Foundations and FinTechs: Prospects of a new partnership

Since the financial crisis hit ten years ago, foundations which fund their activities by revenues from their endowment are under a lot of pressure. Where to find external funds to maintain the scope of the foundation's work or – even better – systematically expand it when the foundation's income is in decline? by Peter W. Heller

In the wake of the barely averted financial market crash in 2008, over the past ten years a colourful world of start-up companies has evolved, the "Fintechs" (financial services technology). With the help of web-based technologies, they are breaking into the domains of the banks and insurance companies and offer financial services and products online which have never been available before. From the perspective of venture philanthropists and impact investors those "crowd-investing" and "crowdfunding" providers deserve a closer look. The terms are not clearly defined: Crowd-based offerings can have a charitable alignment as well as a commercial one which serves the purpose of capital investment. Crowd-investing refers to the procurement of the latter financial products in the form of loans or equity stakes, while crowdfunding in its narrower definition is based on donations made by the crowd to charitable endeavours.
In Germany, crowd-investing is regulated by the German Small Investor Protection Act and is thus subject to the German Investment Products Act just like any other investment product. Since the end of 2016 the Canopus Foundation in Freiburg and the crowd-investing company bettervest GmbH in Frankfurt have been testing the potential of a partnership which aims to combine the expertise gained over the course of 20 years of foundation work with social enterprises in developing countries with the financial potential of crowd-investing. The experiences outlined in the following refer exclusively to loan based crowd-investing.

Since 1997 the Canopus Foundation promotes “energy access” initiatives and projects for the electrification of off-grid villages and rural regions with renewable energy systems in southern Asia, sub-Saharan Africa and South America. During the last 20 years, the Foundation has provided finance and business development assistance to more than 40 social enterprises and charitable organizations, ranging from technical audits and questions concerning strategic market development to the restructuring of distribution concepts and funding solutions.

In 2016 a young fintech start up company named bettervest GmbH in Frankfurt caught our attention. bettervest collects subordinated loans from their clients – the crowd – from EUR 50 to EUR 10,000 and invests them in energy-saving projects. bettervest performs a technical and commercial audit (due diligence) on the projects submitted to them, negotiates the conditions for the subordinated loans, and, if negotiations are successful, conducts a crowd-investing “campaign” for the acquisition of capital by providing information directly to its existing client group and to new clients via its website. The interest rates on these loans range from five to nine per cent annually, the term of the loans is three to ten years. They are granted as annuity loans with constant payment installments.

The democratization of impact investing

From new LED lighting for a gym to a combined heat and power unit to supply a school with energy: every project is funded via its own campaign, every “micro-investor“ knows who receives his/her capital, and what the capital is used for. With crowd-investing, the conventional wisdom that impact investing is only for the wealthy can now be called into question. The funding portfolios developed by bettervest, Kiva, and other crowd-investing platforms make it possible to invest in the installation of a solar rooftop on a hospital in Ghana with only EUR 50, and do so with a risk and return profile which is competitive compared to high-interest financial market products available from banks and private equity firms.

In 2015, motivated by clients and driven by the management’s commitment to work outside the German market in developing countries, bettervest funded its first project in Africa. The business plan at that time envisioned a modestly growing commitment abroad, which meant considerable additional effort in view of tackling unfamiliar regulatory frameworks overseas.

Crowd-investing for “energy access” projects in Africa

Volume of total CI 2015: 2,8 Mio. €;
Volume of total CI 2016: 7,1 Mio. €.
Market leaders: Kiva, bettervest
Volume of bettervest CI 2015-2017: 4,3 Mio. €

- bettervest CI in Ghana: 1.116.000 €
- in Nigeria: 767.000 €
- in Namibia: 628.000 €

Participation offer: Subordinate annuity loans with constant payment installments.
Investment terms: Interest rates 5 – 9 %; loan period 3 – 10 years.

Pilot project in India 2017

bettervest CI campaign for 200.000 €, secured by a guarantee of Canopus to cover any residual amount not raised.
Investment terms: interest rate 5 %; loan period 8 years.
Campaign running time: 71 days, closed on 29th October 2017
The full amount of 200.000 € was signed by 350 crowdinvestors.
Sources: Energy4Impact, UK; bettervest *pwh 1-18*

Canopus granted bettervest a loan earmarked for the development of a project pipeline in Africa and Asia which evolved into a collaboration on a regular basis. By 2016 bettervest was the second largest crowd-investing platform worldwide which facilitated loans for “energy access” projects in Africa. By the end of 2017, i.e. in just under two years, bettervest’s crowd had invested EUR 4.3 million in total in Africa, including EUR 1,116,000 in six projects in Ghana, EUR 767,000 in five projects in Nigeria and EUR 628,000 in three projects in Namibia. In 2017 additional EUR 310,000 were invested in two projects in India and Colombia.

For the second “Solar for All” contest conducted by the Canopus Foundation together with the Fraunhofer Institute for Solar Energy Systems (ISE) in autumn 2016, bettervest offered to fund two prizes for the winners in the form of loans of EUR 200,000 each. The prizes went to two companies in India which pioneered in setting up “solar mini grids”, supplying solar energy to entire villages. Two crowd-investing campaigns have been planned to raise the funds for the loans. To increase the chances of success in light of the low interest rate of five per cent and the relatively long loan term of eight years, Canopus stepped in as guarantor for the campaign and secured its full success from the outset with a binding commitment that we would cover any remaining amount not subscribed by the crowd: if, for instance, only EUR 100,000 had been subscribed, the Foundation would have provided the remaining EUR 100,000 at the same terms. In this manner, the expertise and creditworthiness of Canopus was mobilised to generate trust in the crowd about the careful selection of the winners as future loan recipients.
The first pilot trial proceeded auspiciously; by the end of October 2017, 350 crowd investors had subscribed the funding total of EUR 200,000 in 98 days; the Foundation’s guarantee did not need to be used. The leverage made possible with a modest venture capital investment is the greatest we have ever been able to achieve. Another pilot trial, the campaign for the second Indian company, is planned for 2018.
It is evident that a “FinTech+Foundation” funding model offers a lot of potential to impact investors and venture philanthropists. This is not limited to the energy sector. Moreover, it can be implemented in a relatively short period of time – provided that the funded companies and organizations are in a position to bear the debt.

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German version published in Die STIFTUNG in Feb. 2018