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INSIGHTS INTO SOCIAL ENTREPRENEURSHIP IN THE ASIA-PACIFIC REGION

FINDINGS FROM ANALYSIS OF APPLICATIONS TO THE PROGRAM

Australian Government
Department of Foreign Affairs and Trade

INNOVATION XCHANGE

Australian Aid

SECONDMUSE

INTRODUCTION

Over 700 applications were received to the Frontier Innovators program from entrepreneurs around the Asia-Pacific region. In recognition of the potential for this data to provide unique and valuable insight into impact entrepreneurship and investment across the region, the data was cleaned and analysed. In this publication we share some of the most interesting findings.

In addition to providing details about their enterprises, the entrepreneurs and innovators who applied also gave insight into their motivations, perceptions of support available, how they are thinking about and creating impact, and the barriers they face. This rich, qualitative data has been analysed to provide valuable insight into ways their enterprises - and the impact of their work - might be scaled. This analysis was then supplemented by a review of current literature, other relevant reports, and public discussion from professionals and organisations in the field. (Some of the highlights from this review are linked in the document.)

While the data also offers insight into what entrepreneurs and innovators are doing and how (i.e. the sectors they are working in, and the technological, service, financial instrument, and business model innovation they are engaging in), this was not the focus of our analysis.

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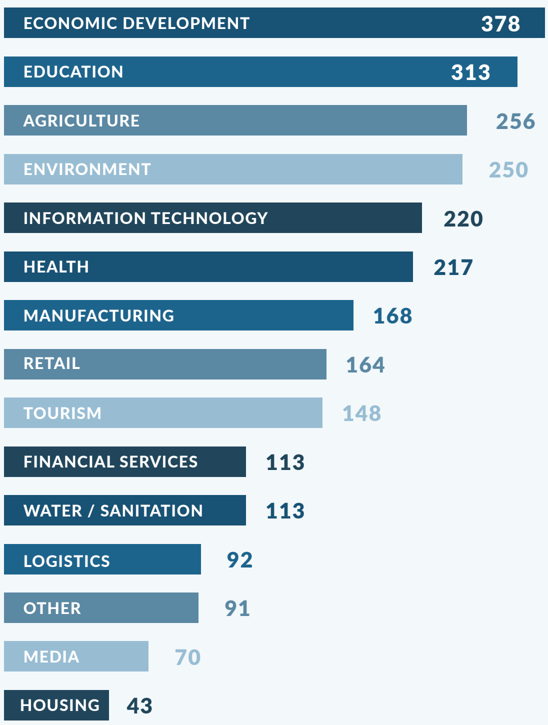
732
APPLICATIONS

AVERAGE # OF YEARS IN OPERATION 5

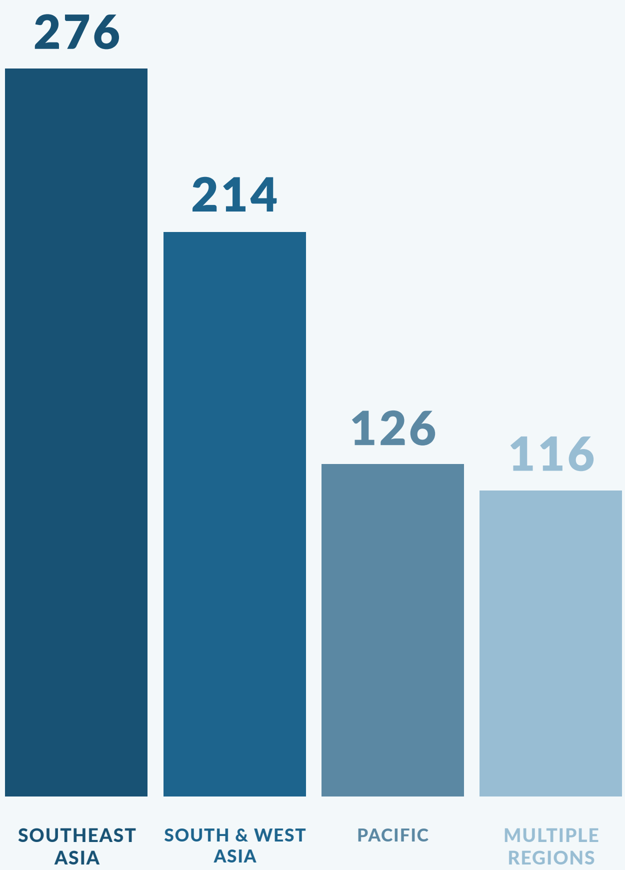
MEDIAN REVENUE
FROM SALES LAST FINANCIAL YEAR (USD)

$20,000

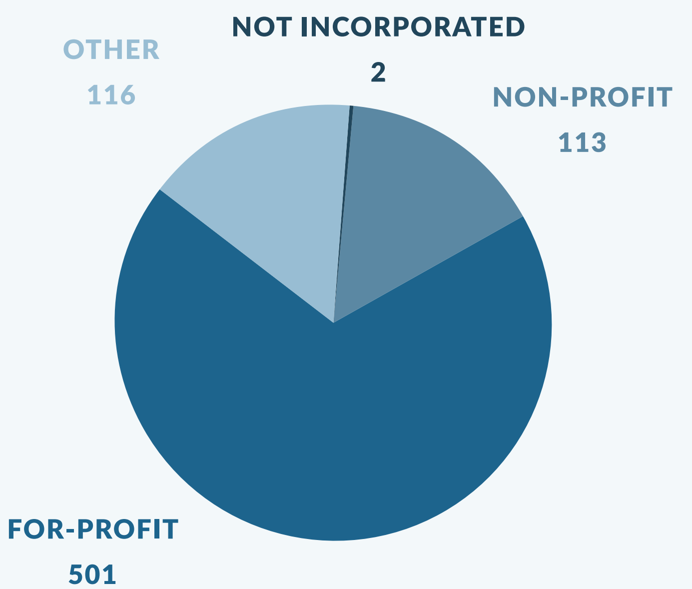
SECTORS
OF OPERATION



REGIONS
OF OPERATION



CORPORATE FORM*



*PRIMARY

THIS IS WHAT ENTREPRENEURS AND INNOVATORS IN THE ASIA-PACIFIC SAY ARE THE MAIN BENEFITS OF SUPPORT PROGRAMS:

Note: In this case 'program' includes competitions, awards, incubators and accelerators

1 NETWORKS

This was defined generally as the connections offered into formal or informal social networks and the value that can stem from those, particularly those gained from peers, or other entrepreneurs from the program, who were often identified as valuable partners and mentors.

2 MENTORS

This was defined as the access offered to appropriate professionals with whom lasting mentorship relationships can be built.

3 PARTNERS

This was defined as those with whom ongoing business or impact relationships were built. It included more transactional supply-chain partners but also collaborators.

4 CREDIBILITY

This was defined generally as the value that graduation from a program can offer, namely through exposure and association.

Interestingly it was not the funds or content of the programs but the relationships formed, and the opportunities those can offer, that were perceived as most beneficial.

This aligns with the findings of the Global Accelerator Learning Initiative (GALI), who found that incubators and accelerators with experienced and stable managing teams maintain better networks, and hence deliver more value to their cohorts. They also found those that focus on giving their cohorts more unstructured time to interact with each other, with mentors, and with the investment committee, were more effective (i.e. their cohorts achieved better outcomes with regard to investment and growth).

THIS IS WHAT ENTREPRENEURS AND INNOVATORS IN THE ASIA-PACIFIC SAY ARE THE BIGGEST GAPS IN SUPPORT AVAILABLE:

1 TECHNICAL ASSISTANCE

This was loosely defined as needs-based, non-financial support from an expert and aimed at a particular challenge being faced, in contrast to mentorship, which was more ongoing and focused on 'soft' skills.

2 QUALITY MENTORSHIP

Rather than just any mentor, the gap highlighted was in access to **appropriate** mentors and in the ability to select the mentor of best fit.

3 ACCESS TO TRAINING

As with mentoring, it was the lack of **appropriate** training that was highlighted, and this gap appeared strongest for those in smaller cities or rural areas.

4 SOCIAL ENTEPRRISE-SPECIFIC SUPPORT

The issue highlighted was the need for specialist social enterprise support services, as typically support programs focus on commerical outcomes and not impact.

5 LEGAL SUPPORT

Given social enterprise isn't a corporate form in most countries, doing business differently can make the process of registering / incorporating much harder.

The clear pattern throughout the feedback on gaps was the message that support needs to be **appropriate**, or better suited to the unique needs of social entrepreneurs, or (given that term can be restrictive) those who deliver impact while doing business. The importance of training that reflects the sector, maturity, and culture of the entrepreneur was also highlighted as a critical factor affecting how effective it would be.

Interestingly, finance came in at #20 in the list but again the pattern in feedback was a perceived lack of **appropriate** financial support. For example, equity or loans might be on offer, but neither can be a good fit for a few reasons: Lack of assets for collateral, ambition to deliver impact (not maximise profit), or reluctance to relinquish control / take on debt.

ACCESSING APPROPRIATE FINANCE TO SUPPORT ENTERPRISE GROWTH REMAINS A CRITICAL ISSUE ACROSS THE ASIA-PACIFIC.

While global pools of impact capital are growing, the type and size of investments on offer can be prohibitive (and even destructive) for enterprises in the region.

During interviews, actors from across the region referred to an oversupply of equity, but they also noted that paradoxically there remains strong demand for this type of investment. However, this excludes the Pacific, where those we spoke to claimed there was little appetite for equity or debt, at least in part due to the availability of grants. Our analysis seemed to support this assessment.

This aligns with common perceptions that angel investors, intermediaries and even entrepreneurs in the Asia-Pacific are mirroring the 'liquidity-based' approach taken in the US (this stems mainly from venture capital (VC) where equity investments dominate as 'exits' or IPOs are the target). This seems to be done regardless of whether it is appropriate for the business model, growth pathway, or even the investor, but simply because it is the type of investment popularised by VCs and high-profile entrepreneurs.

In recent years there has been some insightful criticism of VCs (here) and their search for 'unicorns'; some valuable discussion of the alternatives (here and here); and growing evidence of a steady downturn in the number of exits (here).

Given that most private sector development impact* seems to come from small to medium enterprises (SMEs) not large companies, and investment is only appropriate for a small number of these, the risks here are great: Entrepreneurs and innovators who might have built sustainable enterprises or pursued 'organic' (purely or primarily based on sales, rather than investment) growth could be swayed to take investment from an inexperienced 'angel' investor (very early-stage investor, typically with a high risk appetite) only to be undermined by unhelpful terms.

Conversely, that same investor, eager to support their local startup ecosystem, might invest without considering the responsibilities that come with early-stage investment or the potential implications of their equity stake, only to be put off by a negative first experience.

**Assessments of the impact of SMEs are generally economic and focus on contribution to GDP, but given 'they account for about half of employment and the majority of jobs created' (World Bank) their social impact is also enormous. This report from the ILO and GIZ looks specifically at role SMEs play in poverty reduction in developing countries.*

All of this suggests that we need to critically evaluate what growth pathways we are advocating, and correspondingly, what types of investment we are promoting.

Another pattern found was the hesitation among entrepreneurs and innovators to relinquish the level of control that equity investments demand. This apprehension, together with concerns about the investment terms, appears to stem from a perception that inexperienced angels demand unreasonably large equity stakes often without providing the critical non-financial assistance that effective angels offer. This can then stymie later stage growth efforts as more mature investors are put off by the existing equity stakes.

The size of investment, or 'tickets', most needed in the region (<AUD$200k) appears not to be a viable offering for most investors. As angel investment networks don't exist in many countries around the Asia-Pacific to address this gap, the need remains unmet. If they do exist, they often offer little in the way of support to prepare an enterprise for future rounds of investment. This market failure offers a unique opportunity for the development sector, as supporting these early-stage investor networks to develop could help to mobilise more accessible funding for entrepreneurs; address some of challenges related to sourcing and diligence in less developed markets; and improve the non-financial support offered pre- and post-investment.

The development of these networks would likely both increase the generative capacity of these ecosystems, and improve the quality of the enterprises they generate, as these networks represent a critical piece of support 'infrastructure' for entrepreneurs.

While the above issues emerged from interviews with various ecosystem actors, but they aligned with the follwing issues highlighted by the entrepreneurs and innovators in their applications:

- A lack of early-stage investment options, particularly experienced angels and active networks, and education to support decision making
- Bank loans remain inaccessible because of the collateral required, high interest rates, and expectations of trading history, finances etc. that most early-stage enterprises (or startups) simply cannot provide
- A lack of pre- and post-investment, non-financial support
- Availability of a type of finance does not necessarily make it accessible or attractive, but often there are few options
- Investors won't 'pay for impact', so taking on investment can mean making a trade-off between profit and impact

Angel investors (especially those working collaboratively in networks) play an important role by not only providing early-stage investment, but also crucial support and guidance to entrepreneurs. However, there are few mature angels (or networks) in the region, particularly in emerging markets.

RELATIONSHIP-BASED, NON-FINANCIAL SUPPORT (I.E. THE TYPE PROVIDED BY MENTORS, PEERS & STRATEGIC PARTNERS) IS RATED AS THE MOST VALUABLE *AND* CONSIDERED THE BIGGEST GAP.

Incubators and accelerators play a critical role in fostering these connections and developing the relationships. As shown above this can be more important than the content they offer. Regardless of how the value is created (i.e. whether it is the content or the connections), participation is perceived to be valuable and the impact of it is measurable.

Previous support program participation (prior to submitting an application for the Frontier Innovators program) ranged between 20% [in the Pacific] and 36% [in Southeast Asia]. Applicants rated the value of these programs highly (median was 8/10), and shared many great anecdotes about the importance of the support:

> "Since our key partners are government entities, [programs] help us with having credibility in securing their support."

> "[Programs] often come with a network of relationships and knowledge that exists long after the official engagement, allowing us to learn from our global peers: social enterprises trying to solve the most pressing problems, committed to impact and seeking to reach scale. We learn from our peers' innovations as they learn from ours."

Related to this, GALI has found that incubation / acceleration significantly increases revenue growth, employment, and investment. Another study by the Aspen Network of Development Entrepreneurs (ANDE) found that incubators / accelerators actually can deliver a return on investment (ROI).

However, the precarity of programs - stemming from their temporary nature and / or lack of financial sustainability - hinders their ability to deliver value. Unreliable revenue streams result in poor retention, ineffective management, and variable quality of services. Turnover doesn't just affect the quality of content delivered, it also affects their capacity for connecting as mentor and investor networks are built on personal relationships.

With support[1] to stabilise, and to become more sustainable, incubators and accelerators will be able to build better networks, and to better meet entrepreneurs' needs.

[1] Frontier Incubators, for example, will build the capacity of emerging incubators and accelerators from the Asia-Pacific by partnering them with global leaders in the field. This program is another part of the Scaling Frontier Innovation initiative.

ACCESSIBILITY OF ALL TYPES OF SUPPORT REMAINS AN ENDURING ISSUE, PARTICULARLY FOR THOSE WORKING IN RURAL AREAS AND THOSE WITH ASSET-HEAVY BUSINESS MODELS.

Unsurprisingly those who had participated in programs rated the accessibility of support much higher than those who hadn't. On the surface, this may not seem that interesting, but further analysis appears to indicate that there are groups of entrepreneurs that simply aren't aware of what support is available in their region. This appears to be largely a product of not having any centralised or coordinated support, but also of limited capacity in already stretched teams.

While, on the other hand, those that are aware benefit from the 'snowball' effect as acceptance into one program paves the way for another and so on. Prior program participation lowers risk for selection committees, making these enterprises attractive choices, but multiple programs can be a warning sign for potential investors as participation can mean that focus is diverted from core business to meeting program objectives.

While they could be considered 'nascent ecosystems' because of the lack of developed support services, Laos, Pakistan, Mongolia and Bhutan all rated highly for accessibility of support. Further analysis shows that while there is limited support available in these countries, the key 'ecosystem builders' (i.e. organisations providing services and supporting entrepreneurial development through advocacy and other efforts) in these countries are coordinated and run strong, public engagement efforts. This seems to emphasise the importance of coordination between support providers (rather than the total number of providers).

However, as these ecosystems grow maintaining coordination will become difficult. A more concerted effort and resources will likely be required.

Research by Kauffman on the growth of entrepreneurial ecosystems stresses the critical importance of ongoing collaboration between 'ecosystem builders', and the resourcing of these organisations.

A small number of organisations can play outsized roles in building the ecosystems around them. Analysis from around the world shows that backing these 'ecosystem builders' can accelerate development.

In addition to the themes above, which related to the broader Asia-Pacific, some other insights specific to regions also came to light:

PACIFIC

- Nascent ecosystem, and less mature businesses (i.e. lower revenue and investment, and poorer perceptions of support available across the applications from the region)
- Less mature thinking about impact (i.e. there was little reference to any impact but employment)
- Typical primary production (i.e. agriculture) and service industry (e.g. handicrafts, tourism) enterprises made up the majority of applicants
- Significantly lower interest in equity: Around 30% compared to >50% in other regions
- Generally poor perception of government support

SOUTH AND WEST ASIA

- Significantly fewer applications from women: Around 20%, compared to >40% in other regions
- Women in South Asia made up the lowest proportion of full-time employees, but 70% of part-time employees
- Lower interest in and uptake of debt finance in comparison to other regions

SOUTHEAST ASIA

- Highest levels of program participation among applications (>35%)
- Almost half (47%) of the female applicants were in Southeast Asia
- Southeast Asia applicants had a much higher ratio of full- to part-time employment (4.6:1 compared with around 2:1 for other regions)

Other general insights gleaned:

Revenue from Sales

In spite of perceptions about grant dependence, particularly in the Pacific, revenue from sales was the primary source of funding in all regions. This suggests entrepreneurs are focusing on their customers.

Increasing Recognition

Viewed alongside the variance in corporate forms and maturity of many applicants, it also suggests that market-based approaches to delivering impact (e.g. social enterprise) are gaining increasing recognition. Those who might have historically focused on either economic or community development seem to recognise the potential of blended approaches. This is certainly true of non-profits and more traditional community development. Conferences focused on the 'third sector' are dedicating increasingly large parts of their programming to market-based approaches.

Legal Structure

Structuring a scalable social enterprise (or a business designed to deliver impact) is complex, and remains a critical need. A recent British Council publication aims to tackle this gap. One common issue raised by our applicants was the constraints of corporate forms: In some countries, grants cannot be received by for-profit enterprises, and equity and debt cannot be taken on by non-profits. With no other options (e.g. the ability to register a social enterprise), a hybrid form becomes necessary and the registration process becomes much more complex.

Impact Models

Many enterprises consider their impact separate from their core business, even if they are complementary or interdependent. They may be housed in different entities (often to address regulatory constraints), managed through strategic partnerships, or 'under the same roof' - the interesting pattern is the cross-subsidisation. Even mature enterprises (e.g. +10 years with +USD $10m revenue) are still seeking grants, and have no intention of stopping, as they are used strategically to support their un- or less-profitable services / products, or to fund in-house research and development.

Growth = Impact?

Growth of revenue doesn't always correlate with impact. This is why some entrepreneurs aren't interested in investment at all, only grants and donations, because taking investment can mean making concessions (on impact). For others, the appropriate investment or investor simply cannot be found, as in impact investing there needs to be some alignment on values, and both flexibility and patience are often required.

The relationship between revenue and employment growth is strongest in manufacturing and retail, across all regions, and weakest in sectors with 'platform-based' products and services, like energy and financial services. This would likely apply to information, communications and technology (ICT) enterprises also, given the prevalence of 'platform-based' models, but there were too few applications to the program in this category to draw any conclusions.

RECOMMENDATIONS FOR BUILDING THE ASIA-PACIFIC ECOSYSTEMS AND INCREASING CAPITAL FLOWS INTO THE REGION IN ORDER TO SCALE THE IMPACT OF SOCIAL ENTREPRENEURS.

- Explore ways that access to appropriate support might be increased, for example:
  - Customisation of support programs (i.e. delivery of needs-based support through diagnosis and design)
  - Demand-driven mentoring programs, where entrepreneurs can select from a pool of available mentors and assess their fit
- Explore pathways to sustainable financial models for incubators and accelerators, enabling them to increase their stability, as this is key to improving efficacy
- Focus enterprise development (or ecosystem building) efforts on areas (i.e. sectors and regions) where it will have the largest impact - this is typically where the revenue will be lowest and hence the market slowest
- Ensure 'top-down' programming (e.g. awards and challenges) reflects the evidence about how to deliver value to cohorts, and support 'bottom-up', locally run programs (e.g. incubators and accelerators) to incorporate this evidence into the design of their services
- Resource key 'ecosystem builders' (e.g. support established intermediaries to undertaken collaborative/coordination projects) in target countries, and support their coordination efforts, to accelerate the growth of ecosystems
- Support existing enterprises to innovate and grow, and focus on growth stage support, or back the organisations doing this
- Support innovation in funding mechanisms to make smaller ticket sizes more feasible, and to increase the flow of risk tolerant and blended capital by, for example, incentivising early-stage investment or paying enterprises for impact outcomes achieved
- Recognise the critical role SMEs play and ensure the focus on startups and investment doesn't dilute efforts to support more typical enterprise development
- Explore the best ways to scale impact: Enterprises generally have interdependent business, impact, and funding models but growth of one doesn't always correlate to growth of the others

References

The findings shared in this report come from an analysis of data collated during the application process for the Frontier Innovators program. To build on the findings, and to locate them in the context of other research, a literature review was conducted. While much broader reading was done (as there is no shortage of commentary on the themes raised in this report) the following blogs, research initiatives, and reports were either directly quoted or linked to illustrate a point.

https://www.galidata.org/

https://blog.usejournal.com/dont-go-chasing-unicorns-2fa84d88437

https://medium.com/@sexandstartups/zebrasfix-c467e55f9d96

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Scaling Frontier Innovation

Frontier Innovators is part of the Australian Government Department of Foreign Affairs and Trade's innovationXchange Scaling Frontier Innovation initiative supporting social enterprises to scale their development impact in the Asia-Pacific region

scalingfrontierinnovation.org

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