedia 2016; Social Enterprise Alliance 2016), this also seems to be the case as it is generally aligned with the characteristics of the social entrepreneur but applied to an organisation. For instance, Hanley et al. (2015) describe social enterprises as organisations which “seek to solve societal problems in a market-oriented or entrepreneurial way, provide a promising complement to traditional development approaches as well as opportunities to tap into new markets. In contrast to purely donation financed organisations, they often seek to build innovative and financially sustainable or profitable business models that provide durable solutions to societal problems.” The value proposition of the social entrepreneur as proposed by Martin and Osberg (2007) in above is also particularly important to extend also to the social enterprise; social enterprises target “under-served, neglected or highly disadvantaged population[s]” who lack financial means or social power to create transformative benefits of innovation on their own.

The framing of what constitutes a social enterprise described by multiple accounts in this section is representative of how the term is to be used in this study and has also formed a basis for the case selection process which will be further described in the method section.
2.3 Venture Capital & Venture Philanthropy

In this section, the investment framework of venture capital will be presented along with its more philanthropically aligned counterpart; venture philanthropy. This presentation is based on previous research on these kinds of investors, and the theory presented will be used to evaluate the financial and non-financial services provided by the investors of the social enterprises studied.

2.3.1 Venture Capital

VC firms typically provide early-stage funding and advisory to startups and high growth companies. It takes a different approach towards risk management than for instance private equity or portfolio management in the financial industry in the characteristic that most of the companies they fund typically fail - and that these losses are offset by extraordinary returns on a few investments. While there has long been a debate about the extent of which VC’s engagement adds value to startups or rather that they are good at “betting on the right horses”, recent studies suggest that VC’s level of engagement with its investments through close monitoring bring about strong performance improvements from its portfolio companies (Bernstein et al. 2015). In describing the VC firms relationship with the enterprises they fund, Jenkinson (2007) notes: “In a typical early-stage company, the venture capitalist is working closely with the entrepreneur, providing not just finance but also mentoring, access to networks, business disciplines, support services and so on. Capital will typically be allocated in tranches and only released if certain milestones or targets are met...venture capitalists typically sit on the boards of directors and, although not often in overall control, would have considerable influence over the company, its strategy and the entrepreneurs.”

2.3.2 Venture Philanthropy

Venture philanthropy (VP) is an investment framework based on commercial VC practices which emerged out of the VC and private equity sphere during the mid 1990s (John 2006). Sometimes referred to as “philanthropic venture capital” in academic settings (Scarlata & Alemany 2010) and “patient capital” (Acumen 2016) or “impact investing” (Beyond Capital Fund 2016) by practicing funds, VP “provides a blend of performance-based development finance combined with professional services” to social enterprises (John 2006).

Scarlata and Alemany (2010) describes that VP funds seeks to maximise the social impact of the social enterprise they invest in through provision of capital and value-added activities. Furthermore, the main difference from VC investment is described to reside in the investment goals - while VC firms support the growth of their investments to seek financial returns through a liquidity event such as an IPO or acquisition, VPs combine such financial goals with goals on social benefit. Specifically, Scarlata and Alemany (2010) argues that VPs “work to develop self-sustaining social enterprises assuming that sustainability facilitates long-term organizational survival, growth and ultimately maximization of their impact on society”.
Likewise, John (2006) describes what is commonly referred to as the ‘value-add’ of VP is the advisory services provided to social enterprises combined with financial support. The characteristics of VP investing can according to John (2006) be summarised to include the following: “a) high investor engagement, b) multi-year support, c) tailored financing, d) organisational capacity building, e) non-financial support and d) performance measures”. By its very nature, John (2006) holds that VP requires a degree of partnership and involvement between investor and investee not normally found in social sector funding arrangements. This high involvement is described to be revealed in the typically long-term length of partnership, high frequency of contact with management and, rather more controversially, the of taking board places.

As active investors, John (2006) describes that VPs are primarily focused on the social enterprise as an organisation rather than in its projects - their concern is for the long-term of social value creation, of greater mission impact and sustainability. These concerns are generally addressed by working intensively with social enterprises during their periods of rapid change. The financial instruments deployed usually consists of core funding for growth and development while the choice of non-financial support are focused on longer term visions of a stronger and more robust, competitive and self-standing organisation. John (2006) also adds that this investor mentality comes with a higher level of engagement which can materialise itself through “a desire to work alongside the [social enterprise] senior executives and board, helping develop strategy, financial management, branding and marketing, systems and operations, as well as coaching through periods of substantial organisational change. Being hands-on can mean regular, monthly contact with a social enterprise chief executive, attending board meetings or having sight of board papers” (John 2006). Emerson (2007) states the following challenges for for-profit social enterprises meet when raising equity:

- founders or managers fearing loss of control due to changes in ownership structure
- potential mission drift due to commercial interests of investors
- unfamiliarity with equity investments of social enterprise management
- unreasonable risk/return trade-offs for economic value creation
- lack of management expertise to scale alongside investment
- limited liquidity or lack of exit possibilities due to reduced returns

Most importantly, one of the major limitations of equity is that most equity investors remain profit seekers, and actions taken by the company to maximise profits may compromise its social mission. Even if VP investors are not profit maximisers, these funds have, to date, been targeting investments with the highest potential for economic value creation. Thus, a large gap in the market
remains for those social enterprises that have created outcomes which are more balanced between economic and social value creation, or even emphasise mission over economic profit (Emerson et al. 2007).

Balbo et al. (2008) report that VP tend to use “funding instruments [that] are broadly similar to those used in the commercial sphere, although the [VP] toolset contains one additional instrument - the grant” and adds that the financial return is generally below market rate for all types of instruments used. VP funds typically structure their deals using financing instruments such as equity, loans, convertibles or grants, depending on which instrument is deemed to be the able to meet the funding needs of the social enterprise. This is described to contrast with the traditional VC investment perspective, where emphasis lies on protecting the investor from agency issues rather than on the needs of the backed venture (Balbo et al. 2008).

John (2006) describes that as a relatively immature industry, VP faces the following challenges; communicating and marketing its value proposition, developing a suitable range of financial instruments and advisory services, measuring performance and social impact and collaborating with other complementary capital providers in the space.

Note on terminology: As mentioned in the beginning of the VP section, there is some ambiguity on terminology around VP and related concepts. Particularly, many investors who fund social enterprises call themselves “impact investors” rather than VP investors even if they take a VP approach through high-engagement approach to their investments. It is also common for social entrepreneurs to refer to these types of investors with this terminology. However, impact investing is a broader term than VP as it can also include various forms of low-engagement investors (GIIN 2016). In this study, the terms are treated as interchangeable, as all investors in the study are characterised by high-engagement investor practices regardless of whether they brand themselves as impact investors or VP funds.
2.4 Accelerators and Angel Investors

VC and VP funds are not the only actors which provides high-engagement mentorship or funding to social enterprises. To model the larger ecosystem of investors available for social enterprises, the characteristics of angel investors and accelerator programs will be presented in this section.

2.4.1 Accelerators

Cohen and Hochberg (2013) provides a comprehensive definition of the characteristics of an accelerator. Generally, accelerators help ventures define and build their initial products or develop their business model, identify customer segments and secure resources such as capital or employees. This is done during accelerator programs, programs of limited duration that help cohorts of new startups with their new venture processes. Usually, accelerators also provide a small amount of seed capital and working space. Furthermore, they offer a plethora of networking opportunities which can include introductions to peer startups and mentors who might be program alumni, successful entrepreneurs, venture capitalists, angel investors or corporate executives. In the end of each program, it is common to have a so called “demo day” where the ventures pitch to an audience of qualified investors (Cohen & Hochberg 2013). Baird et al. (2013) further describes that accelerators generally “support early-stage entrepreneurs by providing them with: (a) business development support (e.g. consulting, technology assistance); (b) infrastructure support (e.g. access to office space, shared back-office services); (c) network support (e.g. access to potential customers, investors, mentors), and (d) financial support (in the form of grants/investments)”.

2.4.2 Angel investors

Angel investors are today commonly defined as affluent individuals who invest comparably smaller amounts of capital than VCs in startup and early growth stages of new ventures (Lange et al. 2003). Although the individual investments are smaller, angel investors invest in around 16 times as many companies than VCs do and accounted for almost as much capital in 2011 (Mulcahy 2013). Like VCs, angel investors typically provide advisory and support on strategy, management, network connections, recruiting and other services apart from the provision of capital. Around two thirds of angel investor’s wealth comes from their own previous business ventures - suggesting that the experience of the angel investor and their mentorship role to founders plays an important part in the success of angel backed startups (Lange et al. 2003).

Compared to VCs who invests pooled capital of other investors and possibly own capital, angel investors take on higher personal risk as they use their own funds for their investments (Mulcahy, 2013). At the same time, they generally let entrepreneurs retain more control over their business than VCs, while still often taking board seats (Wasserman 2008). Emerson et al. (2007) describes that socially motivated angel investors constitute an important actor in the sphere of
social entrepreneurship funding and provides evidence that many angel investors have managed to achieve near market-rate returns on social enterprise investing.

To summarise this section, a table on the defining characteristics of accelerators and angel investors is given below based on the work of Cohen and Hochberg (2013).

<table>
<thead>
<tr>
<th></th>
<th>Angel investors</th>
<th>Accelerators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Duration</strong></td>
<td>Ongoing</td>
<td>3 to 6 months</td>
</tr>
<tr>
<td><strong>Cohorts</strong></td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Business model</strong></td>
<td>Investment</td>
<td>Investment or non-profit</td>
</tr>
<tr>
<td><strong>Selection</strong></td>
<td>Competitive, ongoing</td>
<td>Competitive, cyclical</td>
</tr>
<tr>
<td><strong>Venture stage</strong></td>
<td>Early</td>
<td>Early</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td>None</td>
<td>Seminars</td>
</tr>
<tr>
<td><strong>Mentorship</strong></td>
<td>As needed by investor</td>
<td>Intense, by self and others</td>
</tr>
<tr>
<td><strong>Venture location</strong></td>
<td>Off-site</td>
<td>On-site</td>
</tr>
</tbody>
</table>

**TABLE 1. KEY DIFFERENCES BETWEEN ANGEL INVESTORS AND ACCELERATORS**
Differences between angel investor and accelerators, adaption of Cohen & Hochberg (2013)
2.5 The Ecosystem of High-Engagement Social Enterprise Funding

Based on the theory presented in the previous sections on investors in the social enterprise funding space, a model of the ecosystem of social enterprise seed and growth capital is here suggested. This model incorporates VC and VP funds, angel investors and accelerators as part of a financial ecosystem around social enterprises, as all of these actors utilise a high-engagement investment approach on funding social enterprises. While some aspects of what these investors provide social enterprises are general for all investors (funding, advisory, resources and networks), their investment offerings vary slightly as the objectives and characteristics of each are different.

![Diagram of the Ecosystem of High-Engagement Social Enterprise Funding](image)

**FIGURE 1. THE ECOSYSTEM OF HIGH-ENGAGEMENT SOCIAL ENTERPRISE FUNDING**

The model describes the characteristic services of high-engagement investors (funding, advisory, resources and networks) and what typically distinguishes the funding offering of each investor type. The dotted lines of the figure represent feedback loops which are outside the scope of this study but gives an overall context; the social impact the ventures provides and the economic and social returns given back to the investors.

The model suggests that social enterprises can leverage the funding resources and advisory capabilities of VC and VP funds, angel investors or accelerators alike. All types of investors provide slightly different offerings in terms of funding and services, development stage focus and investment objectives. Thus, social enterprises can turn to the funding entity which best suits their needs or to a mixture of more than one, either simultaneously or segmented into different stages of organisational development.
3 Method

For this thesis a multiple case study has been conducted based on semi-structured interviews with the founders of the organisations Frontier Markets, Trine and Esoko. A qualitative approach has been used since the objective of the study is to understand social enterprises, their funding processes and the overall context of the social enterprise funding phenomenon rather than looking for a quantifiable result. The study takes an evaluative approach as the purpose is to evaluate not only how high investor engagement funding of social enterprises works but also why it works well or not, by relating empirical findings to existing theory in the subject (Saunders et al. 2012).

An abductive research method, described by Dubois and Gadde (2002) as a systematic combining of data and theory throughout the research process, has also been utilised during the study. This implicates that the initial theory framework has been successively adapted as a reaction to new empirical data or novel theory insights during the research period.

A case study can generally be defined as an “empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin 2003). When research questions are of a why or how nature, Yin (1994) holds that case studies are a preferred research strategy. A multiple case study gives the possibility to draw cross case conclusions and parallels between the organisations, while simultaneously constituting a stronger empirical ground for discussions on analytical generalisability, further discussed in section 3.5.

According to Yin (1994) a case study design should consist of five components; “research question(s), its propositions, a determination of how the data collected is linked to the propositions and criteria to interpret the findings”. Also, operationally defining the unit of analysis further strengthens replication and case comparison efforts. To follow these guidelines, an operationalisation of theory is presented in section 3.3 followed by a description of how the data has been processed and analysed in section 3.4 and a discussion on generalisability and trustworthiness in section 3.5. Before this, some remarks on the case selection process will be made in section 3.1 followed by a description of the interview process in section 3.2.
3.1 Case selection

The motivation of the study objects chosen is that they constitute key cases, both representative and influential, for the phenomenon to be studied. Furthermore, they also provide useful variation on the dimensions of theoretical interest; Frontier Markets raised capital from VP and VC Funds, Trine from accelerator programs and angel investors, Esoko from VP funds and angel investors while participating in a non-investment accelerator program. Thus, the case selection follows the most similar case selection method, where cases which are similar in general but differ in terms of one variable are chosen (Seawright & Gerring 2008). As the study used an abductive research method, the case selection was also influenced by the initial versions of the theory framework used, in the sense that the targeted organisations and their funders matched the definitions of a social enterprise and the described investment types to a high extent.

3.2 Interview method

A semi-structured interview combines a structured set of themes or interview questions with the possibility of posing additional questions freely during the interview (Bryman 2013). According to Saunders et al. (2012) this approach is advantageous where interview questions could be of complex or open ended nature, or when order and logic of questioning might need to be varied, circumstances which were all present in the study.

For all of the cases the persons interviewed was the founder of each organisation, as summarised in the table below. Only the founders, possibly with the exception of co-founders, had the insight needed to account for the reasoning and details behind the startup and growth phase investments and the relationships with investors.

<table>
<thead>
<tr>
<th>Interviews</th>
<th>Frontier Markets</th>
<th>Trine</th>
<th>Esoko</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent</td>
<td>Ajaita Shah Founder &amp; CEO</td>
<td>Sam Manaberi Founder &amp; CEO</td>
<td>Mark Davies Founder, CEO 2004-2015</td>
</tr>
<tr>
<td>Details</td>
<td>Skype Voice April 13 2016</td>
<td>Skype Video April 26 2016</td>
<td>Skype Voice April 22 2016</td>
</tr>
</tbody>
</table>

TABLE 2. INTERVIEWS
The respondents of each case study organisation, their current or past position and the interview method.

The interview subjects were contacted by email before the interview and briefed on the subject, the purpose of the study and given an example questionnaire (available in the Appendix). In this way they had opportunity and time to pre-process their thoughts on the subjects and for preparation of relevant information, something that should strengthen the validity and reliability of the study in general (Saunders et al. 2012).
The interviews were all conducted electronically via Skype by video or voice chat due to the geographical distances and schedule constraints of the respondents. With the remote location of Frontier Markets and Esoko’s operations, only voice chat was possible due to limited internet connection. Recording was used during the interview to ensure not losing any verbal data. It also serves the purpose of letting the interviewer focus more on the subject without the distraction of having to take written notes during the session, which is of particular importance in this case when only one person will perform the interview (Bryman 2013).

The questionnaire formed the basis for the interviews and was complemented with follow-up or related questions to get more in depth or complementary focus when needed. Some of these questions had been prepared before the interview and some were the result of new information which triggered further inquiry into the particular subject or event described. Due to non-disclosure agreements on investments made, not all of the questions asked were possible to get detailed answers on. However, in these cases more high level answers on the matters discussed generally provided the critical information needed for the study, without getting further into sensitive details.
3.3 Operationalisation

The process of going from the established theoretical framework and research question to researchable themes and statements to base interview questions on is presented in the figure below.

**FIGURE 2. OPERATIONALISATION**

The key aggregate dimensions of theory were decomposed into second and consequently third order themes to serve as the foundation for the formulation of interview questions, with some alterations on the questionnaires depending on the characteristics of the respondent organisation and the availability of other public information for each of them. All three questionnaires can be found in the Appendix sections A, B and C respectively.
3.4 Data analysis

The interview recordings were fully transcribed into text during a couple of days after each interview. The full transcriptions were then read several times with the objective of getting familiar with the text before processing started as recommended by Saunders et al. (2012). The original transcriptions were also kept in their original form in a separate file during the processing as a reference and to be able to backtrack potential errors.

The method for the coding of data followed the template analysis framework as defined by Saunders et al. (2012) which is a thematic approach for coding of qualitative research data and offers "a systematic, flexible and accessible approach to analyse qualitative data". In describing the procedure King (2012) says that the researcher adopting a template analysis approach only codes a proportion of the data items before developing an initial list of codes and themes, known as a coding template, a hierarchical list of themes and codes. Instead of coding all of the data available, a researcher using template analysis starts by coding a sufficient part of their data to develop an initial coding template, which could for instance mean coding the first interview or observation transcript. The codes are then arranged and rearranged until a satisfactory initial template has been developed. After this, subsequent transcripts are coded using the codes from this initial template, which is gradually modified as data from newer transcripts suggests deficiencies in the codes being used. This procedure eventually leads to the development of a final coding template (Saunders et al. 2012).

While not strictly imposed, the template analysis approach was used during processing and coding of data in the sense that the data of the study was structured beneath preliminary headings. Starting with the first interview transcript, a set of headings was developed through iteration and rearrangements of the data. This heading structure was then utilised in the coding of the second and third interview transcripts, while continuously restructuring and reformulating the original headings until the same heading structure could be used for all three cases. This way, all three case studies could be both analysed and presented through a common thematic narrative.

3.5 Generalisability and Trustworthiness

Yin (2003) describes case studies to be generalisable only to theoretical propositions and not to populations or universes. Thus, he argues that the objective of case studies should be to expand and generalise theories; to strive for analytical generalisability. This reasoning should also be applied when evaluating this study and its results in the sense that its results does not claim to be representative for the views of social enterprises in general, but rather be seen as an empirical and analytical addition to existing theory in the field. According to Guba and Lincoln (1994), findings in qualitative research may not hold in another context and may not even hold in the same context during another time. To ensure transferability in such study contexts, they hold that the researcher...
should instead focus on giving a rich account on the phenomenon and culture studied, something that has been aimed at in this study by presenting a comprehensive theoretical and empirical background on social enterprises and social enterprise investing.

Dependability, identified by Bryman and Bell (2003) as a criterion for ensuring trustworthiness in qualitative research, has also been maintained by keeping multiple versions of the study in progress recorded in separate documents, such as early problem formulation or unprocessed interview transcripts. Furthermore, the drafts of the case studies were reviewed for accuracy by each respondent before publication.
4 Case Studies on Social Enterprise Funding

In this section, case studies on the funding of Frontier Markets, Trine and Esoko will be presented. Each case study will follow the same disposition starting with a brief description and history of the organisations and their founders. This will be followed by the main research areas of the study: a) the deal structure of investments and considerations related to this, and b) views on investor engagement and how VP investment frameworks have contributed to or could help the organisations. For more detailed information on the operations of the organisations, the reader is referred to external sources such as the company websites of the organisations.

4.1 Frontier Markets

Frontier Markets is a for-profit company providing distribution and sales of affordable clean energy products to India’s poor to address issues such as deadly cooking and lighting practices such as the burning of kerosene. The company’s distribution model involves partnering with local entrepreneurs who sell the products in remote villages under the brand name Saral Jeevan and setting up brick-and-mortar service facilities to mitigate technical issues and to educate customers locally (Frontier Markets 2016a).

The company was founded in 2008 by Ajaita Shah, a B.A. in International Relations from Tufts University with over eight years of experience from running micro finance and clean energy distribution in India. Shah is a 2006 Clinton Service Corp Fellow, 2012 Echoing Green Fellow, 2013 Cordes Fellow, has been awarded the most influential award in Microfinance for people under 30, Forbes Magazine's Top 30 Under 30’s Social Entrepreneur of the Year and is an active member of the UN Practitioner's Network and the Asian Development Bank's Energy For All Partnership (Frontier Markets 2016b). Over the last eight years, the company has raised capital from a number of investors including VP funds Echoing Green, Acumen, Beyond Capital Fund, Rianta Capital, Antara Ventures, Impact Investment Exchange Asia and the Indian early-stage focused VC firm Seed Fund (Shah 2016).

4.1.1 Investment considerations and deal structure

Shah describes that the capital structure of the funding deals have been highly driven by synergy between the needs of both investors and Frontier Market's own capital needs. They are very clear with investors on what type of funding they need at the moment and she also stresses that investors typically are responsive to these wishes. She also address their investors accordingly and ultimately pick their investors based on the alignment of what type of deal Frontier Markets and their investors are interested in. Typically, if an investor wants to do an equity investment and Frontier Markets need another solution, they do not follow through. In these cases they have either
decided that they do not want them as an investor or in some cases worked out a debt structure that can eventually convert into equity, a solution based on convertible debt, to mitigate both parties’ needs. In general, Shah stresses that the capital structure of deals have been driven by their own interest and understanding of what kind of financial tools they need for each specific purpose.

Regarding understanding of financial tools and their implications for the company, it has been a journey of learning by trial and error - during the five years they have been raising capital they have gradually developed a knowledge on what tools works best. This has been based on a strengthened understanding of e.g. regulation, statutory, structuring and the pros and cons in terms of financial strategy of why a company use certain kinds of capital and for what expenditures they are appropriate for. Over the years a solid framework for what type of capital is appropriate for what kinds of expenditures has evolved. Debt financing is used for working capital since they are a trading company which needs it for private procurement; equity is used for infrastructure, CAPEX and payroll; grants are used for R&D, training, capacity-building and piloting. This way, the company knows exactly where the money is coming in from and for what reason.

Frontier Markets work very patiently with their investors to understand why their valuation is what it is. The valuation approach has also been dependent on the company’s stage of development. As valuation at an early seed stage is based on very loose fundamentals for most ventures, the investors at that stage generally gave Shah a “ballpark idea” of what amounts they would be willing to invest and what kind of ownership they were seeking. But in the growth stages the company has been in the last years, the valuation evolved to be more revenue driven and based on standard multiplier valuation frameworks. At this point Frontier Markets are able to show enough proof of assets, revenue, sales and general company history to be able to drive certain valuations. Furthermore, Shah adds that it has also been based on their ability to hit certain projections and milestones that they have targeted over the last couple of years.

For two of the larger, early-stage equity investments, the deals were set up as milestone-based investments to trigger incentives for future capital. This was also to a large extent the case because Frontier Markets wanted to tranch the investments themselves since this makes it possible to target higher valuations in pre-planned stages. Thus, tranching has been utilised and driven by both sides of the table. Shah describes that it has been a very satisfying approach for both Frontier Markets and investors - they determined milestones jointly and both sides tried to be very realistic about it. She also adds that she likes tranching as a structure, as it keeps discipline on both sides and since it is a fair way of ensuring that both parties are working for the final valuation or final investment of the company.

On the question of how they managed potential conflicts of interest concerning rates of returns, compensation or dividends as a social enterprise, Shah believes that they have been able to avoid these issues by having been very selective on who they have taken in as investors. They
always make sure that they are aligning the needs of both themselves and the investors, in particular that the missions align philosophically, before going through with an investment. Shah believes this is an area where FM has been very strong in terms of negotiation and communication with investors - and also one of the reasons they have not had any conflicts of interests on these issues.

The company offer board seats to investor primarily dependent on what the company needs at that point in terms of the capabilities of the investor, i.e. what the investor is bringing to the table and the invested amount. While exit strategies are something that Shah can not discuss in detail publicly, she stresses that Frontier Markets and their investors all work on the business together, and that their biggest interest as a company has been not to put the pressure of an exit neither on the company or their investors. With that said, they are trying to drive an exit in a timely manner, something which would be negotiated closely together with the investors.

4.1.2 Investor engagement and views on VP funding

We have a pretty solid relationship with all of our investors - even up front when we are deciding to take in certain investor's capital, we sit with them to understand what their philosophy of engagement is and also what their and our expectations are in terms of our needs. (Shah 2016)

Shah and the management of Frontier Markets have a very active relationship with their investors. They either sit together collectively or have private one-to-one discussions with advisors and Shah thinks they are very actively involved in how decisions are made. Certain engagements of their investors are very formal - it is fixed on monthly accordingly depending on their position as a board member. Other engagements have been more informal in the sense that Shah generally reach out for them during times or events where she needs them. During meetings with the board, they also spend a lot of time tuning the relationship by discussing ways their investors can be engaging Frontier Markets in an optimal way.

We try to structure [the engagements] as much as we can. It has definitely been as frequent and as formal or informal as we need. And we have been the driver for it. (Shah 2016)

With certain investors the engagements have diminished overall over time, but most importantly, the relationships have changed in the nature of engagement. Shah argues that the frequency of contact does not go down but the purpose of engagement shifts towards network requests rather than general strategic or operational engagement as time goes by.

The range of investor engagement have been wide, covering strategy, business development and network introductions extensively but to some extent also operations and PR efforts. Shah stresses that she has been reaching out to investors for getting leads to new
suppliers, partners and investors in terms of business development and introductions. Of particular value, investors have also connected Frontier Markets to ecosystem enablers. For instance, when the company wanted to get access to someone with extensive experience from rural distribution, they were able to get such a contact from one of their investors. This person had over 35 years of experience in the field and came to work on a pro bono basis with the company. Furthermore, investor networks have been tapped to gain access to other pro or lo bono services like legal, accounting or insurance consultancy. Shah adds that they even targeted or chose some of their investors on the basis that they could provide these sorts of connections.

Apart from such introductions which Shah describe as very valuable for the company, some of their investors have also helped Frontier Markets to access grant initiatives, write recommendations for social enterprise awards, been actively involved in their PR strategy and helped them get in front of media. Typically, these investors provide a pipeline of such new engagements on a regular basis. As the investors are also looking at new deals and meet with new ventures all the time, they sometimes also try to realise synergies by connecting these to Frontier Markets.

Each investor typically provide different focus and capabilities, something that Shah looks for in investors as to achieve a diverse mix in terms of this among their funders. It generally depends on what each investor’s network look like and where their skills lie. For instance, Seed Fund is described to come in for PR, supplier networks, strategic decision making and business development; Beyond Capital Fund has come in for consultancy services, PR, customers and suppliers and partnerships; Rianta Capital has come in for external advisory and consultancy services, a lot of marketing and branding, resources and grants and recommendations and awards; and Acumen has supported them with partnerships, impact mapping, data cleaning, provided them with fellows for external resources to help us and growing for our operational needs. As such, the VP funders of Frontier Markets have provided a useful service which is typically not offered by more commercially aligned investors. Overall, Shah thinks that Frontier Markets has been trying to maximise all of their investors’ and board members’ networks and contacts, where they are coming from and who they are involved with, to constantly engage them for a win-win situation.
4.2 Trine

Trine is a Swedish social enterprise providing a fin-tech platform for crowdfunding solar energy projects in the developing world. Trine’s platform makes it possible for individuals and other companies to invest in solar energy in developing countries giving a return on investment of around 5% yearly. The company started out in Gothenburg 2014 and received funding and mentorship from Chalmers Ventures startup camp and accelerator programs. In the end of 2015, the company gained additional seed funding of SEK 5 million from six angel investors. While this capital will be used to expand their platform and operations, Trine’s funding needs for establishing solar projects are managed through public crowdfunding (Trine 2016). Sam Manaberi is the CEO and co-founder of the company, a M.Sc. in Industrial Engineering and Management and B.Sc. in Business Administration who had a career at the solar energy division of Bosch before launching Trine and was awarded Social Entrepreneur of the Year by SEB in 2015 (SEB 2015).

What eventually evolved into Trine first started at Chalmers Ventures’ Startup Camp program in 2014 with a general idea of the future business but without a concrete investment plan. During the camp they received SEK 20.000 in grants from Almi Invest and pitched their business model for a couple of investors without focusing on actual investments. After the camp, Trine eventually got accepted to the accelerator program in January 2015 which included a convertible loan investment at which point the company also was founded officially (Manaberi 2016).

Early on during the accelerator program Trine recognised the need for an investment round at an approximate target of around SEK 5 million for the end of 2015, which was then realised at the same amount. The company set their focus on angel investors due to the early-stage level of their venture and as there were a lot of angel investors in the ecosystems and networks connected to Chalmers Ventures. For instance, one of the public angel investors in Trine is today a business coach at Chalmers Ventures but invested in Trine privately and met Trine through mutual acquaintances before becoming officially involved in Chalmers Ventures. The company is currently working towards a second investment round where VC and VP/impact investment funds are the primary targets (Manaberi 2016).

4.2.1 Investment considerations and deal structure

The Chalmers Ventures investment was based on convertible loans and was primarily driven by the timing of the investment in terms of the development phase of the company at the time. While there was an option for equity funding, going with convertibles was Trine’s preference. The deal structure was particularly suitable as the founders had in their mindset to raise equity from angel investors for the next investment round, where the convertibles from the accelerator investment would then convert to equity. But when taking the funding offered by the accelerator it was also more or less a “take it or leave it” situation where raising funds per se was much more important.
than the structure of the investment. However, Manaberi adds that as Trine adopts an agile and lean business philosophy of constantly validating their assumptions, they see equity as a suitable investment structure since it indicates that competent external individuals validate that what they do is sound business-wise by taking ownership.

Potential capital injections in terms of grants such as innovation support or award prizes are only seen as “cherries on top” as the company do not want to be dependent on such funds. While no tranching of investments have been made thus far, Manaberi emphasises that they are highly communicative with their investors on future funding plans.

On the question on how they reach consensus with investors on expectations on financial returns versus social impact, Manaberi is very clear on that Trine do not see social benefits and profits as antithetical in any way - their mission does not put social benefit before profits or vice versa. These objectives are instead seen as equally important and can be combined to the fullest extent. For Trine, the more social impact they have, the more profits they will be able to get. If they do not achieve the social impact they set out to achieve, the company will most likely not get any profits, as doing social benefit is at the core intertwined with profitability in their business model. This is also what they communicate clearly to their investors - the core of Trine’s investment pitch is that to succeed financially, they need to prove their social impact.

4.2.2 Investor engagement and views on VP funding

Manaberi describes that investors, angels and accelerator program alike, are definitely highly engaged in developing the business. While the relationships with investors are just beginning to form, they have so far gotten help with e.g. product feedback and introduction to key business contacts. The investors are starting to have impact on the business model, progressing as the relationship develops. They have had multiple workshops with the investors where they have given them overall feedback on the business model and contacts. But as the investment round was made less than six months ago and the interaction with these contacts are still only at an introductory level without any operational activities, it is hard to tell whether this has added value for Trine yet. But based on the perceived quality of the support and connections received, Manaberi really do believe Trine will benefit from the competencies of the investors and also from their contacts and networks. He is convinced that they will contribute to the decision making process more and more. It is also clear that the engagement of investors is increasing gradually as the relationship evolves - particularly the rate of introductions has become more intense.

As for advisory and mentorship, some of Trine’s investors will join the advisory board and the board of directors. Manaberi stresses that this is not because they have demanded it but because Trine wanted it that way; they see their investors as highly competent people which they believe will add a lot of value through these engagements.
On the question of how the relationship and interaction with investors has changed, Manaberi says that they were highly email based in the beginning, almost to the point where it got to a too high frequency of correspondence. Today it is more on a regular basis ranging between weekly, monthly or even yearly meetings depending on the investor. A few angel investors have a more passive ownership while the others engage on a regular basis. When searching for investors, Trine intentionally tried to find different types of investors who could contribute with different backgrounds, skills and networks. For instance, they looked for someone with experience from global brand management, another investor with knowledge on ecologic businesses, experience from fin tech startups or scaling of tech startups in general.

While the contact with accelerator business coaching resources is more general in the sense that anyone in Trine could ask for general support, the angel investors have more of a static correspondence with the different functions in Trine’s own organisation. Investors are more focused on specific topics such as marketing, branding or sales, depending on their competencies and experiences. In other words, a marketing focused angel investor would generally build a relationship and interact mostly with head of marketing or CEO of Trine. At the accelerator where Trine sit in a shared office building with their advisors, the interactions naturally become more sporadic and less segmented on the basis of organisational roles.

As mentioned in the previous section, Trine targets VC and VP or impact investment funds in the coming investment round. They have a clear goal for the investor mix; at least 25% of the investment should come from a tech focused VC investor with lean startup thinking and scaling experience, and at least 25% should come from a VP investor with a concrete emerging market footprint - they should be present and invest in Africa. The company is currently in a continuous dialog with VC firms. Manaberi describes that these investors are very driven by their own set of metrics, but the fact that Trine has a social benefit profile is probably a bonus also for them. While they have not yet closed any VC deals, the impression is that they have gotten a very good reception from the ones they have met with so far. They have also noticed that VP funds are interested in what Trine does. However, Manaberi considers VP or impact investments a messy space:

Many say they are impact investors but there seems to be a lot of confusion and ambiguity on what it actually means to be one. (Manaberi 2016)

The way Manaberi and Trine sees it is, there are currently three different paradigms or mindsets around social impact and business both among investors and entrepreneurs today. Under the first paradigm, people believe that doing social good and making a profit are by nature mutually exclusive - that to do good you first have to make money in a strict business setting and then you are able to use that money to do social good in non-business settings. Under the second paradigm, people believes that it can be the case that making profits and doing social good need
not necessarily to constitute conflicting objectives under certain circumstances and perhaps with some trade-offs. Under the third paradigm, where Trine would categorise themselves, profits and social benefit need not be conflicting at all, as the social benefit can be internalised in a to the full extent profit-seeking business model. In Manaberi’s view, the real impact investors are the ones who adopt the third mindset. He also believes that many social entrepreneurs are stuck in the first and second paradigms; that to be allowed to do social good they need to compromise on their returns, and that this is the reason they have trouble attracting investments.

When it comes to raising funds from VP or impact investment funds, it is then deemed as critical that they share this philosophy to some extent. From the very start, Trine sought out investors who believed in and understood their business philosophy and liked what they were doing. To this, Manaberi also adds that regardless if investors called themselves VP investors or not, they also generally start with reaching out to investors in close proximity network-wise, and these networks have not included VP investors. However, to expand the range of their investor mix in the near future, he believes that a VP investor would probably add a significant value for Trine. As Trine operate in an emerging markets setting, such an investor would most likely have valuable capabilities as they have their channels, networks and interest and spend the majority of their time and engagement in these settings. Manaberi also thinks they could help them track Trine’s social impact and help them develop their frameworks for how this is measured both qualitatively and quantitatively. If an VP or impact investor can provide this and carry it out in a pragmatic way, such support would be much appreciated.
4.3 Esoko

Esoko is a Ghanaian company developing agriculture mobile applications which empower African farmers by providing access to communication and information services. The company’s solutions provide advice to farmers by pushing market prices on grains, weather forecasts and growing tips to their mobile phones to help them increase yields and profits. They also provide solutions to businesses such as marketing products, monitoring activities, and sourcing goods to help them connect with farmers (Esoko 2016a). Founded by Mark Davies in 2004 as TradeNet, the company rebranded to Esoko in 2009 while launching a new expanded platform (Esoko 2016b). A Cambridge graduate in social anthropology, Davies is a serial entrepreneur who founded online city guide Metrobeat in 1994, co-founded tech startup network forum First Tuesday in 1998 and Ghanaian startup incubator BusyInternet in 2001 with numerous previous experiences from raising VC funding (about.me 2016).

Since 2009, Esoko raised funding from angel investor Jim Forster, VP or impact funds Soros Economic Development Fund, Acumen, Lundin Foundation Invest and World Bank Group member IFC. The company also participated in the Global Social Benefit Institute (GSBI) accelerator program at Santa Clara University during 2014. While all rounds were structured on a mix of debt and equity or equivalent financial instruments, the accelerator program was sponsored by eBay Foundation but did not include any investment in the company (Davies 2016).

4.3.1 Investment considerations and deal structure

Davies does not see being a social enterprise affecting the choice of financial instruments utilised - the motivation of deal structure was the same as for any commercial startup. The primary objective would always be to get an appropriate mix of debt and equity. He also adds that he does not believe the choice of debt or equity affects the engagement of the investor - the investor will be as likely to make sure that they get their returns regardless of the capital structure of the deal. Even the philanthropists and shareholders that are in the social impact funds that are investing in Esoko all ultimately seek returns, they are not really looking for charity; Davies stresses that if it is about charity then it is a grant, and that is a totally different story and a different model overall. As the investment considerations and deal structure were found to be approached from a strictly business-oriented point of view, the interview did not focus on this matter any further.

4.3.2 Investor engagement and views on VP funding

Davies describes angel investors as critical funder in earlier financing phases, when the startup has yet to start scaling or when the market has not been validated. At this point, angels can get high equity value in proportion to the comparatively smaller amount they are investing due to the very large risks present, as they are not doing as much diligence in the market as investment
funds. The typical angel investor Davies says would invest at the stage were the company is mostly an interesting idea and experienced team that they believe in.

However, Davies does not think that angel investors in the social impact space differ from angel investors in general - they provide the same services and functions whether they fund social enterprises or not. It is described as irrelevant whether you are a social impact business or not, the approach is the same whether you are a tech company in the US or social impact company in Africa. The angel investor may however have their own motivations; while in the US an angel investor could for instance be driven by an interest in cutting-edge technology, an angel focused on Africa may be interested in some development agenda. Thus, Davies emphasises that there is no binary distinction between angels and angels in the social impact sector and that angels are interesting and useful at a certain timing of your company’s development; you are always trying to find angels who fit your profile at the time at which you need them.

VP or impact investors are described to provide more or less the same package of financial and non-financial services as VC funds - but the deals and the relationships are much more complicated while the advisory competencies of these funds are, in Davies’s experience, inferior to commercial VCs in a number of key areas. They do not have the experience, the capabilities or the resources to add the same value in terms of organisational capacity-building as VC firms.

Davies believes every startup has some degree of social dimension, and that the same applies to their investors - they just have a varying extent of social focus. Thus, the thinks that frameworks such as VP or impact investing add a lot of confusion to the space of social entrepreneurship overall. The communication around investments would be much cleaner and straightforward if you would just remove the words ‘social’ and ‘philanthropy’ from the conversation and take a more business oriented view;

First and foremost I do think that we want to be treated as businesses and as business owners, and like any business, we are looking to understand what the market wants, what customers are willing to pay and if there is a product market fit; all that has to be the fundamentals of any business - even a social impact business. And we should be judged accordingly as the investment mechanisms really do not differ very much…(Davies 2016)

…We keep confusing ourselves about these terms such as ‘social impact’ or ‘venture philanthropy’. If you sort of put that aside for a second and said: wait a minute, this is standard investment, and within any standard investment whether it is in California or in Ghana, everybody got a different appetite for risk, for a particular level of social dimension of investments, a different appetite for getting involved and helping the management of the company and a different set of skills as to what they can bring to the investee. (Davies 2016)
Davies believes that the distinction between social enterprise and commercial enterprise that is practiced by many investors is harmful since it takes away focus from properly evaluating the business potential of socially driven ventures by itself;

As long as we have this binary distinction between social impact business and a traditional business it confuses everything. We do not want to be judged as so called social businesses - we want to be judged as any business and attract investors across the board. (Davies 2016)

While wanting to raise funding from a diverse mix of investors, where commercial VC funds would be the preferred source of investment over VP funds according to Davies, he stresses that it is very hard to attract such capital in the setting in which Esoko operate and continues to elaborate on why. When looking to introduce innovative business models where you have either not proven your own business’ return or the market does not have pre-existing examples of returns, you have to raise more risk tolerant capital first and prove yourself before commercial VCs are even on the horizon. VCs in the developed world may have the ability to “spray-and-pray”; to invest in 40 high-risk startups with the knowledge that the rate of return of one successful investment will probably will compensate for the other 39 failures. In the markets in which Esoko operate however, you do not get that kind of return or success stories ever, so it is much harder for VCs to use the same approach there. They need really to be much more diligent, either really be a lot more conservative in really trying to identify ‘winners’, either by investing in a company that is already ‘winning’ or a competitor to a company that has already validated its market. And the rates of return are unpredictable not only on a microeconomic level; the lack of mature capital markets in terms of e.g. underdeveloped stock exchanges and low M&A activities means that the exit possibilities of venture finance investments are very small.

Thus, Davies describes that there is a funding gap at early-stage venture finance in developing markets, and that is where social impact funds play a role. If your market concept and idea has not yet succeeded or been validated by a competitor, it is very hard in the African context to get commercial venture capital. So that is where the VP investors come in - they got a much higher risk appetite and they are willing to engage in these settings. But then they can be very aggressive about the kind of control they want over the company. In Davies’ experience, they are typically much more aggressive in the control aspects; they seem to be much more aggressive in terms of the management role that they can play, about the kind of protection they acquire in terms of preference shares. From his own experiences, VC funds can also ask for preference shares or high levels of control, but he finds it much more onerous in the social impact space.

Davies agrees that there are some advantages of VP funds; the higher risk appetite, the lower expectations on return on capital and their emerging market focus in terms of their provision of capital to underserved or neglected capital markets for entrepreneurs. But he also stresses that they do not typically bring other kinds of advantages that an ordinary investment house would not
provide - all investors, regardless of social benefit objectives, are going to be interested in linking you to customers, other investors or invests and linking you to best practices. As mentioned, Davies believes that the social impact funds are less mature, less experienced and less capable of doing this than more traditional investment houses in more mature capital markets. They do not necessarily bring market expertise, clients or customers, and they do not necessarily bring management expertise that you would find in standard VC firms.

Furthermore, they also have a set of stringent reporting requirements in terms of measuring social impact in addition that makes the investor relationship and the running of business much more complicated. For instance, they want to know what livelihood impact Esoko has on farmers in terms of their ability to pay for education, healthcare, and so forth - something which is really complex and expensive to measure. So it makes it either a more expensive investment, a more complicated investment or both. Finally, the investment amounts of typical VP funds for Esoko and similar social enterprises are generally capped between $300,000 to $3 million, leaving both smaller seed funding on the lower end of the spectrum and high growth expansion funding on the higher.

So in summary, raising VP or impact funding means less amount of funding, a more complicated deal, and the entire dimension of social return that you both have to deliver and measure, which makes it a much more onerous deal than standard VC investments. But for many social enterprise operating in emerging markets, it is the only option. In this context, Davies also remarks that conducting profitable businesses in these environments are tough as it is to begin with; Esoko and similar social enterprises are described to be scrabbling year in, year out;

Things generally take longer and are more difficult operationally, and business models are more expensive to monetise and deliver on. We are often dealing with BoP [bottom-of-the-pyramid] customers where distribution networks are not formalised, so you are in very complicated and difficult territory to begin with. (Davies 2016)

Finally, Davies emphasises that Esoko, and most likely similar social enterprises too, are not asking for charity. They want to be judged to the same set of standards that any investment would be judged on;

Do you have the right team in place? Have you got a good, focused product? Have you understood your market and are you operationalising it and taking it to market well? Are you able to articulate a return on investment for the investor? We absolutely want to be asked all the same questions and want to be judged in the same way, but of course the context in which we operate, both in terms of risks, costs and returns, is really different. (Davies 2016)
5 Analysis

The following analysis is divided into five subsections and begins with a case comparison to follow up the presented case studies. It will then be followed by two sections, 5.2 and 5.3, focused on answering the research questions stated in the introduction: how high-engagement investors and VP investors in particular add value to the social enterprises studied. In section 5.4, the theory model and its applicability is discussed followed by an analysis of the issues met by social enterprises when raising funding in section 5.5.

5.1 Case Comparison

To summarise the empirical material presented in the case studies above and to form a foundation for the analysis and conclusions, the findings of the study is presented in terms of the study variables identified and described in the theory section in the table below.

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<tr>
<th>Frontier Markets</th>
<th>Time</th>
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<tbody>
<tr>
<td>Investors</td>
<td>VPs, VC</td>
<td>Accelerator, Angel Investors</td>
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<tr>
<td>Funding</td>
<td>Equity, debt, convertibles, recoverable grants. Tailored to needs, tranch.</td>
<td>Convertibles, equity. Standardised deals/tailored to needs.</td>
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<tr>
<td>Deal considerations</td>
<td>Aligning philosophies on social impact with investors</td>
<td>Aligning philosophies on social impact with investors</td>
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<tr>
<td>Overall non-financial investor support</td>
<td>Advisory, resources, network, board engagements, long-term.</td>
<td>Advisory, resources, network, board engagements, long-term.</td>
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<tr>
<td>VC funds investor support</td>
<td>Growth-stage funding, PR, supplier networks, strategic decision making, business development</td>
<td>None yet. Seeks advisory on lean startup thinking and scaling.</td>
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<tr>
<td>VP funds investor support</td>
<td>Impact assessment, tailored funding, developing markets networks</td>
<td>None yet. Seeks developing markets networks/knowledge and impact assessment.</td>
</tr>
<tr>
<td>Accelerator investor support</td>
<td>Early-stage funding, office space. Broad advisory capabilities. Spontaneous, sporadic interaction.</td>
<td>-</td>
</tr>
</tbody>
</table>

**TABLE 3. CASE COMPARISON**

A comparison on the variables of interest based on the theory framework developed in section 2.4, figure 1 (The Ecosystem of High-engagement Social Enterprise Funding) and data from case studies.
The summary highlights both how parts of the theory framework applies to the real cases and how additional factors outside the scope of or even in discrepancy with theory have been identified. For instance, while theory suggests that investors adopting a VP framework of investing tailor the funding to the needs of the social enterprise, something that is indicated to be the case by Frontier Markets but dismissed by Esoko. Furthermore, niche competencies of angel investors are emphasised by both Trine and Esoko to be of high value, as individual investors typically have certain interests and capabilities, and seek investments where these can be applied. While this summary offers an overview, the analysis of its contents and coherence to theory will continue in the coming sections. First, the general contributions of high-engagement investors will be discussed, followed by a section which focus on the value-add of VP investors in particular. A discussion on the theory framework and its applicability will then follow before widening the perspective to discuss the issues that social enterprises meet when seeking funding.

5.2 Value-add of High-engagement Investors

Based on the accounts of the studied social enterprise founders above, the consensus seems to be that their high-engagement investors add value to social enterprises just as they do to commercial enterprises as suggested and shown by e.g. Jenkinson (2007) or Bernstein et al. (2015) in the case of VC investors, Baird et al. (2013) on accelerators and Lange et al. (2003) on angel investors. However, that the support in terms of funding, engagement, mentorship and advisory of experienced, competent individuals and organisations are valuable to social enterprises is hardly surprising. It is rather the inner mechanisms and dynamics of the deal structure of investments and non-financial engagement that is interesting to analyse further, and in particular, whether or how the ‘social’ aspect of social enterprises and funding of social enterprises affect this.

In the cases where the investors have a primarily commercial mission, there are no indications that this focus is conflicting with the social missions of the studied ventures, as suggested by Emerson et al. (2007). In the case of Frontier Markets, their commercial VC investor is seen as a strong complement to VP investor-backing, adding business-focused advisory capabilities in areas such as PR, supplier networks, strategic decision making and business development. Trine on the other hand started out with commercial investors to begin with, and see VP or impact investments as a potential complement in the future. Esoko, which has raised mostly impact investment or VP funding, deem the business acumen of those investors to be inferior to commercial investors, calling for more business-oriented investors and practices in the social enterprise space. Thus, for Esoko the problem rather seems to be the reverse from what Emerson et al. (2007) suggests, which will be elaborated on further in the ending discussions on the issues social enterprises meet when seeking funding.
5.3 Value-add of VP Funds

The studied companies’ perceived added value of VP funds differ from case to case. While Esoko sees VP funds’ higher levels of risk appetite as necessary to get funding, the funding and advisory services they provide are inferior to VC funds and the social impact assessments are too aggressive. They also argue that they bring confusion to the space with their hybrid of VC and impact investment framework. While Trine has not yet utilised VP or impact investment funds for funding, they see value in the presence and competencies in emerging markets and impact assessment capabilities of such funds. Frontier Markets on the other hand, seems to thrive with their VP investors and highlights contributions such as help with impact assessment, ecosystem enabling network contacts and pro or lo bono service connections.

Some of the challenges for VP as an industry identified by John (2006) are thus highlighted also in this study. Most notably, VP funds need to communicate and market their value proposition in a coherent, less fragmented manner and align it to the philosophies and needs of social enterprises. The study does not suggest that the range of financial instruments constitute a problem. The Balbo et al. (2008) claim that VP funding is particularly adaptable to the needs and wants of the social enterprise is somewhat supported by the Frontier Market case, where investors are described to be responsive in this regard, while Esoko does not see any difference in approach to the capital structure of deals due to the social impact aspect of the deal. While Trine has not received funding from VP funds or impact investors overall, they had some choices in regards to capital structure of deals but these were part of a standard deal offered to both social enterprises and commercial startups by their accelerator program.

As for the other challenges for VP outlined by John (2006), the business advisory capabilities are identified as an area for improvement by Esoko, both in the case of theory and the case study recognised as a being due to the immaturity of the VP industry. The measurement of social impact is both identified as a service which adds value for the social enterprise and as an obstacle for performing well as a business in a difficult market to operate in as it is. A suggestion here is for VPs to see this capability as more of a service to the social enterprise primarily, rather than primarily seeing it as an investment criteria and reporting metric. Social enterprises are most reasonably highly interested in creating social impact as they try to introduce new innovative products and business models in the perhaps most difficult of market settings where returns are limited by macroeconomic nature. While investment criteria and reporting metrics are necessary for investment selection and feedback processes, VPs need to find a balance here and be sensitive to the fact that it is hard innovate if the social impact mapping becomes takes too much resources from the ventures.

Lastly, as will be argued in the next section of the analysis, John’s (2006) call for VPs to improve their collaboration with complementary capital providers in the social enterprise space is identified as critical for how VP funds can add value for social enterprises. A wide array of different
investors operate in the social enterprise investment ecosystem, differing in terms of investment stage focus, appetite for risk, development agenda, core capabilities and many other characteristics. Furthermore, the social enterprises in the study clearly leverage a variation of investors to attain a variation of investor services. Thus, strong and diverse networks between the investors in the ecosystem facilitates the development trajectory of social enterprises by providing additional and different network introductions to social enterprises. As such, strong collaboration between for instance VP and accelerators, angel investors and VCs with an investment horizon including social enterprises should strengthen the prospects for social enterprise to develop and grow.

5.4 The Ecosystem of High-engagement Social Enterprise Funding

On the same theme as the section above, the case studies presented clearly indicate that diversity in the ecosystem of social enterprise funding is important for social enterprises to develop and scale. The social enterprises need different types of investments and investor engagement depending on what development phase they are in, and regardless of development phase, the founders all emphasise the importance of investors with different core capabilities and networks. The high risk appetite of both VP funds and angel investors are described as critical in emerging markets settings and in the very early-stage development stages of a venture respectively. Trine emphasises the spontaneous and daily face-to-face engagements of accelerator advisors to be well complemented with the more formal and less intensive meetings or engagements with their angel investors. While Esoko sees the impact assessment of VP investments as a reasonable trade-off for their risk-appetite and expectations on returns, they stress that they would rather attract investors all across the board including traditional VC funds to gain access to state of the art business competencies. Frontier Markets evaluates potential investor’s based on how their core capabilities complements and adds new competencies to existing investors and advisors.

A holistic perspective on the investor ecosystem around social enterprises is in this aspect highly motivated. Such a perspective fulfil roles as both a theory framework for understanding social enterprise funding as a phenomenon and could also be a useful tool to evaluate the funding needs of social enterprises and thus the need for development of social enterprise funding. Thus, the results suggests that such an approach, as proposed in the ecosystem of high-engagement social enterprise seed and growth funding (figure 2), would be well-suited frame of reference for an overview of the social enterprise funding space. However, identifying other social enterprise investors and studying their way of promoting social enterprises not included in this model, both in terms of deal structure and investor engagement, constitute an area for further research. For instance, bank funding and other less engagement intensive investment types could be one type of investments to include, along with the role of grant-giving foundations and government entities which supports both non-profits and for-profits. Incubators, while often highly similar to accelerators
in structure and program design, could also be an important addition. It should also be highlighted that more research on the social enterprise investment ecosystem is needed over the board, as this study takes a qualitative approach limited in scope in terms of both sample size and extent of coverage on the investigated cases.

5.5 Funding-related Issues for Social Enterprises

Based on the researched cases and theory frameworks used, some of the most pressing issues in social enterprise funding will now be highlighted in order to facilitate identification of areas in need of further studies and discussion. For this, the Emerson et al. (2007) framework describing challenges for social enterprise raising capital will be used as this represents results from previous studies on the matter.

Ownership issues connected to equity investments have not surfaced as a large hurdle for the social enterprises studied as suggested by Emerson et al. (2007). Frontier Markets sees equity as a part of a diverse capital structure attracting important advisory competencies and Trine sees the taking of equity as a validation of its business model. Esoko prefers debt financing before equity as to not dilute the ownership but does not see a difference in how social enterprises should manage these issues and how they would be managed in a commercial venture.

While Emerson et al. (2007) suggests that the profit focus of investors may often compromise the social mission of the social enterprises, no indications of this issue have been emphasised in this study. On the contrary, in the case of Esoko, the social mission of the investors has rather been indicated to compromise on Esoko’s economic targets. Here it is suggested that the combined economic risk/return and social impact tracking requirements have been bordering to an unreasonable burden. The potential for mission drift has thus not been a major issue in this case - but a challenge for the social enterprises would still be to find investors who share a common philosophy of engagement. From the accounts of Trine and Frontier Markets, they have managed to do this successfully both by involving accelerators, angel investors, VC and VP funds respectively and clearly communicating their own philosophy and mission with potential investors.

As VP funds are indicated to fulfil an important role in the social enterprise funding ecosystem due to their emerging markets presence and high risk appetite, it is here identified as important that these actors continue to develop their capabilities in terms of management expertise. Furthermore, their offering could be improved by communicating their value proposition to social entrepreneurs in a more coherent fashion and becoming even more adaptable to the their needs.

Finally, the lack of exit strategy possibilities and limited liquidity will continue to be a challenging barrier for innovation and growth in the social enterprise and social enterprise investing space as emphasised by both Emerson et al. (2007) and indicated in the Esoko case study. While the issue is presented here, complete solutions to this will not be found in studies like this as it calls
for more research and implementation of solutions on a macroeconomic perspective rather than individual on an individual case level. What can be suggested however is that some social enterprises can potentially come around the issue by properties of their business model design. Trine for instance, operate both in mature and developing markets and capital markets, utilising a business model involving customers both in Sweden and in developing countries. However, it might be the case that not every social issue can be approached in this way but still be suited to a market-based approach, as a for-profit entity rather than non-profit. This would then call for investors with a different philosophy on risk tolerance, patience in regards to returns and a high regard for social returns to offset the in many cases restricted financial returns. In such scenarios, to some degree exemplified by both the Frontier Markets and Esoko cases, the VP model seems to provide a critical functionality. However, there is also evidence that the VP framework and the VP industry as a whole still need to develop their capacities and competencies to provide social enterprises with the best support possible to fulfil this role.
6 Conclusions

The findings indicate that high-engagement investors in general provide a wide range of services to social enterprises where strategic advisory and networks introductions are identified as key enablers for development. Other notable areas where investors provide valuable contributions to the social enterprises studied are board engagements in the case of VC firms or angel investors and a workspace setting providing dynamic interaction with advisors and peers in the case of accelerators. Furthermore, many of the investors across all investor types typically provide niche competencies or knowledge - an angel investor could for instance be a fin-tech expert and a VC firm could have the niche capability of setting up social enterprises with pro or lo bono service providers.

As for the financial deals, the social aspect of the ventures seems to affect these in the sense that the social enterprise needs to make sure that the philosophies of the investors align with the mission of the social enterprise. While this is probably true in any investment, even more commercial ones, it is suggested that this alignment is extra important in the case of social enterprise investments. This is further supported by the indications that the whole space of social enterprise investment is characterised by some ambiguity and confusion on what ‘social’ really means in this context. Due to this general ambiguity, the findings suggest that extra care should be taken in this aspect to make sure philosophies really are aligning, not only in the terminology used to describe them but also in what they truly implicate. Apart from this, the structure of funding deals are not shown to differ much to commercial deals. While grants or recoverable grants have been present among the social enterprises, these have exclusively been treated as bonuses rather than seen as funding sources to rely on continuously.

The perceived value of venture philanthropy funding diverges between the cases; while filling an empty space in the social enterprise capital market, some findings question their capabilities and the philosophy of their investment model. This should be seen in the light that the industry is still in an early stage itself, gaining traction in the 1990’s as compared to the commercial VC industry which roots back to mid 20th century. Also, the task of finding an investment framework combining business and social impact metrics and goals is a challenging task itself, both due to the difficulty of quantifying social impact the dual objective itself regardless if these are conflicting or not.

Social entrepreneurship, social enterprises and social impact investments are complex topics to approach from a theoretical point of view. There seems to be ambiguity both in the industry itself, in the research dealing with the subject and discrepancies between the two. Thus, whether funding of social enterprises lie somewhere between philanthropy and business financing or should be seen in another light altogether is so far a matter of perspective or even subjective opinion, as there are still few strains of evidence for what frameworks leads to positive results.
Nevertheless, this constitutes a strong motive for studying the sector further. As mentioned in the introduction to this study, social enterprises have shown high potential in introducing innovation and growth in underdeveloped markets and poor societies through financially sustainable business operations with social impact. To keep this trend going, the provision of appropriate funding and advisory for social enterprises will be critical. Further research on how to provide and approach investments in social enterprises is therefore needed. Like in this study, it could be studied by evaluating the deals and relationships between investors and investee, but in other settings and with other organisations. Broader, more quantitatively focused studies could complement qualitative case studies with generalisability and hard data. But there should also be opportunities in researching the investors and their investment frameworks per se, the grey areas between non-profit, for-profit and hybrid business models and their funding processes, or on policy frameworks for encouraging growth and constructive incentives for the social enterprise sector, both on a local and a global level.
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**Interviews**

Davies, M. Interviewed by Miles Scherrer, 22 April 2016.

Manaberi, S. Interviewed by Miles Scherrer, 26 April 2016.

Shah, A. Interviewed by Miles Scherrer, 13 April 2016.
Appendix

A. Questionnaire Frontier Markets

Part I - Deal Structure

1. Acumen uses debt or equity investments and Echoing Green recoverable grants. What type of funding did you get from Acumen and how would you say these three types of funding were suited to your funding needs respectively?

Would you say the investment structures were primarily driven by FrontierMarkets own financing needs or rather the interests of investors such as control or standardised investment structures?

Would any other financing structures or mixes have been preferable? (E.g. convertible debt, preference shares, grants or other)

3. In case of equity investments, could you comment on how FrontierMarkets (as a for-profit company) and its investors (policy driven with an incentive for some patient returns) could come to terms on issues such as;

A. Valuation and investor ownership, ownership dilution (in case of equity investments)
B. Potential conflict of interest concerning rate of return, compensation and dividends
C. Exit strategy

In case of debt investments and recoverable grants, only B applies.

4. Did any of the funding deals include a road map for future funding rounds, for instance based on reaching certain milestone or thresholds in terms of social impact or economic results of the company?

5. Did any outside investor ever take board positions at FrontierMarkets?

What motivated this and what was the results and implications?

6. How did the relationships with investors evolve over time in terms of engagement and frequency of contact?

Part II - Non-financial investor engagement

7. Could you give examples on how advisory and other non-financial services of investors has contributed to FrontierMarkets development in terms of:

A. Strategic decision-making?
B. Operations and business development?
C. Introductions to business contacts and networks? (e.g. new investors, external advisory or consultancy services, partnerships, customers or suppliers, recruiting or other)

D. Other non-financial efforts in support of the organisation? (e.g. marketing, branding, PR, operations)

*Which factors out of A-E would you say have had the most prominent positive impact on FrontierMarkets’ development and why?*
B. Questionnaire Trine

Part I: Non-financial engagement from investors

1. How did Trine come to meet with their investors? (Chalmers Ventures and angel investors respectively)

2. Which competencies, resources and level of engagement (active/passive) were sought in your investors? Where there specific motives for engaging specific angel investors? Where there motives for targeting angel investors and accelerator funding rather than VC or VP investors?

3. Has there been external investors in your board of directors?

4. Could you give examples on how external investors have contributed to the development of Trine in terms of:

   A. Business model design, vision or mission?

   B. Advisory or mentorship on strategic decision-making? Business of product development? Operations?

   C. Introductions to business contacts from the networks of the investors? (E.g. new investors, consulting or advisory services, pro or lo bono services, customer or supplier contacts, partnerships or recruiting, etc.)

   D. Other work or engagements (E.g. marketing or PR.)

5. How has the relationship with investors developed over time in terms of their influence on decision-making and frequency of contact? What time horizon does your investors have in terms of continued engagement in the company?

Del 2: Investeringsstruktur

7. What financial instruments were used during the investment rounds and what motivated the choice of these? (Examples of financial instruments: equity, loans, convertibles, preference shares, grants, innovation support)

8. Has the initial investment been followed up by new investments or been based on tranched funding? Has preliminary terms for these rounds been outlined in advance, e.g. based on milestone achievements on social impact or financial results?

9. Has the choice of financial instruments or capital structure proved to be well aligned with the funding needs of the company? Would other financial solutions have been preferable or constituted a good
complement to existing funding structure in some cases? Does being a social enterprise affect the these choices?

10. A difficulty for many social enterprise is the question of how to attract investors when a primary focus is social benefit rather than or in combination with maximising profitability. Could you give a general comment on how you have managed this question in the case of raising investments?

How did you work with investors to reach consensus on factors such as:

- Valuation?
- Ownership dilution?
- Risk and expected return?
- Compensations and dividends?
- Exit-strategy?

What actions have been taken to mitigate conflicts of interest on these subjects?
C. Questionnaire Esoko

Part I - Deal Structure

1. In the Lundin/Acumen funding round, a mixture of debt and equity funding was used and the IFC/Soros round equity. What motivated these deal structure?

   Would you say it was primarily driven by Esoko’s own financing needs or the interests of investors such as control or standardised investment structures?

   Would any other financing options or mixes have been preferable? (E.g. convertible debt, preference shares, grants or other)

   Do you use certain types of capital for certain expenses?

2. How were the deals structured in the Jim Forster funding rounds?

   Were there differences in funding approach and structure when raising funding from an angel investor compared to from a social impact investing organisation?

3. Could you comment on how Esoko (as a for-profit company) and its investors (policy driven with an incentive for some patient returns) could come to terms on issues such as;

   A. Valuation and investor ownership, ownership dilution

   B. Potential conflict of interest concerning rate of return, compensation and dividends

   C. Exit strategy

4. Did any of the funding deals include a road map for future funding rounds, for instance based on reaching certain milestone or thresholds in terms of social impact or economic results of the company?

5. Did any outside investor ever take board positions at Esoko?

   What motivated this and what was the results?

6. How did the relationships with investors evolve over time in terms of engagement and frequency of contact?
Part II - Non-financial investor engagement

7. Could you give examples on how advisory and other non-financial services of investors has contributed to Esoko’s development in terms of:

A. Strategic decision-making?

B. Operations and product development?

C. Introductions to business contacts and networks? (e.g. new investors, external advisory or consultancy services/pro or lo bono, partnerships, customers or suppliers, recruiting or other)

D. Other non-financial efforts in support of the organisation? (e.g. marketing, branding, PR, operations)

Which factors out of A-E would you say have had the most prominent positive impact on Esoko’s development and why?

8. How would you describe the differences between the investor engagement of angel investors contra venture philanthropy funds?