II Alternative Financial Instruments

ABSTRACT

In order to be self-supporting or profitable, SEOs use a wider variety of available financial instruments in innovative finance. Results from the descriptive survey showed that out of twelve possibilities in innovative finance, respondents use mostly donations (68%), grants (54%) and stokvel (a savings pool) (39%), with an awareness of the other possibilities ranging between 20% and 0%. Other possibilities include crowdfunding, microfinance, and products in the innovative finance category such as angel investment, patient capital, venture capital, mezzanine finance and credit schemes, used according to five different growth stages of the SEOs' development.

SEOs collaborate synergistically in discovering and using alternative financial instruments to scale and become financially independent as middle tier of a three-tiered fountain. SEOs use their unique characteristic of generating spillovers to compensate for the fragmented base tier through authentic relationship-building and generating knowledge where needed, to facilitate growth.

Once the SEO's legal structure is in place, access to funding is one of the SEOs' primary concerns. The socio-entrepreneurial ecosystem enables solution orientated actions and important communication networks. These relationships are important in terms of access to funding and access to markets (Interviewee D, 2021). These opportunities and challenges in *Alternative financial Instruments* are illustrated in Figure 51 on page 201.

SEOs seek solutions for poor marketing and the green space gap. Projects should address the lack of transparency in terms of banks being used as wholesale tools to disperse money and address the lack of tax initiatives in creating incentives to invest in start-ups. SEOs design their business models in such a way that they re-invest their profit into their ventures to avoid grant-dependency, enabling them to be self-supportive and eventually profitable (Interviewee I).

II Alternative Financial Instruments

1. Introduction

The role of alternative financial instruments is discussed in terms of the sustainable generation of revenue by SEOs. The main goal of this chapter is to answer SRQ2: What is the role of alternative financial instruments in the sustainable generation of revenue by SEOs? The chapter is introduced by the analysis, findings, and implications of *Alternative financial instruments*. Key findings and implications are presented in the last section

2. An analysis of descriptive survey results

There is a disconnect between bankable projects and access to funding, and the availability of alternative financial instruments but not being used by SEOs (Bertha Centre for Social Innovation & Entrepreneurship, 2015). In this section, an analysis of descriptive survey results to address this disconnect is presented. A summary of the questions is shown on the left side of the Figure 48 below, with the results of the answers on the right side. The results for the open-ended question, Question 50, are published in Appendix 13 on page 400. A discussion of the results of Survey Section 3 is published below Figure 48.

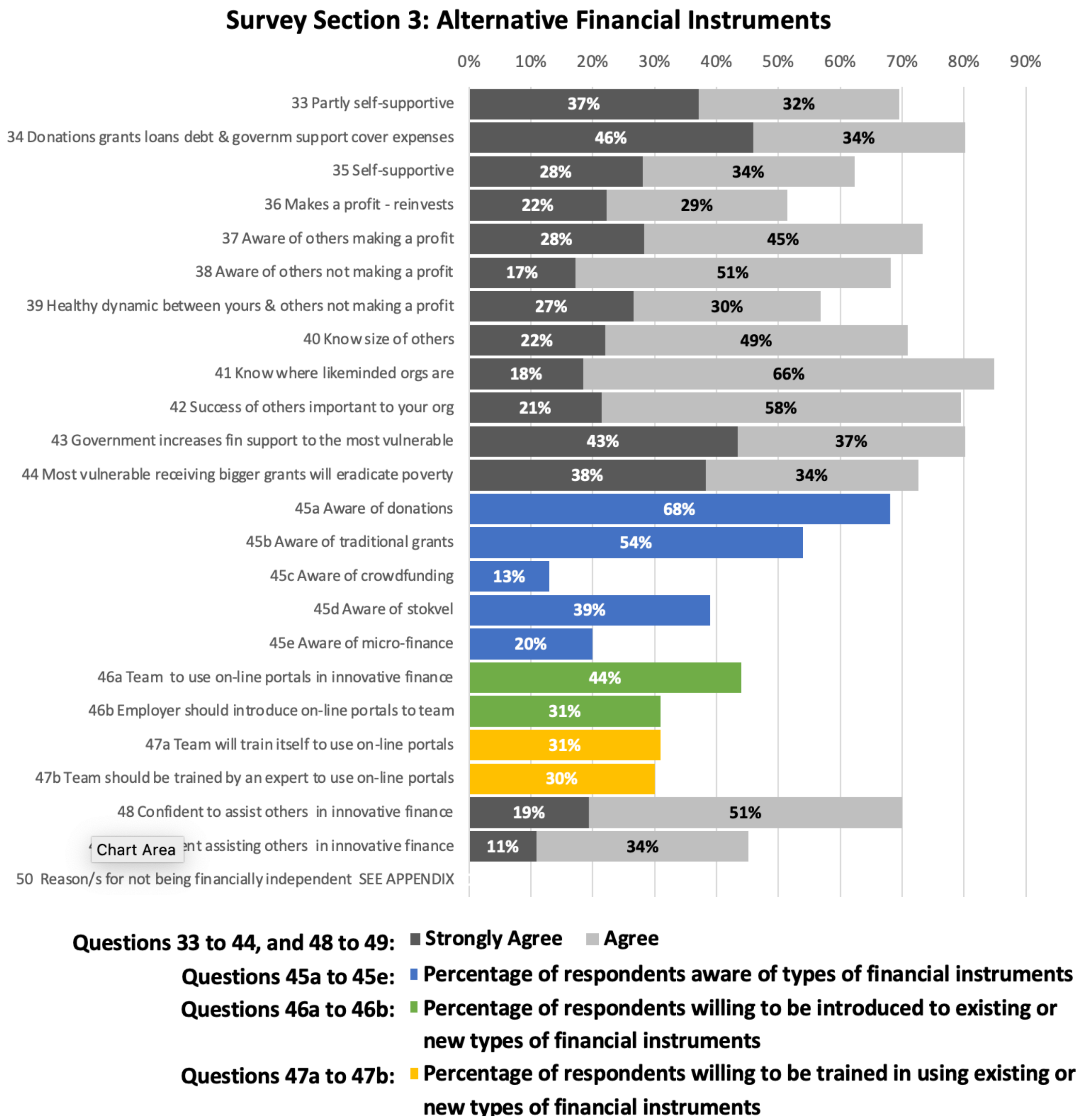

Figure 1: Survey Section 3: Alternative Financial Instruments (Author's own illustration)

Results of Questions 33 to 44 and 48 to 49 show that the combination of *agreeing strongly* and *agreeing*, are between 45% and 95%. The spread is large, indicating considerable variability which will be confirmed with triangular data during the interviews. I will also refer to those results that were particularly interesting, intriguing, or surprising.

Questions 33 to 36 fall in the *intriguing* category for example. These results refer to the findings in the literature review and those in SRQ 2- Operations: the subject of being *self-supporting* distinguishes between the different degrees to which SEOs are able to generate revenue or not.

Results to Questions 46 and 47 showed that SEOs would like to know more about other financial instruments. The choice that they prefer is for the SEO team to train themselves, or assist others, by using on-line portals, or to be trained by an expert to use these portals.

Question 33[1] showed that 69% *strongly agree and agree* that their SEOs are in the 'partly self-supporting' category as illustrated in Table 20 below, and 25% *neither agree* or *disagree, disagree,* or *disagree strongly,* that they are not. Some abstained from answering this question. Question 34[2] showed that 80% *strongly agree* or *agree* that the SEOs in this category rely on donations, grants, loans, and government support to cover its expenses. Question 35 showed that 62% *strongly agreed and agreed* that their SEOs are in the 'self-supporting' category, and 30% *neither agreed* or *disagreed, disagreed,* or *disagreed strongly* that they were not. Some abstained from answering this question. Question 36 showed that 51% *strongly agreed and agreed* that their SEOs are in the 'profitable' category, and 41% *neither agree* or *disagreed, disagreed,* or *disagreed strongly* that they were not. Some abstained from answering this question.

Partly self-supporting (Q 33)	Self-supporting (Q 35)	Profitable (Q36)
69%	62%	51%

Table 1: Partly self-supporting, Self-supporting, Profitable (Author's own illustration)

Respondents did not have the choice of choosing either of the three categories in one question – the results in Table 20 therefore do not add up to 100%. These results show that more SEOs *strongly agree* or *agree* that they are 'partly self-supporting' than self-supporting, or profitable. It furthermore shows that those who are self-supporting, rely mostly on donations, grants, loans, and government support to cover their expenses. In a follow-up question (Q45), respondents indicated that out of twelve

[1] Question 33: 'Your organisation uses income generating activities as source of revenue to cover some of its expenses, but it does not generate enough revenue to cover all its expenses. It is therefore « partly self-supportive »'.

[2] Question 34: 'If your organisation is partly self-supportive (as described in the previous question), it uses financial instruments such as donations, grants, loans, debt, and government support to cover its expenses'.

possibilities in innovative finance, they are mostly aware of donations (68%), grants (54%) and stokvel (a savings pool) (39%), with an awareness of the other possibilities ranging between 20% and 0%.

Questions 43 and 44 were equally *intriguing* for different reasons. The results for question 43 show in Figure 49 below that the mean of 80% of the respondents *strongly agreed* or *agreed* that their organizations would prefer that the government increases its financial support to the most vulnerable people (such as those with disabilities/extreme poor), by giving them bigger grants. A possible solution would be support similar to Universal Basic Income (UBI) programs in which everyone receives a fixed transfer regardless of their level of income, or Targeted Transfer Programs (TTP) where children or the elderly are supported. However, studies in South Africa have shown that the dependency on social grants has a negative effect on entrepreneurship. Entrepreneurship drive and the willingness to be part of income generating activities were reduced and had a negative effect on production and commercialization levels of smallholder farmers (Sinyolo, Mudhara & Wale, 2017).

3. An analysis of qualitative results

Having reported on the descriptive survey results from the survey on the role of alternative financial instruments, the next phase of collecting primary data involved qualitative results, based on interviews that took place with *beneficiaries, social entrepreneurs, and representatives of institutions. The goal was to gain a better perspective on how SEOs could recover costs for operations, how SEOs collaborate in the SEO eco-system, what SEOs access is like in terms of technology and what some of the hurdles and barriers are that they experience in generating revenue sustainably.*

Alternative financial instruments can be categorised on different hierarchical levels, in order to determine how to scale and generate revenue sustainably, as illustrated in Figure 50 below:

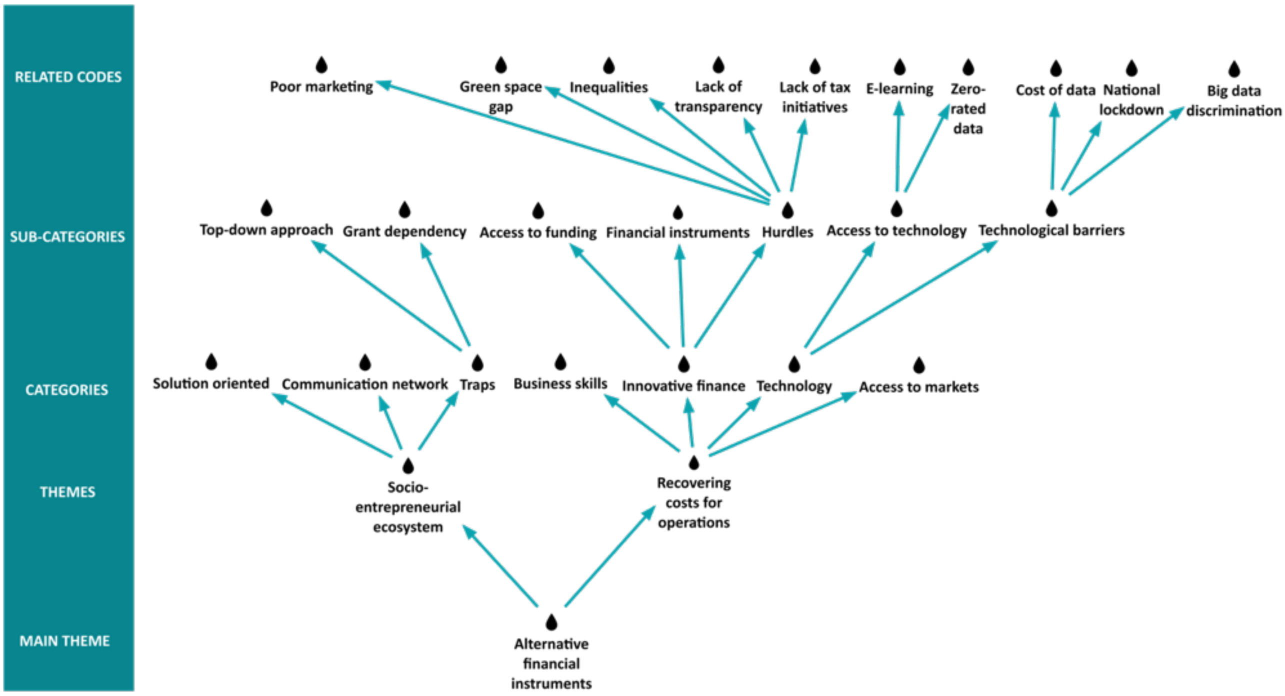

Figure 2: Alternative financial instruments (Author's own illustration)

According to the literature review, the SEO does not find itself isolated, but part of an ecosystem in which the success of all the stakeholders is mutually beneficial as they not only create social value, but also cause spillover effects beyond their intended reach (Roundy, 2017). In order to generate revenue sustainably, SEOs will need to rely on, and contribute to, its *Socio-entrepreneurial ecosystem.*

Opportunities and challenges are reported on all hierarchical levels, starting with the *Socio-entrepreneurial ecosystem,* with some categories being *Solution oriented* and offering a

Communication network as illustrated in Figure 51 below. It also shows the unfolding of an issue, *Traps, which subdivides into* two challenges: funders having a *Top-down approach* and beneficiaries suffering from *Grant dependency*.

Opportunities are furthermore reported in *Recovering costs for operations*, developing into *Business skills, Innovative finance, Technology,* and *Access to markets*. Innovative finance leads to *Access to funding* and *Financial instruments*, but also presents some challenges coded as *Hurdles, Poor marketing, Green space gap, Inequalities, Lack of transparency* and *Lack of tax initiatives*. *Technology* presents an opportunity in *Access to technology*, resulting in *E-learning* and *Zero-rated data.* Challenges manifest in *Technological barriers* as *Cost of data, National lockdown*-issues as well as *Big data discrimination*.

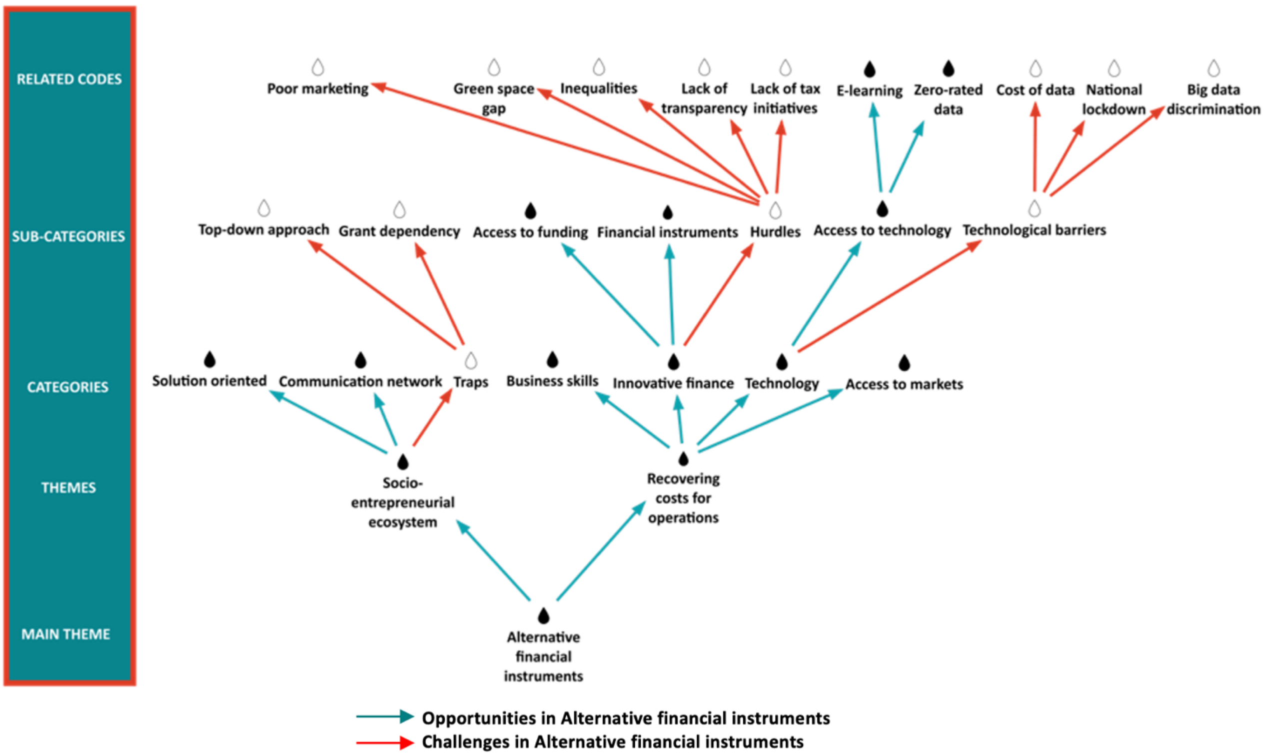

Figure 3: Opportunities and challenges in Alternative financial instruments (Author's own illustration)

However much these findings are valuable, further analysis is needed to determine how to prioritise between issues. The total frequency with which interviewees refer to opportunities is 58%, and to challenges is 42% as illustrated in Figure 52 below. The majority of SEOs' resources to scale and become financially independent are therefore regarded as opportunities. These findings enable SEOs to further prioritise opportunities and challenges in how they use financial instruments in the field of innovative finance.

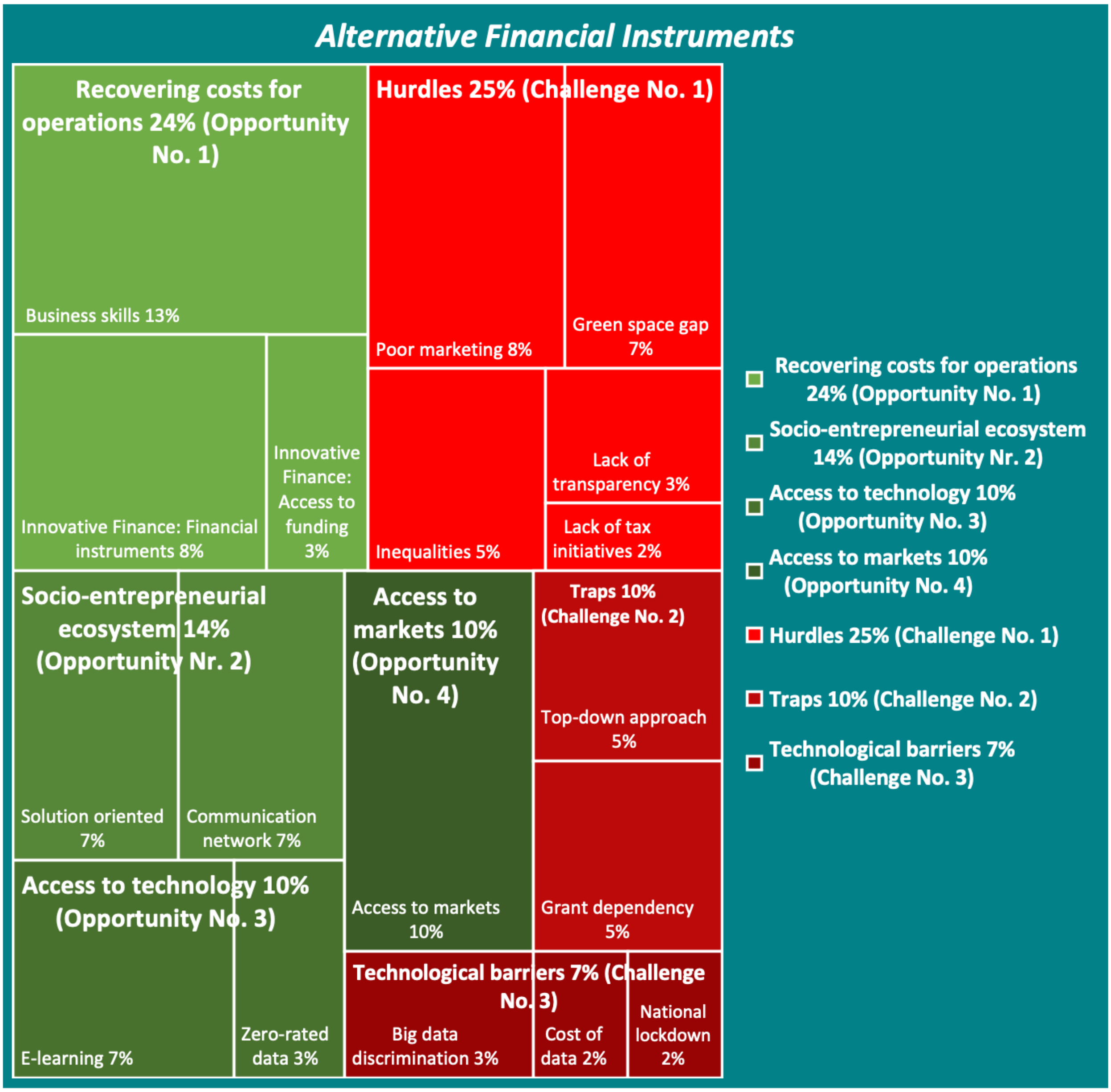

Figure 4: Code frequencies indicating the severity of the fragmented 'Alternative Financial Instruments'-dimension (Author's own illustration)

In terms of **opportunities**, code frequencies are the highest for *Recovering costs for operations*, the second highest frequency is for *Socio-entrepreneurial ecosystems* and the third highest for *Access to Technology.*

4. Conclusion

The significance of this sub-section is that it provides a summary of the role of alternative financial instruments in terms of the sustainable generation of revenue by SEOs. The summary also shows how SRQ2 is answered in terms of *Alternative Financial Instruments* according to priorities set by SEOs, as well as opportunities, and challenges that they face. It also includes the answer to a part of SRQ3 that has so far been left unanswered: *which financial instruments would be ideal to use in the early stages of the value chain so that operations would be conducive for SEOs to become financially independent?* These findings also contribute to presenting an integrated value chain, which will be discussed in Chapter 8 on pp. 288-289.

Priorities set by SEOs:

- The majority of SEOs are partly self-supporting, relying on donations, grants, loans, and government support to cover their expenses and the minority of SEOs are either self-supporting or profitable.
- In order to be self-supporting of profitable, SEOs will have to use a wider variety of financial instruments in innovative finance. This variety includes donations and traditional grants but needs to expand to stokvel (traditional savings clubs), crowdfunding, microfinance, and other products in the innovative finance category such as angel investment, patient capital, venture capital, mezzanine finance and credit schemes according to five different growth stages of the SEOs development in order to scale and/or to become financially independent. SEOs primarily use only one type of finance which is in the Grants-category while there are other types of finance available in the debt, quasi-equity, equity, and *other* types of finance categories.
- Although SEOs associate in general with the multidimensional nature of social entrepreneurship as described as an activity with inherently having the 'predominance of social mission, the importance of innovation, and earned income' (Lepoutre et al., 2011, p. 694; Terjesen et al., 2012, p. 9), SEOs are not in full agreement about the role of innovation and earned income [3]. SEOs will therefore be able to scale in terms of SEOs social mission but will not necessarily be able to be self-supporting or profitable, unless they make better use of

[3] See Appendix 13 on p. 400 for a summary of the answers to the open-ended question of why the organization cannot scale or generate its own revenue.

available alternative financial instruments in combination with available legal structures such as a Not-for-Profit-Company (NPC) or the *Portfolio of legal structures* that are in use.

- The eradication of extreme poverty will be simpler if the most vulnerable people - who are unable to work - receive bigger grants. However, the global thrust is towards SEOs committing to sustainability. New financial instruments should therefore be considered to facilitate the care of the most vulnerable, such as Social Impact Bonds.
- The majority of SEOs are confident to assist others in their entrepreneurial ecosystem to use existing and other financial instruments in the field of innovative finance through on-line portals.

Opportunities:

- The metaphor of the base of a three-tiered fountain was used in describing the synergy of *Enabling structures* in SRQ3. SEOs also collaborate synergistically in discovering and using *Alternative financial instruments* to scale and become financially independent. This level of synergy can be referred to as the middle tier of a three-tiered fountain. At this level, SEOs are able to recover costs for operations, leaning on the socio-entrepreneurial ecosystem, innovative finance, access to technology and markets. With these significant building blocks in place, the middle tier is less fragmented than the base tier of *Enabling governance structures*. It uses the SEO's unique characteristic of generating spillovers to compensate for the fragmented base tier through authentic relationship-building and generating knowledge where there are gaps in the knowledgebase. SEOs therefore rely on the socio-entrepreneurial ecosystem to facilitate growth in order for them to scale and become financially independent.
- *Business skills* is most often included in the training of social entrepreneurs, an aptitude that is shaped over time to be used to the advantage of the SEO, especially in the sustainable generation of revenue. Crucial *business skills* are financial skills, marketing, and sales, with sales being very important. Add the following skills to their training too: *Human resources* management, the need for achievement, entrepreneurship skills and communication skills (Interviewee B, 2021). In the absence of an ideal legal structure, the application of a double-sided business model of a non-profit and for-profit legal structure is used, thereby expanding the SEOs funding options and using the constraint of an institutional void to its advantage.
- *Access to funding* is one of the SEOs' primary concerns. Once the legal structure is in place, it allows the SEO *Access to funding* as a result, providing tax relief, and pioneering the 'use of social criteria in public procurement processes' (United Nations General Assembly, 2018, p.

14/22). SEOs would like to know more about *Alternative Financial instruments* by training themselves or assisting others in using on-line portals 'such as the SME Toolkit South Africa' or 'finfind' that 'provides how-to articles, business forms, financial tools, on-line training, and information resources developed by leading experts, free of charge' (Business Partners, 2017; finfind, 2020). SEOs should call on their ecosystems for support in training one another in the absence of having access to on-line portals.

- *Access to technology* provides opportunities to *Zero-rated data* and *E-learning*. Although people in townships and cities have access to data and computers for free, these services are not provided in rural communities, for which alternatives solutions should be found for.
- The *Socio-entrepreneurial ecosystem* enables *Solution orientated* actions and important *Communication networks*. These relationships are important in terms of access to funding opportunities and *access to markets* which is vital in *Recovering costs for operations.*

Challenges:

- SEOs should seek solutions for five identified, prioritised hurdles*: Poor marketing* in terms of funding opportunities*, Green space gap* referring to possible bankable projects that could include projects concerning the protection of the environment in terms of water and energy*, Inequalities* in terms of race, gender and start-ups*, Lack of transparency* in terms of banks used as wholesale tools to disperse money and lastly *Lack of tax initiatives* in creating incentives to invest in start-ups. It is especially the hurdl*e Inequalities* that may lead to the systematic exclusion of individuals or groups. This may lead to further misunderstandings that can be avoided in the way that SEOs plan to overcome or avoid these hurdles.
- There are two traps that SEOs need to be freed from: the *Top-down approach* referring to the aid-based development model that was supposed to generate sustained economic growth but which has had the highest level ever recorded in 2013 being superseded by the COVID-19 pandemic pledges (OECD, 2018; Theis, 2020). A second *Trap* is *Grant dependency.* Grants is a reality that should be pro-actively managed especially for the sake of the youth, who receive learnership grants, but which they tend to stay dependent on. This is also reflected in start-ups where the business discontinuance rate is so high, that progress is hardly noticeable. SEOs should design their business models in such a way that they invest a part of their profit back into their ventures so that they do not stay dependent on grants, enabling them to be self-supportive and eventually profitable.

5. References

To follow.