

The logo for Opes Impact Fund is centered in a white circle with an orange border. It features the text 'OPES IMPACT' stacked vertically, followed by a vertical line and the word 'FUND'. Below this, 'Fondazione Opes' is written in a smaller font, accompanied by a small orange circle.

OPES
IMPACT | FUND
Fondazione Opes

**INVESTING IN
EARLY STAGE
SOCIAL
ENTERPRISES**

our first two years

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Photographs:

Fondazione Opes photographic archive; Gian Luca Colla; AFRIPads; Boond Engineering and Development; EcoPost; Copia Global; Sudiksha Knowledge Solutions; The Water Shop Naivasha



INTRODUCTION

In 2011, when we first had the idea of Opes - fuelled by the tenacious desire to step forward and get involved, following an intense field trip in the Indian sub-continent and after years of reflection on the limits and failures in the respective areas where we had been operating - **there were still very few institutions** throughout the world, and almost no-one in Italy, **investing in social enterprises at the beginning of their life cycle**. A positioning considered excessively risky, a terrain too slippery, because it was still very much unknown.

In 2015, the year when this report was written, and two years after the launch of Opes, the number of **impact investing vehicles steering patient capital towards those immature social enterprises** - with promising growth prospects but limited track records and high risk profiles - are still very few. Something is certainly changing: from the unanimous recognition of the role of social enterprises as an instrument of international cooperation, and as a way of combating widespread poverty; to the greater awareness of the need to invest in the initial stages of business development, to create a pipeline of social enterprises with more moderate risk profile able to attract capital. Despite this, the scenario has not changed to any great extent. **Nor do we consider the ambitious objectives for growth of the sector to be realistic**, seeming as they do to be greatly oversized, considering the number of players involved, the ability to absorb existing capital, and the special conditions in which social enterprises operate.

As pioneer in our country, in 2013 we decided to create **a hybrid vehicle together with a number of Italian foundations, one that could act as a catalyst for philanthropic capital**, and capitalize on the efficiencies of virtuous finance. Indeed Opes works by gathering philanthropic capital in the form of donations, and deploys these resources for investment purposes, like a fund.

The blending of philanthropic capital and positive impact finance allowed Opes set out on a bold adventure. With enthusiasm and perhaps a little folly, typical of one who begins a journey impossible to plan in every detail, we set out on our path, often turning back to review our initial strategy, to make it more coherent with that which was important to us, constantly learning from the mistakes made and the experiences gained along the way.

Despite all of this - or perhaps because of it - **we are even more convinced of having chosen the right path**, that our intuition at that time was correct. We believe that in the sphere of impact investing, the contribution of Opes (and that of the initiatives like ours, still too few) is precious and of fundamental importance, in the same way that - where philanthropy and international cooperation are concerned - it is important to choose an organization with the ability to map new horizons.

Elena Casolari, President
Stefano Magnoni, Vice president



OPES' INSTITUTIONAL PROMOTERS

Five organizations with a vast experience of working with social enterprises in emerging countries, gained in a variety of areas of activity.

OUR STORY UP TO NOW

> 2011

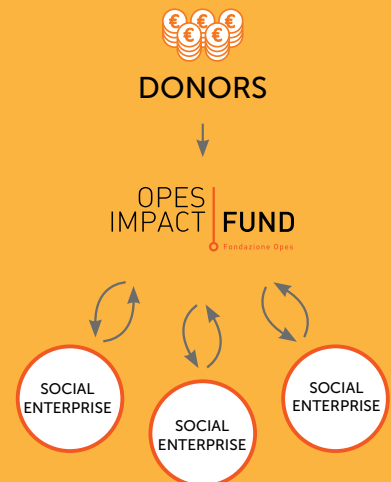
A number of organizations with extensive experience in various areas of the social economy (social enterprises, international cooperation, fair trade, microfinance) begin to develop a proposal to introduce in Italy the approach of impact investing: deploy investments to support businesses which promote social inclusion, and which work to help communities exit from poverty. The idea is shared and developed together with a number of Italian foundations, which were already concerned with the limits and constraints of the traditional approach to development cooperation.

> 2012

The main international experiences are analyzed, identifying the existing differences in the definition of social impact; in the expectations of investors on one side and social entrepreneurs and practitioners on the other. We also examine the ecosystem within which social enterprises operate in emerging countries, where the promoters already have a significant network of relations. **An accurate feasibility study is carried out, the key strategy elements are developed, and the positioning for the new initiative is decided.** The legal structure and governance system are finalized: everything is ready for the launch.

OUR MODEL

Our objective in setting up Opes was to propose and promote the *social impact investing* model among the Italian philanthropic community: to invest in the development of enterprises able to further social progress and help communities exit from poverty. We collect philanthropic capital to invest in high-impact social enterprises, and we run our organization on a not-for-profit basis: any return is re-invested into new social enterprises.



> 2013

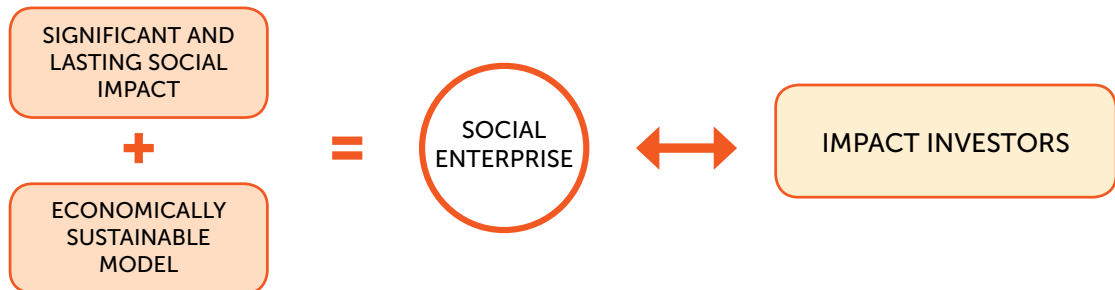
And we're off! The initiative is officially presented in Milan at the end of January with an international convention. In the following weeks the details are finalized and a team is created: work **officially begins on the first of April** (*April Fool's Day!* Any better day to dive into a new adventure?), travelling to the target countries to present the new initiative, participating in sector events, visiting social enterprises and their teams. **The first two investments are closed in August; a third one is finalized in December.** In the meantime, Opes is called to participate in lots of working groups (including the Italian committee of the G8 Task Force on Social Impact Investment), in which reflection hinges on the prospects offered by the sector.

> 2014

Work continues at an intensive pace, making the required adjustments to processes and tools. **The first 12 months of work come to a close with 5 enterprises having received investments from Opes.** The evening event *Impact Investing in Four Acts* takes place in Milan in June, allowing the partner enterprises to present to the public their role in their respective contexts. The event is replicated the following day in Turin. **In the second part of the year Opes concentrates mainly on the non-financial support required by the enterprises it works with.** In November, Opes joins the *investment-readiness* project promoted by USAID, aimed at the early stages social enterprises of East Africa.

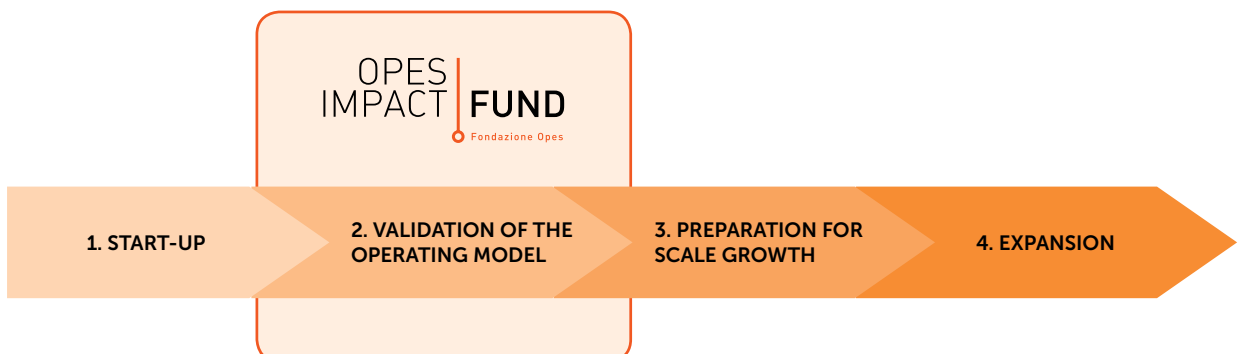
IMPACT INVESTING - OUR VISION

There are many different concepts of *impact investing*. In our vision, this sector is meant at supporting enterprises which are economically sustainable, and able to produce a social impact that is significant and lasting. The prospect of a financial return, without the authentic possibility of generating social inclusion, does not by itself suffice. The same goes for reasoning merely in social terms, insufficient in the absence of a clear entrepreneurial project and a real prospect of economic sustainability.



OUR POSITIONING: BRIDGING THE PIONEER GAP

We believe that the role of vehicles using philanthropic capital is to promote the experimentation and validation of *early stage* social enterprise business models, the phase where the gap between investment needs and available capital is greatest.



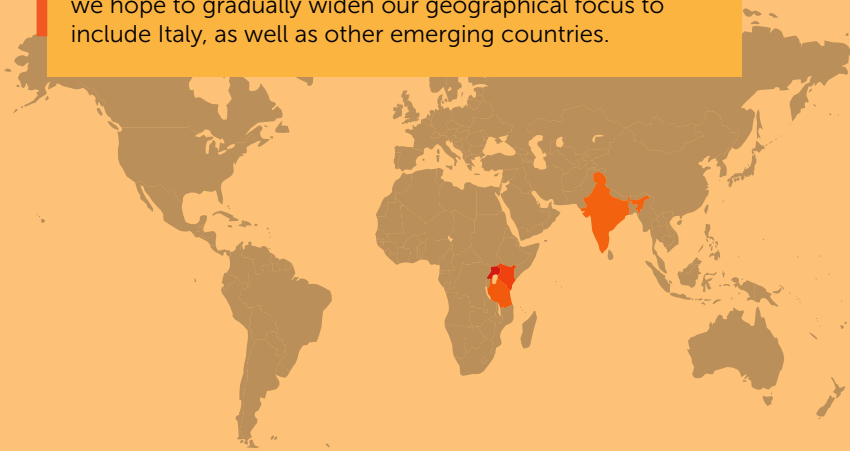
› **2015** (up to June)

Work continues, with other **two investments being closed in the first half of the year**. With the two-fold objective of broadening the scope of our work and the number of potential donors, an international network is set up to promote a newly-created sister foundation in the Netherlands (*Stichting OPINT*). Opes works with the Fondazione ACRA-CCS to support the organization of the Social Enterprise World Forum 2015 in Milan.

In the meantime, we begin reflecting on possible strategies for development, based on the knowledge gained in the first two years, with regard to fundraising, as well as approaches and priorities for future projects.

GEOGRAPHICAL PRIORITIES

Our activities up to now have been carried out in East Africa (Uganda, Kenya and Tanzania) and India: countries in which we already have a network of relations, thanks to the experience of our promoters. In the near future we hope to gradually widen our geographical focus to include Italy, as well as other emerging countries.



HOW WE SELECT OUR PARTNER ENTERPRISES

- › A well-defined, relevant and measurable **SOCIAL IMPACT MODEL**
- › An **ENTREPRENEUR** who is knowledgeable and sincerely driven to bring about social change, supported by a skilled and passionate team
- › A clear **BUSINESS MODEL** with realistic prospects in terms of financial sustainability



GHAN
LUCA
COLLA

WHAT WE HAVE LEARNED

Two years are not long in a sector in continuous and rapid transformation, such as that of impact investing. Nevertheless, **our close and daily involvement with social entrepreneurs, and those working in the sector, with whom we have had the chance to cooperate throughout this time, has taught us a great deal:** in some cases reinforcing some of our initial intuitions, in others leading us to change our approach and look for new solutions.

Certainly, **we are ever more convinced that the early stage segment is an area requiring an ad-hoc approach.** As a result, the main reflections emerging from our experience to date, that we feel can contribute to improving that part of the impact ecosystem dedicated to new enterprises, are as follows:

- **Social return must be inherent to the main business activity,** be part of its DNA, **rather than an accessory element.** Initiatives that force worthy non-profit programs to become companies, or commercial enterprises which limit themselves to adding a social aspect to their habitual business activities, are almost always ineffective and short-lived.
- **For a social enterprise to be successful requires talent, skill and commitment, in equal measure – if not more so – to that required for a regular business.** In the same way, evaluation of business opportunities requires serious approach, depth of analysis and intellectual honesty in drawing the necessary conclusions. The risk of allowing oneself to be seduced by the quality of the social impact model, or by a promoter's sincere motivation, is always present, clouding thinking when evaluating the enterprise's prospects for economic sustainability, or the entrepreneurial qualities required of those needed to run the business. If truth be told, the demand of achieving a positive social impact actually adds a further constraint, making sustainability even more difficult to achieve.
- **The early stage segment is where philanthropic capital is potentially the most effective.** Most early stage social enterprises are not realistically able to offer an acceptable risk-reward ratio for the majority of impact investing funds. There is a need for players, able to offer capital that is truly patient: this is the terrain where philanthropic capital can work to its best advantage, acting as a catalyst for further resources, and guiding the enterprise as it matures.



AFRIPADS (Masaka and Kampala, Uganda)

Production of washable and reusable sanitary pads

Afripads produces and sells washable and reusable sanitary pads, an effective and affordable solution for millions of women today who are unable to afford menstrual hygiene products.

The business was founded by **Paul Grinvalds** and his wife **Sophia**, who arrived as volunteers in the rural village of Kitengesa in 2008. Sophia realized that no sanitary pads were available in the area, because no one could afford them, and she decided to try making her own using fabric. When news of what she was doing spread throughout the village, other girls asked Sophia if she could make more, giving the couple the idea of setting up a business for the purpose.

Management of the menstrual cycle is a serious problem in many emerging countries: **regular disposable sanitary pads are too expensive for the majority of the population**, forcing poorer women to use whatever they have to hand (rags, paper, leaves), with serious risks for health, and forcing them to shut themselves away during each menstrual cycle. The washable sanitary pads developed by AFRIPADS are as effective as comparable disposable products, and can be re-used for 12 months.

As of March 2015, the company had distributed more than 500,000 menstrual kits. Afripads also offers qualified and stable employment opportunities to young women in rural Uganda, among whom unemployment rates are extremely high: today the company's workshops in Masaka and Kitengesa employ 120 women, while the sales offices in Kampala employ a further 26 people.

OUR ROLE

At the end of 2013, we participated in a capital increase with a significant stake, the aim being to increase production scale, improve product design and widen distribution. One of our representatives joined the company's supervisory board: we also provide regular support to management on the main strategic issues, and regularly monitor the progress of management and social return indicators.

- **When dealing with very new enterprises** – which have often had no previous contact with external investors – **it is very easy to create false expectations**. To avoid this, it is important to balance serious approach and accuracy of analysis with a willingness to discuss issues and communicate honestly, even when controversial matters are involved. These are fundamental requirements, along with patience and an understanding of the timescale required by both the organization and the enterprise itself.
- **It is imperative that enterprises settle themselves before increasing in scale**. Many enterprises develop business plans that are artificially aggressive (and impossible to put into practice), both in financial and social impact terms, for the sole purpose of promising high returns or extraordinary impact, and attracting increased capital. It is a dynamic – often induced by the specialized funds themselves – which has the dangerous tendency to fuel a “bubble”, putting the credibility of the entire sector at risk.

BOOND ENGINEERING AND DEVELOPMENT (Rajasthan and Uttar Pradesh, India)

Solar energy for non-electrified rural Indian communities

Boond is a company which **distributes and installs small-scale solar energy systems in rural areas not served by the national grid**, in some of the poorest areas of northern India. It was founded by **Rustam Sengupta**, today CEO of the company.

Almost half of the Indian population has limited or no access to electrical power – the more rural the area, the worse the situation. Those living in villages without electrical power are forced to use kerosene lamps, a solution which is costly, damaging to health and extremely polluting. Boond offers its customers technologically appropriate and affordable products, complete with after-sales service.

As of March 2015, Boond has installed more than 9,000 solar energy systems. The company has 43 employees and uses a network of more than 50 agents in the rural communities of 9 districts (with a total population of 10 million people).

OUR ROLE

The company required new risk capital to broaden its scale and achieve financial sustainability. We structured the investment, acting as leader and involving a group of six other co-investors, both in India and throughout the world. In June 2014, at the closing of the investment, two of our representatives with a great deal of specific experience in the field joined the company’s board of directors, and carry out an active strategic consultancy role for the promoter. At the same time, one of our investment managers maintains very frequent contact with the company’s management and co-investors.





COPIA (Nairobi, Kenya)

Efficient access to consumer goods for the bottom of the pyramid

Copia operates in the peri-urban areas of Nairobi, and can be defined as **a distribution channel to efficiently reach low-income consumers** (the bottom of the social pyramid). Founded by **Tracey Turner** and **Jonathan Lewis**, two North American social entrepreneurs, and directed by the CEO **Crispin Murira**, who decided to return to his home country to guide the company, having gained significant professional experience in the USA.

In Africa, outside the major cities, access to consumer products - even the most basic - is often very difficult, with consumers forced to pay high prices and spend a lot of time traveling to a point of sale. Copia aims to solve this problem by introducing a sales system **based on orders placed from catalogues and by text message**: the orders are relayed to a network of micro-entrepreneurs, owners of small shops (the "Copia agents"), allowing them to virtually expand their stock, and earn commission on every order.

As of June 2015, Copia has a network of over 140 agents, and has successfully concluded the second test phase in Nairobi. It is now preparing to gather the necessary capital to expand its activity throughout the whole of Kenya, with plans to extend the model to other African countries.

OUR ROLE

Copia was our first investment deal, closed in the summer of 2013. Opes participated as co-investor in a capital increase to finance the testing of different operative models; significantly widen the network of agents, and begin the development of a tablet-based electronic catalogue (a solution which permits the company to communicate much more effectively with agents and end customers).



ECOPOST (Nairobi, Kenya)

Production of posts and construction materials in recycled plastic

EcoPost recycles plastic waste to produce posts and construction materials, used in the place of wood.

The business was founded by **Lorna Rutto** and **Charles Kalama**. Lorna was born in a slum in Nakuru, and as a child, her hobby was making jewelry by melting waste pieces of plastic she found in the streets. After graduating, she began working in banking, but decided to leave her job to set up EcoPost together with Charles, the “technical mind” of the enterprise.

In Kenya, as in many other emerging countries, **waste management is a problem as yet unsolved**. Plastic in particular represents an enormous challenge: with no organized collection or treatment systems, it is abandoned in the streets or thrown in to unauthorized dumping sites. At the same time, **the use of wood as a construction material worsens the problem of deforestation**.

As of June 2015, EcoPost has recycled 372 tons of waste plastic, preventing the cutting down of 104 acres of forest. Today the business directly employs 35 people, with another 77 employed in collecting plastic. Its ambition is to employ more than 100 people directly and almost 1,000 indirectly by 2018, to have removed 9 thousand tons of plastic from the streets, preventing the cutting down of approximately 60 thousand trees.

OUR ROLE

In August 2013, we participated as co-investors in the capital increase which allowed the company to acquire a new, better and more modern production line. One of our investment managers, in addition to monitoring the management processes, regularly assists in the work of the board of directors, and is involved in the main strategic decisions.

- **For an early stage enterprise, the time factor in gathering financial resources is crucial.** Early stage businesses tend to suffer from a number of problems: their data is not structured; they are not used to dealing with third parties; their promoters are very much absorbed in “day to day” operations. While it is unrealistic to expect an institutional investor to skip evaluation processes required by its own mandate, or to fail to properly evaluate the legal aspects of the operation, it is nevertheless important to ensure that the time necessary to complete this phase does not become excessive, creating serious problems for the enterprise.
- **It is important to propose investment structures and processes that are simple to apply.** We have experienced ourselves how risky it can be for a very young business to structure an operation that is excessively complex (due to the number of people involved, its size, its terms) compared to its effective capacity to conclude such an operation positively, and within a reasonable timeframe. Often encouraged by the investors themselves, entrepreneurs try to apply structures and concepts borrowed from mainstream finance, without the necessary knowledge, and without these being truly necessary, with the result that completion times become excessive, leading to serious misunderstandings.



SUDIKSHA KNOWLEDGE SOLUTIONS (Hyderabad, India)

Affordable pre-school education on the outskirts of large cities

Sudiksha runs low-cost nursery schools on the outskirts of Hyderabad and Bhopal. The enterprise was set up by **Naveen Kumar**, who previously worked with an Indian NGO, which runs schools in rural areas.

It is estimated that almost 50% of Indian children abandon their education before they are 12. One of the main causes of this dropout rate is the lack of stimuli that children receive at pre-school age, due to the impossibility of attending nursery school. In the Indian system, **public nursery schools are of very poor quality, while private schools are very expensive, unaffordable for the low-income sectors of the population.**

With the aim of bridging this gap, Sudiksha has developed a quality pre-school educational service at affordable prices for low-income families. **As of June 2015, Sudiksha directly manages 22 schools catering for 800 children, and employs 72 teachers.** The company has also recently begun testing a franchising model, supporting those who wish to start up their own school, with the commitment to use the model and brand "Sudiksha Kids". Through an appropriate mix of franchising and directly managed schools, the company hopes to offer the service to 20,000 children by 2020.

OUR ROLE

The company required new capital to finalize and test the feasibility of its franchising model. Acting as leader, we structured the operation, in parallel with a co-investor specialized in affordable education (Pearson Affordable Learning Fund). A member of Opes' board of directors joined the board of the company, while one of our investment managers works in close contact with management, in particular by providing consultancy with regard to financial planning and the implementation of tools to monitor its results, both social and economic.

THE WATER SHOP NAIVASHA (Naivasha, Kenya)

Safe drinking water at affordable prices

The Watershop Naivasha is a social enterprise in the town of the same name in Rift Valley (90 km from Nairobi), which **extracts, purifies and sells drinking water at affordable prices for those on a low income.** The enterprise – which operates under the “Purefresh” brand – was founded by **Antony Kamotho** and his wife **Njambi**, both from the region.

The Watershop deals with a pressing problem: **43% of the inhabitants of Kenya – approximately 17 million people – do not have access to safe drinking water.** Periods of drought, poor management of water resources, contamination of water sources, and rising demand have created a situation which is increasingly critical, especially in rural areas.

As of June 2015, the business serves an average of 2,000 families per week. The project’s next goal is to test the possibility of **expanding its network, via the installation of vending machines in small shops.** This innovation would allow the company a considerable increase in efficiency, and to gradually extend its services to the neighboring town of Nakuru.

OUR ROLE

During the initial phase, we provided support to the company in the form of consultancy, with detailed planning of the system based on the use of vending machines. We then structured a financing operation, which aimed to test the effectiveness of the new model on the market. Our investment manager maintains very frequent contact with the entrepreneur, and closely follows the progress of the steps set out in the agreed plan. If the test is successful, we will structure the raising of the capital necessary for expansion, involving a pool of co-investors.

- **The post-investment work is the most important of all.** The level of hands-on involvement required once the investment is made is extremely high, and one which must be properly planned for. An active, hands-on investor can be a precious resource for the entrepreneur, but only if he is able to dedicate time, energy and the right skills.
- **Co-investment is a necessary practice, and one that benefits the entire system.** As a newcomer to the sector, we have benefitted immensely from discussing and sharing information and experience with seasoned professionals, and we in turn have actively sought to collaborate with investors who share our same philosophy. Equal sharing of the workload (especially following the closure of an investment); discussion with a network of motivated and expert figures; greater efficacy in the interaction with the enterprises involved: all of these factors help reinforce the ecosystem dedicated to the early stage segment.



PRE-INVESTMENT SUPPORT

Right from the very beginning, we were well aware that the **strategic choice to focus on very new enterprises would require technical support** on various fronts (typically financial and operative planning; feasibility analysis of new, potential developments; implementation of processes and tools required to control costs, and the adoption of appropriate governance systems to generate further investments).

The experience of our first two years has strengthened this conviction. What we had not entirely planned was that enterprises which propose interesting business models often **need significant consultancy support, even leading up to the point when they are able to approach potential investors in a way that is credible**. In other words, they must be helped to become investment-ready.

This need on the part of the social enterprises poses an important dilemma for investors, who are being asked to dedicate significant resources - both in economic terms, as well as in terms of time and

energy - with no real certainty as to whether the chosen enterprise will effectively become a tangible investment opportunity. **This is another area where we believe philanthropic capital can play a strategic role.**

To encourage this process, at the end of 2014 we accepted the offer to participate in the biennial PACE -EA (Partnership to Accelerate Entrepreneurship - East Africa) project, promoted and financed by USAID, and aimed at the social enterprises of Kenya, Uganda, Tanzania and Rwanda. Open Capital Advisors, consultancy firm based in Nairobi, was chosen to implement the project, together with five investors specializing in the early stage segment, and active in the region: Opes, Blue Haven Initiative (US), Eleos Foundation (US), Montpelier Foundation (UK) and Van Hoops Holdings (US). The aim is to identify at least 60 new, high-potential social enterprises, and to support at least another 15 in the process of investment-readiness at the same time.

PROSPECTS FOR THE FUTURE

Mindful of the lessons learned and the experience gained, **we feel ready to increase the scale of Opes, maintaining our positioning in the early stage segment**, which we consider crucial for the development of the entire industry.

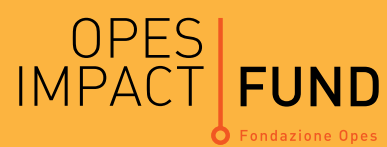
The world of philanthropy, however, needs to undergo that “Copernican Revolution”, something that we have only glimpsed in these last two years, as a timid prospect on the part of a few. This drives us to work all the harder: to a certain extent abroad, but also - and with greater conviction - in Italy, where the new culture of using philanthropic capital to support social enterprises must be reinforced.

Capitalizing on our relationships and positioning at international level; promoting the growth of an Italian ecosystem which supports the renewal of social enterprise; becoming a point of reference for those who wish to take up this challenge: these are Opes' commitments for the next few years.

With two structured initiatives (one in Italy, the other in the Netherlands, both in the form of a foundation), we can channel loans and patient capital towards those social enterprises which are sustainable, and which propose positive impact solutions. **Our model revolves around the awareness that this sector holds many incredible talents and a precious social capital**, and that we can and must learn globally to successfully act locally.

We would like to contribute to ensuring that this positive energy, which we see on a daily basis, is not lost, because we believe that **a new idea of social impact finance is growing also in our country: we will devote our resources and energy to fuel such development.**





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