Nordic Investment into Emerging Market Solutions

Challenges and Opportunities for Investors and Enterprises

A Report by TechVelopment Denmark

Writing this report has been made possible by TechVelopment founders and partners CARE, IFU, Dalberg, UNDP, Annemette Færch, Henrik Kähler, Michael Helmweg, and our 16 member organizations

Preface

TechVelopment Denmark is a non-profit organization founded in 2020 by a collective of 16 leading Danish start-ups and SMEs with the shared agenda of bringing new sustainable development solutions to global challenges in emerging markets.

Our purpose is to support growth and impact opportunities for emerging market social entrepreneurs with connections in the Nordics. This report aims to shed light on the most relevant ways to do this and the opportunities associated with increased entrepreneurial collaboration between the Nordics and emerging markets.

The Nordics are strong in innovation and well-established in supporting entrepreneurial ecosystems. We also hold a lot of capital and impact-hungry investors. When these assets are combined and activated, we see a tremendous potential to support the SDGs globally at scale, with the highest potential for creating social impact combined with economic growth lying in emerging markets.

However, as this report also shows, the current social enterprise ecosystems in the Nordics that focus on emerging markets are only in an inception stage, where the solution pipeline is thin and the funding available to these entrepreneurs is limited as a whole, further narrowed by geographical and sectoral focus.

These gaps point to multiple opportunities to support our overall purpose of scaling global impact on the SDGs through social entrepreneurship.

First, to stimulate pipeline growth and support existing startups, we see a need to build incubation and acceleration programs with a clear focus on emerging market impact solutions in collaboration with local actors such as universities in the Nordic communities and global partners closer to the impact.

Second, to support the growth of existing solutions, we need more comprehensive and accessible financing efforts. We need increased institutional investment, new frameworks for blended finance and more venture philanthropy. Funding vehicles that include local emerging market experts combined with access to Nordic capital can be a starting point to address the current challenges of high risk and administrative costs, thereby increasing return on investment and likelihood of success.

To do this, strong partnerships in the Nordic entrepreneurial ecosystem are crucial. We hope that this report can help attract the right partners and shed light on the many opportunities associated with accelerating social enterprise solutions in emerging markets through leveraging Nordic expertise, connections, and capital.

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Definitions

This report focuses on impact first technology enterprises with operations in emerging markets and the impact potential of investing in these. This section outlines and defines core terminology that is central to understanding this report.

Social Enterprises, Social Entrepreneurship and Social Impact

The terms social enterprise can mean many things, but in this report we understand social entrepreneurship and social enterprises synonymously. In other words, we adopt a different definition than the social enterprises that do not use technology and are fully local. Our definition of social enterprises are for-profit, impact-first companies with a technology component. In other words, impact is at the core of their operations, and the enterprise is designed to maximize impact before or in conjunction with profits, while also aiming to produce a financial return. We view impact broadly in terms of area, including both social and environmental impact. Our understanding of impact is an advancement towards the goals defined in the UN SDGs.

We therefore adopt a broad understanding of impact in terms of thematic area, but strict in terms of centrality to the business.

Emerging Markets

In this report we understand emerging markets as countries that are transitioning towards becoming more fully industrialized economies and thereby have good foundations for social entrepreneurship. By transitioning we mean that they have e.g. high economic growth, liquid equity and debt markets, accessibility to foreign investors and/or a dependable regulatory system. We are explicitly refraining from using the term "developing countries" which are included under this heading, as this can be a problematic term for countries that are already well-developed in certain areas (e.g. by leapfrogging technology infrastructure) and we do not subscribe to the implied superiority of a "developed country" over a "developing country," reminiscent of colonial terminology.

We focus on emerging markets because this is where the biggest impact need in human-centered development gaps lies. Low-income countries tend to have lower SDG Index scores, in large part because of the SDG's large focus on ending extreme poverty and supporting basic services and infrastructure (seen in SDGs 1-9). We have not narrowed down our focus to specific countries or regions because we wish to stay away from restricting Nordic funding and collaboration to very specific areas that have historically been tied to development aid. Nordic emerging market investors often limit their investments to specificthese regions because of the historical ties that offer better grounds for contributing more than money, but we view this as a limitation to the potential of leveraging Nordic funding and ecosystems, the applicability of which is not restricted to a specific geography. The Global South currentlygenerally has a higher percentage of emerging market countries than the Global North.

Impact investing

Impact investment is a central terminology in this report and we define it as funding an enterprise with the expectation that it will become financially sustainable and returning the capital at a future date (timeline and amount varies based on patience of the investor). This category includes both more philanthropic impact-first investors and investors who invest in impact-first solutions without compromising on monetary returns. Both of these subcategories share a focus on investing in innovative and scalable social enterprises. Grant funding is not included in our survey.

While we are mainly concerned with impact investors with an emerging market focus, we have spoken to Nordic impact investors who invest solely in Nordic and fully industrialized-country solutions, and to those investors who specifically focus on emerging markets. This is to understand impact investors on a general level, the basis of the difference in their investment decisions and what might make Nordic-focused impact investors more interested in emerging market solutions.

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Introduction 1

The Nordics alone cannot significantly impact progress towards the UN Sustainable Development goals, given their scale and size. However, leveraging Nordic human and financial capital for accelerating global sustainability solutions can create widespread social and environmental impact.

Investing into and growing impact-driven emerging market-focused solutions offers huge opportunities for creating social and environmental impact, as defined under the SDG 2030 Agenda. The Nordic countries currently face several challenges that are restricting these investments, and this report aims to understand these challenges, make concrete suggestions for how to successfully overcome these challenges and finally, elaborate on the opportunities associated with increasing Nordic investment and support into emerging market-focused social enterprises.

1.1. Opportunities in investing into Emerging Market Impact Solutions

Investing into emerging market impact solutions has huge potential for creating positive global impact across the Sustainable Development Goals (SDGs). Yet, the Nordics have traditionally been more focused on traditional development aid and grant-making, both of which struggle with being financially-sustainable support mechanisms. Other investments within the Nordics focus on local impact within the Nordics, primarily focused on environmental impact. Denmark, for example, emits 0.001 of the world's greenhouse gasses, and therefore local environmental impact will only have a limited effect on global sustainability challenges.

Investing into innovative startup solutions has a larger potential for i) financial sustainability, ii) quickly identifying and responding to market needs and preferences, and iii) catalyzing capital from non-public financing sources.

Investing in emerging market impact solutions is, in addition to being a great channel for impact, also a tremendous business opportunity.

A World of Opportunities for Danish Businesses (2019) (a report by the Danish Ministry of Foreign Affairs from 2019) estimates that if Denmark could seize its share of emerging market opportunities in correspondence with its current share of world trade within relevant SDG sectors, the potential SDG opportunity is USD 60 billion a year in 2030.

Leveraging Nordic entrepreneurial systems and increasing collaboration and partnerships across Nordic-emerging market borders for both investors and entrepreneurs has three main impact channels:

Table 1

CHANNEL	IMPACT POTENTIAL
Accelerating Innovation Leveraging well-established Nordic innovation methods and technologies in new markets, and collaborating with innovation methods in emerging markets to strengthen social impact innovation methodologies	To accelerate innovations in larger markets where impact is greater
Global Support Systems Building innovation and entrepreneurial support ecosystems that leverage networks of Nordic expertise and capacity building for developing and commercializing solutions, in partnership with local support ecosystems that leverage deep local expertise and knowledge	To unlock the potential of global impact innovations, which often lack support and capacity building needed for scale
Nordic Funding Channeling Nordic capital to the most impactful solutions globally	To grow impactful solutions that are operating in markets with larger resource and capital constraints than in the Nordics

While a number of other countries and regions have focused on this more scalable and sustainable method of global impact generation, for example through vibrant and active social entrepreneurship and impact investment ecosystems, the Nordics so far have lagged behind.

1.2. Current state of affairs in the Nordics

The Nordics have woken up to the potential of impact investment and there is a growing awareness on the investor side on where their capital is channeled. According to a Dealroom Report (2022), impact investment in the Nordics has skyrocketed from USD 72 million in 2010 to USD 5.5 billion in 2021, and today impact startups in the Nordics receive 26% of VC funding. This is a significantly higher percentage than in the rest of Europe (18%) and the US (4%).

Whereas the Nordics are paving the way for an increasing share of investments being channeled into impact, there are still different meanings around what actually constitutes impact, and this is reflected in the types of support that are currently available and prioritized in the Nordics.

Currently, Nordic impact funding mainly focuses on two ends of the funding continuum: on one end, investment funding goes towards green solutions with a developed market focus, while on the other end, development aid and grant funding focus on broader impact in pre-specified countries, primarily in Africa and more specifically East Africa. Impact investment would fall in the middle of this continuum, leveraging investment funding for broader global social and environmental impact. Currently, those that seek to bridge the gap in this funding continuum in the Nordics are generally narrowly focused on exporting Nordic products and innovations to new territories and expanding their markets rather than prioritizing impact-first and impact-driven investments.

Additionally, within the definition of impact, there are also specific focuses. According to The One Initiative's Survey on Nordic Impact Investing (2021) energy, climate and agriculture top Nordic investors lists of impact targets. The survey also shows that only 15% of impact investors invest predominantly in social impact whereas the rest invest in environmental impact only or both environmental and social impact.

There is already a documented Nordic appetite for generating impact through emerging market investments. The One Initiative also shows that the main reason for Nordic investors to invest into emerging markets is the possibility to make a difference (The One Initiative: Nordic Impact Investing, 2021). This suggests that there is a market gap to be filled for investors looking to generate more impact on their investments, or more financial sustainability and scale with their grant-giving.

In order to fill this market gap, there needs to be a deeper understanding of the availability and focus of Nordic impact-driven capital, as well as the size and focus of social enterprises that have a Nordic-linkage to innovation and support systems to leverage Nordic capital. This report attempts to map both ecosystems and explore potential challenges and opportunities with facilitating the impact ecosystem in the middle of the continuum.

Impact Investment in the Nordics

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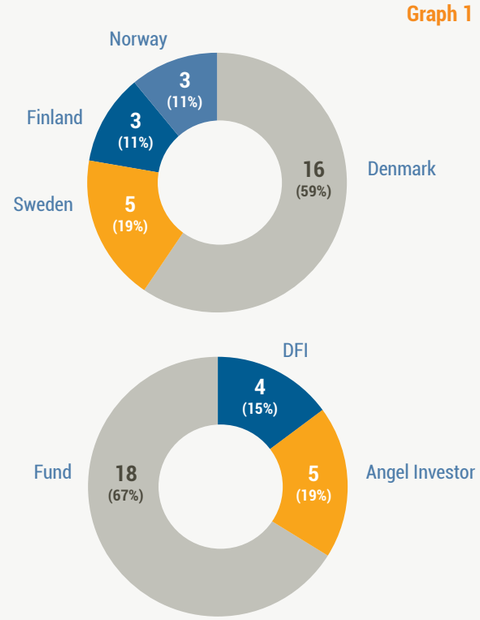
The impact investors we have spoken to for this report can be roughly categorized into three groups: i) Development Finance Institutions (DFIs), ii) fund managers, and iii) angel investors. Most respondents have an interest in emerging markets or existing investments into these, and were primarily selected based on this existing interest. However, we have also spoken to impact investors who invest predominantly in the Nordics or more broadly into fully industrialized countries, to understand what drives impact investors on a more general level as well as what could make this group more open to investing more into emerging markets.

We have primarily focused on how much Nordic capital is available for emerging market solutions and what type of solutions (stage, geography, sector etc.) that this capital is directed towards, as this can be indicative of the activity in this space and the potential for supporting future activities. Therefore, the following sections will showcase the breakdown of the available capital.

Graph 1



2.1. Overview of respondents

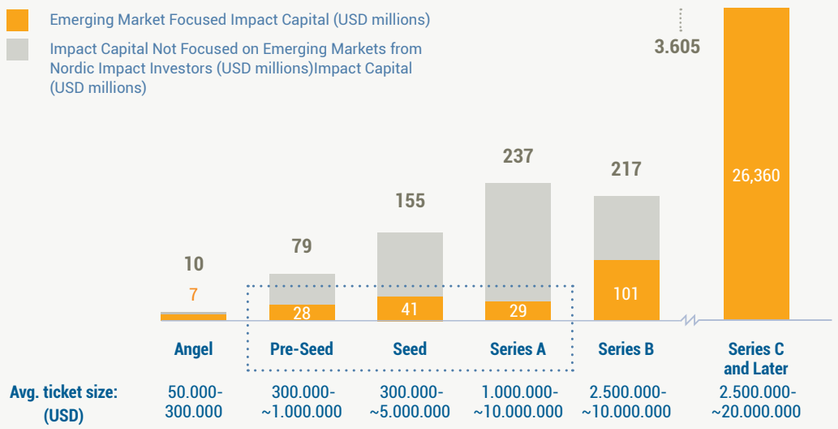
In total the report includes data from 27 investors, out of which 18 (67%) have emerging market investments as part of their portfolios.

Graph 2

Most respondents are from Denmark, but 41% of respondents also represent other Nordic countries. The biggest respondent category is "fund" which includes large, private investors. Angel investors and DFIs make up a total of 34% of respondents in absolute terms. This data reflects only the amount of respondents, not the size of respondents' investments.

2.2. Summary of impact investment available and market gaps

Graph 3 Overall respondent investment breakdown across investment stages



The above figure summarizes the general picture of the investment stages around which investment capital is currently concentrated. The capital included shows active investment vehicles. Active investment can be: capital has already been fully invested (but not exited); capital that has been partially invested; or capital that has not yet been deployed but has established funding mechanisms and processes for the future investments.

The data shows how the respondents' investments are distributed across investment stages and paints a clear picture on the lack of capital early on in the pipeline, with a jump around Series B and even enormous leap around Series C and later stages. We can also see that the amount of capital available for emerging market solutions is much lower than for fully industrialized-country investments, even in our study where only a small fraction of the respondents are non-emerging market focused.

When summarizing the capital available, it is important to note the following:

- Often investors have not predetermined how much of their portfolios they want to invest into emerging markets, and hence the data on available funding for emerging markets is only indicative of the overall availability.

- Not all investors have shared fund sizes and hence the aggregated data should only be seen as an estimation of where current funds are concentrated, not as a proximity of the full market size.

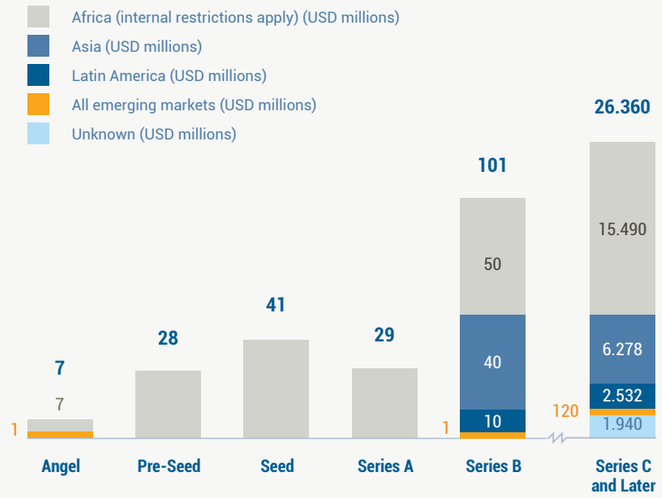
- Impact investors with a Nordic focus were only included in this study to a limited extent and the data on capital available from these investors serves only to illustrate that the impact capital that is not restricted to emerging markets is much more widely available, not to estimate the full capital availability for non-emerging market solutions.

In section 2.3, we zoom in on the type of solutions that investors are looking to invest in, with further nuance around geography, sector and other factors. We then explore the reasons for lack of investment in the early stages.

2.3. Investment breakdown

We saw in the previous section that investment is concentrated in the later stages of the investment pipeline. However, there appears to be some capital available for emerging market solutions from the Nordics in each stage of the pipeline. We therefore dive deeper into the capital available at each stage, and its restrictions based on criteria such as sector and geography. The following sections look more closely at the emerging market capital specifically.

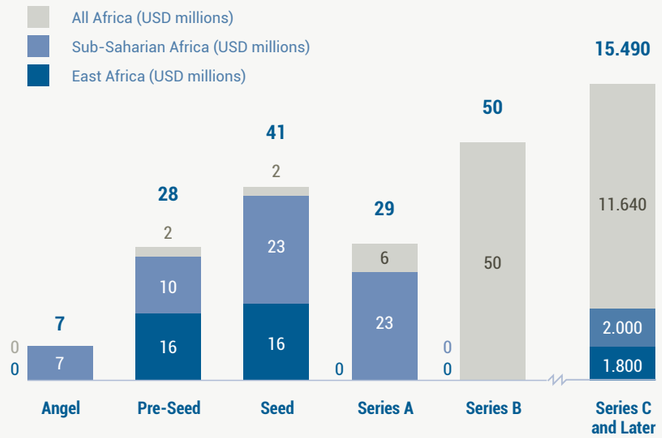
Graph 4 Nordic emerging market investment breakdown across geographies



2.3.1. Geography

Most Nordic emerging market investors have a clear geographical focus area, and as the graph shows, for most of them, this is Africa. In fact *all of the emerging market capital* in our sample was solely focusing on Africa from Pre-Seed to Series A. As DFIs come into play (from Series B and onwards), this picture changes slightly. It is clear, however, that throughout the investment pipeline, Nordic investors are mainly targeting African solutions, with a slight interest in other geographies at later stages.

Graph 5 African-focused Nordic investment breakdown within the continent



Once we zoom in on capital available for African impact solutions, we are confronted with even more geographically fragmented capital availability. Again, investors at later stages tend to focus more broadly whereas earlier stage investors have a stricter focus. In the earlier stages we see that the capital still largely follows historic development aid patterns, with a big bulk of the available capital concentrated in East Africa in Pre-Seed and Seed and generally in Sub-Saharan Africa until Series B and later funding. Furthermore, this graph does not show details on a country level. However, some investors who are included under East Africa hereinabove have restricted their capital to specific countries in the region, e.g. in Kenya and Ethiopia.

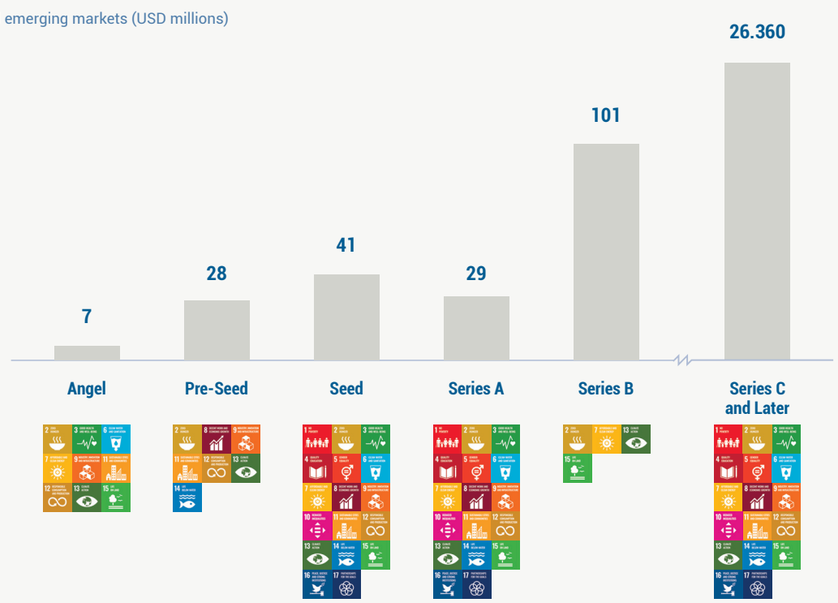
2.3.2. Sector

In addition to geographical constraints on capital, there are also specific SDG focus areas for investors who are looking to invest in specific sectors and impacts. The above illustrates all SDGs represented in each stage, but each individual investor typically targets only a small number of the SDGs in a given stage. For an SDG to be highlighted in the graph, only one investor in the stage needs to target it, regardless of the size of capital available for this specific SDG.

While SDGs are widely represented in the sample, there are a few that stand out, namely 2:Zero Hunger (Food & Agriculture), 3:Good Health & Wellbeing, 7:Affordable & Clean Energy and 9:Industry, Innovation and Infrastructure (hereunder fintech) as Nordic favorites for emerging market investments.

Graph 6 Emerging market capital breakdown based on SDG focus

This capital is not restrictive according to SDGs but is not included in the SDG overview as it represents less than 1% of the total capital in Series B

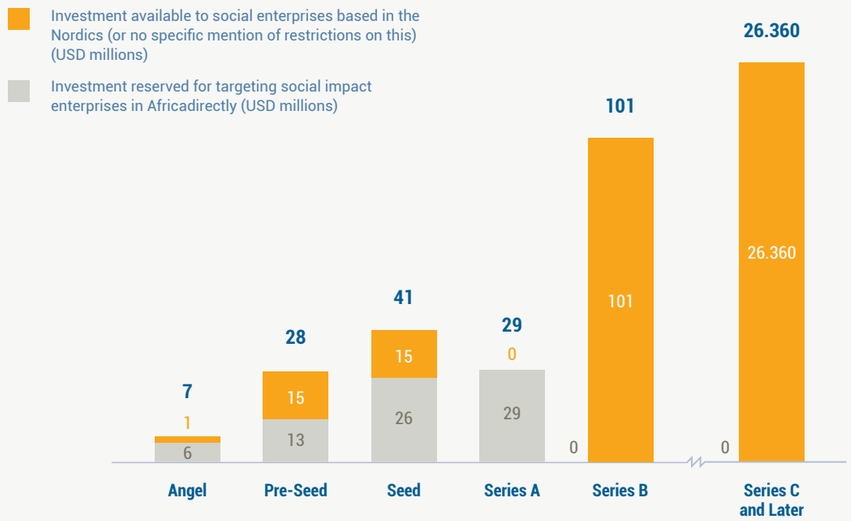


2.3.3. Legal structure of investees (geographic base of entity)

We have further looked at whether Nordic investors are investing in Nordic-based but emerging market focused solutions or tend to invest directly into local solutions in emerging markets. The data shows that there are no investors currently explicitly targeting only Nordic-based emerging market solutions, but some of the capital is restricted to local solutions only:

Early-stage capital for emerging markets tends to be invested directly into emerging market solutions. Often this is done through establishing a local office in an emerging market and building networks there to help source local portfolio companies.

Graph 7 Nordic emerging market capital that is available to Nordic-based social enterprises vs. capital that is earmarked for emerging market based solutions



2.4. Challenges with fragmented capital availability

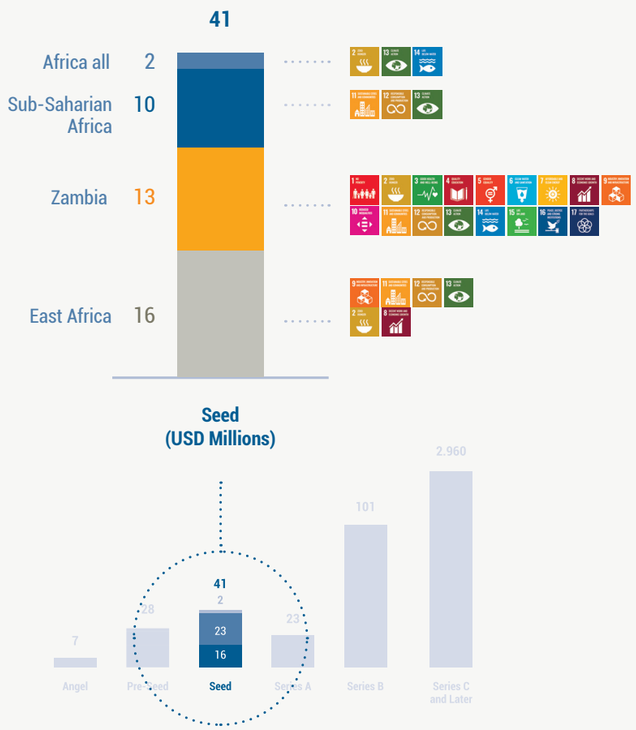
As the previous section clearly illustrates, the Nordic funding available to emerging market solutions is highly fragmented in terms of stage focus, geographical concentration and sector preference.The picture is further limited when zooming in on capital for Nordic-based emerging market solutions.

When we overlay several of the criteria from the previous chapter it becomes apparent just how narrow the available funding at early stages of the investment pipeline is. For instance, if the sector focus is broken down by geographical area our data shows that the Seed funding available for emerging market solutions would look like this:

The below graph (Graph 8) shows that social enterprises focusing on Zambia have opportunities to source seed stage capital, but other social enterprises focusing on Africa have a high likelihood of being excluded from a funding mandate due to their geographic or sector focus. Hence, even within Africa which is overwhelmingly most represented in our data the available funding is focused on very specific types of solutions. Social enterprises operating in Latin America or Asia are excluded completely, with no seed stage capital available.

Early-stage investors are limiting their investments to either a specific geography or a specific sector (or both). This is often based on their own knowledge of the markets, risk assessments, and ability to see themselves being able to contribute more than capital. However, it creates a very fragmented funding pipeline that excludes many social enterprises.

Graph 8 How capital available for each sector is distributed across geographical areas within available Seed funding



2.4.1. Factors limiting investment into Emerging Markets

We have seen thus far that Nordic capital for emerging market-focused social enterprises is very limited. However, we also know that there is an appetite for deep impact in emerging markets amongst these same investors. Why then is there not more funding available?

Our analysis points to four main challenges that Nordic investors face when considering emerging market impact investment:

1. Deal flow
Investors have a difficult time identifying potential investment prospects with emerging market focus:

> *Pre-Seed investments are fairly easy to find locally, but after that it is very hard. It is too small for institutional investors and there aren't enough local funds.*
>
> Angel investor with some investment in emerging markets

> *Limited visibility and overview over start-ups within my focus areas, limited time for DD, limited understanding of market conditions in target countries, limited local network in target countries [are preventing more investment into emerging markets].*
>
> Angel investors with some investments in emerging markets

2. Risk
Investments into emerging markets are related to bigger unknowns for Nordic investors, driving the cost of capital to non-competitive levels:

> *Finding cases with high social impact and good return on investment is challenging.*
>
> Denmark-based emerging market fund investor

> *Getting more investments into Emerging Markets would require a de-risking element or investors who are actually interested in giving up financial return for impact.*
>
> Emerging market fund investor

> *Investors' and entrepreneurs' valuation does not match.*
>
> DFI

> *Most local investments in emerging markets have failed. The risk is still too high. We did not make a positive return on investment on an aggregate level [on previous investment round].*
>
> Nordic emerging market investor based in emerging markets

> *Information asymmetry between the Nordic Investors and Emerging Market investees needs to be made smaller and expectations need to be aligned in order to increase investment into emerging markets.*
>
> Emerging market angel investor

3. Proximity
Investors are far from the potential investees and their markets, making it hard to find investees and to support them in non-financial ways:

> *The enterprises are far away, and the team and the founders are really important. It is hard to understand their track record and do not know their previous founders and this knowledge takes a long time to build up.*

Denmark-based emerging market focused investor who started investing in 2014

> *Far away – some impact investors in East Africa occasionally reach out to us [about investment cases] but most investment cases are found on the ground.*

Denmark-based emerging market focused fund

> *We would be interested in investing more in emerging markets in a few years and many of the solutions are already focused on these. The current challenge is geographical i.e. being physically close to your investment objects.*

Nordic impact investor who is not currently focused on emerging markets

4. Co-investment
Finding both Nordic and local co-investors for specific emerging markets and sectors is difficult for investors who are looking for collaboration partners:

> *Time is a challenge. Finding additional funding is a really tough exercise with a lot of requirements.*

Denmark-based emerging market

> *We would like to invest more but cannot do it alone. There are a lot of opportunities there that should be showcased to the Nordics, i.e. more funding available, more collaboration for efficient funding and less silos, helping each other create a more coherent financing pipeline to know who plugs in where and adding transparency.*

Nordic impact investor who currently has limited investment into emerging markets

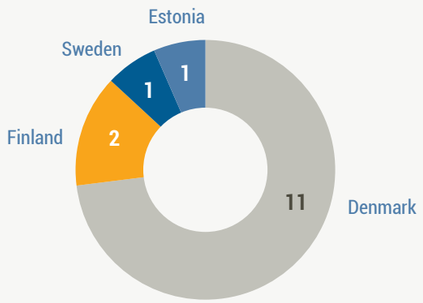
It is clear that there is interest in more emerging market investments amongst Nordic investors, but an underdeveloped market currently leaves room only for the most dedicated investors to enter this space. Additionally, amongst the investors who are spearheading the investment into these markets, the track record for successful early-stage investments is still relatively new and thin, and geographically and sectorally limited.

Social Enterprise Ecosystem in the Nordics

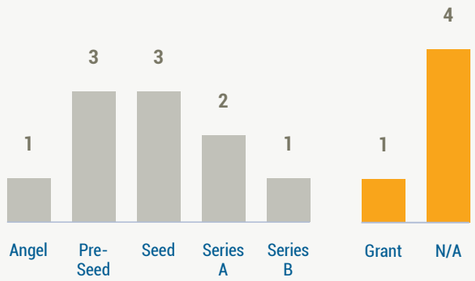
3

In this section we dive deeper into the Nordic social enterprises that operate in emerging markets. The data is based on a survey and interviews with 15 social enterprises, the majority of whom are based in Denmark. This section focuses exclusively on the characteristics of emerging market social enterprises that are based in the Nordics.

Graph 9 Amount of social enterprise respondents based in each country



Graph 10 The next funding round of social enterprise survey respondents



3.1. Overview of ecosystem participants

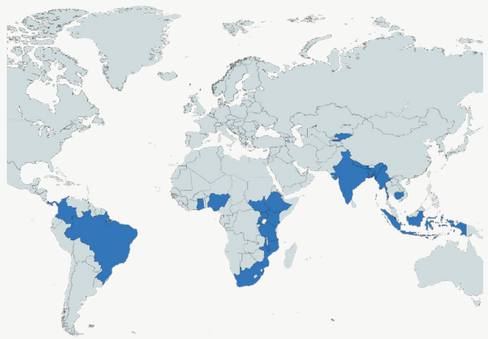
Graph 10 shows where the Nordic-based social enterprises are concentrated, based on the stage of funding they are seeking. There is a concentration in the earlier stages of the pipeline, around the pre-seed and seed investment stages. Some respondents also opted for or were considering applying for grants instead of investments due to the challenges associated with sourcing this type of capital. Several respondents are still unsure how to source their next capital and these are reflected in the N/A section.

3.2. Ecosystem breakdown

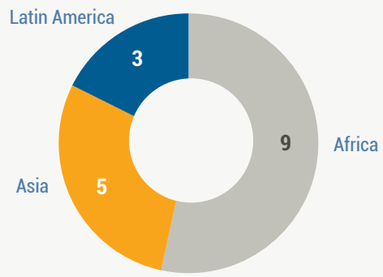
In this section we look at the detailed characteristics of the social enterprise respondents, from their geographical and sector focus to their current size and future needs. This will serve to better understand the similarities and differences between the available capital and the profile social enterprises seeking impact investment capital.

3.2.1. Geography

Graph 11 Social enterprise respondents' markets



Graph 12 Target markets of social enterprises (can have several)

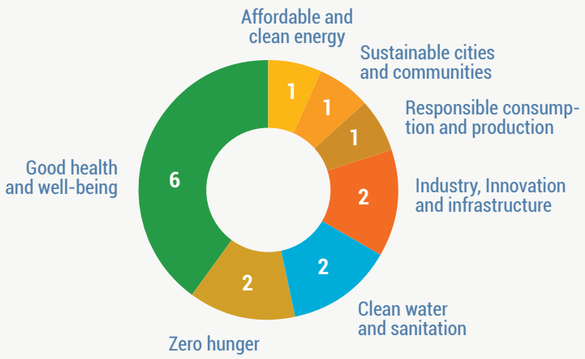


The social enterprises cover geographies in Latin America, Africa and Asia. Most of them have operations across several countries and also across several continents. Several of them mention being interested in expanding more broadly in Africa and South East Asia. Only countries with existing operations are included in the illustration.

African countries or Africa as a whole was most represented amongst target markets. However, Asia is also well-represented amongst respondent target markets.

3.2.2. Sector

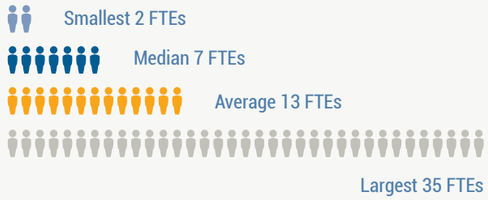
Graph 13 Respondents sector focus



3.2.3. Size

The social enterprises in our sample employ on average 13 people (with a median of 7 FTEs). All the companies in the sample are relatively small, ranging from 2-35 FTEs across continents:

Graph 14 Amount of FTEs employed in social enterprise respondents



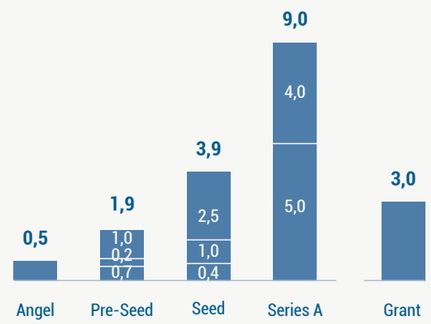
Respondents found it difficult to estimate the size of their enterprise based money raised from previous funding rounds, and more than half of them have not reported their revenues in the two previous years. Therefore, the next section on future funding needs better approximates their financial standing and goals.

3.2.4. Growth and future needs

As we saw in section 3.1., most of the social enterprises will be looking for pre-seed or seed funding for their next investment round. Below are the approximated total amounts that this entails.

Graph 15 Funding demand per company and in total across investment rounds (USD millions)

5 respondents did not provide data on their next funding rounds. Some also provided data on which their next funding round will be but not the target amount.



We can see that the amount of capital sought by respondents grows steadily for each phase in line with what could be expected. Whereas the pre-seed and seed stages have most social enterprises in them (three each), series A represents a bigger amount of capital needed. There is only one social enterprise amongst our respondents looking for Series B funding, but it was not able to make an estimate of its target funding round size at this point. No social enterprises are looking for funding past the series B stage.

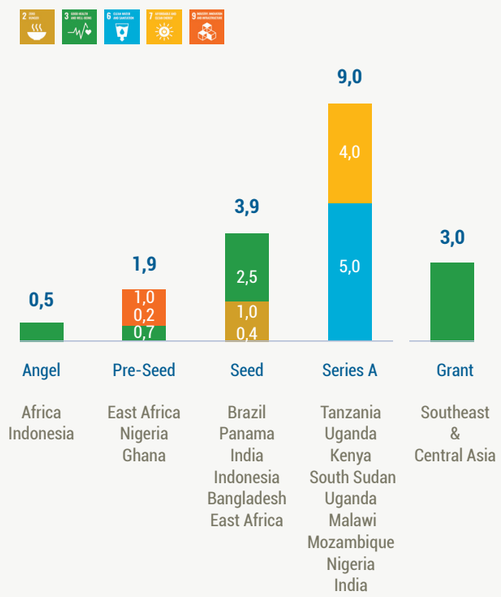
The next section paints a more holistic picture of the demand side and shows how fragmented it is when overlaying geographical, sectoral and stage needs.

3.3. Challenges

When we overlay different characteristics of social enterprise funding needs, we see a similarly fragmented picture to the one presented earlier for investors, with each enterprise representing a different geography and/or sector. This picture is indicative of the challenges that social enterprises face when looking for investment, as they require their impact investors to match their geographic and sector focus, as well as funding requirements. Below we dive deeper into the funding gaps and the main difficulties that social enterprises face when fundraising.

Graph 16 Funding demand per company and in total across investment rounds mapped by SDG (USD millions)

5 respondents did not provide data on their next funding rounds

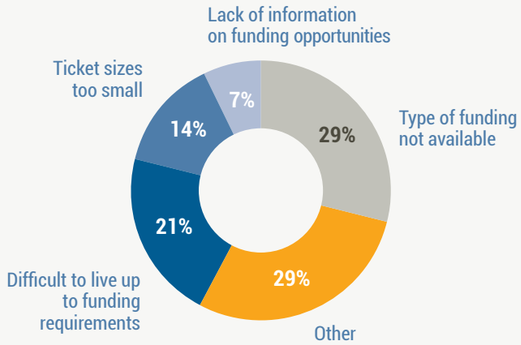


3.3.1. Funding gaps and constraints on existing funding

While the funding landscape is similarly fragmented, we saw in Section 2 that funding is available for social enterprises. We also know from our interviews with social enterprises that they find it very difficult to find relevant capital for their solutions. Where are the funding mechanisms failing social enterprises?

We asked social enterprises to select up to three of the main challenges they face during fundraising:

Graph 17 Main challenges for social enterprises in raising capital



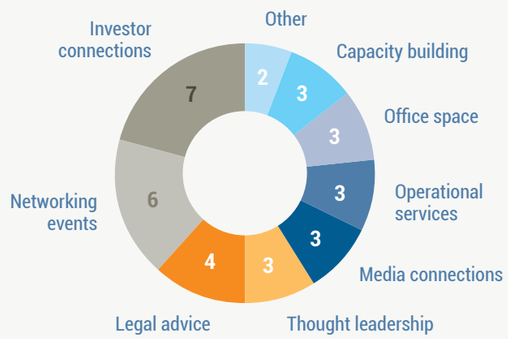
As we can see from the above graph, the three top challenges that Nordic social enterprises face when sourcing capital for emerging markets solutions are a lack of funding (mentioned by 33% of respondents), small ticket sizes, and difficulties living up to funding requirements. Under other issues, the right access to donors was mentioned as a challenge.

On the right are a few quotes from social enterprises on the challenges they face: These quotes illustrate how the available capital is too expensive and return-oriented and not patient enough to match social enterprises' needs. The fragmentation of the funding also becomes apparent in that some social enterprises experienced that their geographies or sectors were not fundable. The difficulty to live up to funding requirements is mainly related to the same issues, namely a focus on quick, monetary return on investment with little impact-first interest.Even as social enterprises are able to identify potential funders, they often experience that the ticket sizes are too small and more relevant investors to help close the funding gap are hard to identify. The administrative burden of fundraising is therefore very high.

3.3.2. Other capacity building gaps

The lack of funding is not the only challenge social enterprises face (although a lot of non-financial needs are often met through investor support).

Graph 18 Non-financial support wanted by social enterprises



Beyond funding itself, respondents are most interested in further access and connections to investors, which is reflected in both of the two largest categories of desired non-financial support by social enterprises. Many were also interested in more educational support e.g. either capacity building or thought leadership opportunities.

Private investors, who are the most impact-focused (compared to VC's at least) are not as willing to take risks as abroad - this makes it difficult to retain realistic valuations in early stages of the company. Additionally, as a company working with impact in the life-sciences field it is difficult to prove the theory of change, as medical technologies are known for year-long development timelines.

The geography [of our solution] is not fundable.

There is a lack of "real" impact investors.

Very few investors are investing and we have received a lot of rejections. Investors are interested but are not ready to fund.

Africa is considered too high risk and most of the funding is going towards green solutions.

We are targeting grants because we no longer believe we can get equity financing.

Challenges and Opportunities

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4.1. Implications of challenges on the Nordic Social Impact Sector

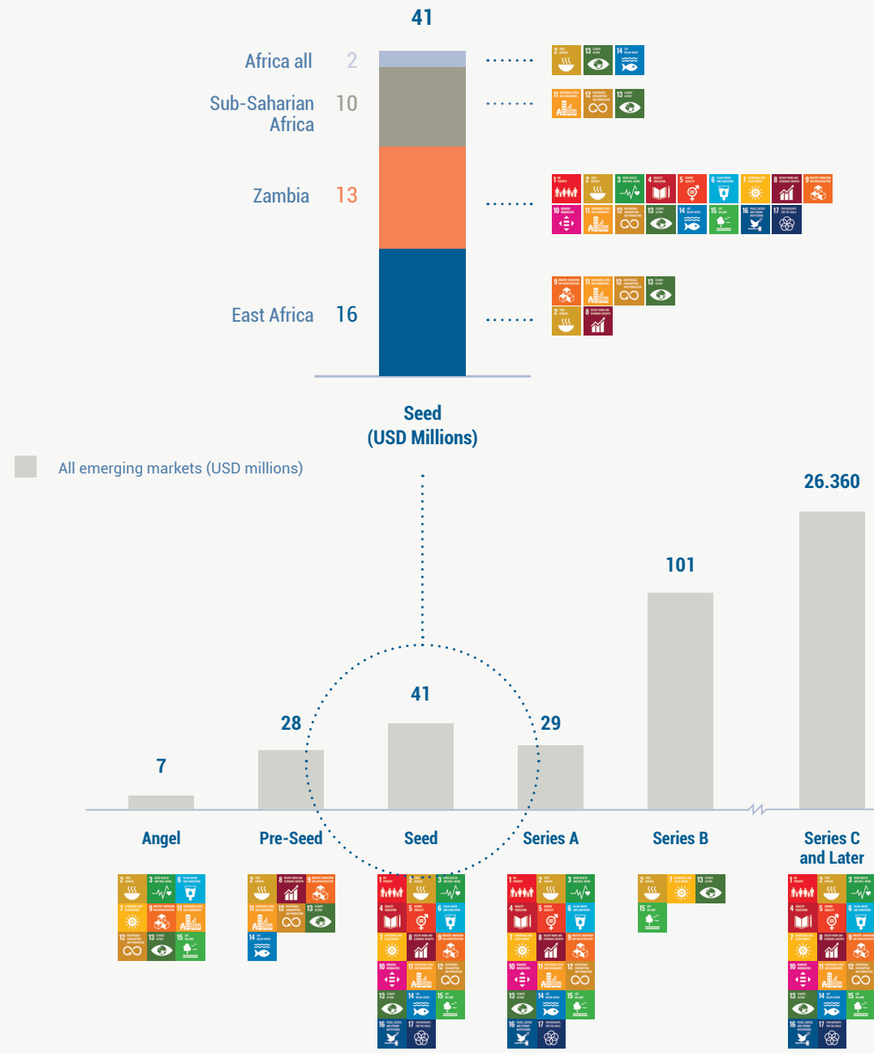
Within current funding channels and programs within the Nordic social impact sector, impact investments are not necessarily maximizing impact on the largest number of people with the largest need globally. In other words, impact is not distributed in accordance with the largest need under the SDGs. Rather, funding is earmarked for a specific market or a specific sector, and impact investors will focus on this narrow investment thesis. As a result, a large number of the SDGs as well as significant parts of the world are omitted from the Nordics' current funding channels and programmatic support ecosystems.

Additionally, funding is mainly concentrated in later stages of the investment pipeline, once investees have grown big enough to diminish their risk-profile, especially their financial profile through, for example, a track record of profitability. The risk of investing into early-stage solutions is further increased by funders' lack of networks and limited access to emerging markets, which makes understanding the local market and supporting investees on the ground challenging. Concentrating on later stage funding reduces these risks associated with early-stage investments.

On the Nordic social enterprise side, the picture is also still looking underdeveloped. The social enterprises that work on emerging market solutions are few and they face a challenging environment where funding opportunities and other collaborators are hard to identify. Due to the fragmented funding market, the social enterprises often do not match investor wishes in terms of geography or type of impact. Furthermore, there are seemingly no incubation nor accelerator programs that focus on growing the currently thin pipeline of social enterprises.

We can see that often when we layer multiple investor conditions on top of each other, the available funding does not match the social enterprise needs. To summarize and illustrate this we have broken down the emerging market Seed funding in Graph 19, showing that for social enterprises at this stage most SDGs are only fundable if operations are focused on Zambia (this is based on one investor in our sample who is focused on the area). This does not match the demand side, where none of the social enterprises seeking funding at this stage have operations in the country.

Graph 19 Breakdown of available Seed funding with SDG and geography requirements



Zooming out, we see that all early-stage capital (until Series B) is focused on Africa. This does not match the demand side where roughly half (see Graph 12) of target markets are in Asia and Latin America.

In sum, the pipeline is currently lacking both on the supply and demand side of social enterprises with an emerging market angle. The capital available does not match social enterprise needs, and both finding investees and investors are tedious tasks. However, there is a demand for more impact-first investment and there are social enterprise frontrunners who are setting an example on how to leverage Nordic ecosystems and expertise in conjunction with local knowledge and partnerships so to reach new markets where their impact is largest.

4.2. Opportunities

There is an opportunity for the Nordics to make a global impact on the SDG agenda by expanding our view of impact investment and our role in social entrepreneurship ecosystems. A Nordic-emerging market linkage across entrepreneurs and investors can support emerging market impact, and below we lay out a few concrete suggestions for how we might overcome some of the existing challenges and leverage these impact opportunities.

Since the emerging market impact investment space in the Nordics is still in an early formation stage, overcoming the obstacles to impact generation will require multiple simultaneous and complementary measures. Our suggestions consider the needs of entrepreneurs and impact investors in a broad, holistic manner. This means recognizing that de-risking investments and making them less administratively burdened is one of several critical pillars that needs to be complemented by increased pipeline generation and support. One cannot and will not necessarily happen without the other.

It is important to also note that while this space is still underdeveloped in the Nordics, there are existing global initiatives and funding mechanisms that come with important lessons and support to new initiatives and enterprises. As we can see from our survey, there are many social impact enterprises working on emerging market issues, paving the way for more similar enterprises. Furthermore, there are several institutions that offer capital to more established social enterprises (from series B onwards). There will therefore be capital and investors to support new social enterprises once they grow large enough to be picked up by these larger institutional investors.

4.2.1. Closing the pipeline gap

To increase the amount of investible social enterprises in the early stages of the pipeline (pre-seed to series A) and meet the demand of investors later in the pipeline, idea generation through Nordic incubation and acceleration programs with focus on emerging market social impact are needed. Programs focusing explicitly on this can provide adequate and relevant skills to founders while simultaneously increasing their connectivity in the ecosystem. This includes facilitated connections between relevant investors and social enterprises, helping bring the current funding-related administrative burden down.

Simultaneously, increasing Nordic investor access directly to emerging market-based solutions can increase the amount of solutions investors can consider at early stages of the pipeline. This would require close collaboration with investors, incubation programs and other ecosystem actors on the ground in emerging markets who can facilitate knowledge sharing.

4.2.2. Ecosystem support

As previously suggested, the Nordic entrepreneurial ecosystem focused on emerging markets needs to be better connected and catered to through different forms of capacity building and partnership formation. This means both facilitating connections locally in the Nordics and between the Nordics and emerging markets. Furthermore, companies in the pipeline need more support throughout the journey. From legal advice, access to information on markets, skills-development and most importantly, access to relevant investors and networking events, there are many non-financial needs that are not currently met in the ecosystem for these enterprises specifically. This means supporting them also after the incubation and acceleration programs (as mentioned in the previous section) with less intensive but continuous efforts to help them scale their operations and impact.

4.2.3. Increasing available funding

The big obstacle for early-stage impact funding focused on emerging markets is the high risk that drives up the cost of capital for the social enterprises to unsustainable levels. However, there are multiple factors that can bring down this risk. First, information on social enterprises and the markets that they operate in needs to be more accessible to Nordic investors, to de-risk the knowledge gap. Similarly to closing the pipeline gap, this can be realized through e.g. increased collaboration with entrepreneurial ecosystems on the ground in emerging markets, who can help share information on market and investment prospects. This can also help drive down administrative costs (e.g. market research, deal-sourcing) that Nordic investors typically face when looking to invest into emerging markets, and broaden the geographical and thematic scope of what is feasible for investors.

Furthermore, involving emerging market investors or more Nordic investors with emerging market experience in a deal can increase the non-financial support (expertise) that investors are able to provide to the social enterprises they invest in, giving them more agency in the future success of their investments. Facilitating collaboration amongst investors and making it easier to find relevant co-investors can therefore contribute to bringing down the risk of a potential impact investment.

Conclusion

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The Nordics are frontrunners in impact investment, but this leadership is not reflected in the field of emerging market investments. There is a lot of untapped potential for the Nordics to contribute to generating global social impact in the places it is most needed and impactful in sustainable ways. An empty space between development aid programs and investments into established emerging companies persists, and the little funding that is available is geographically and thematically limited.

Closing this gap can help channel investment to early stage solutions that are filling a current and real need on the ground in emerging markets, and that will keep generating change for a long time. Investing into these types of solutions can provide a scalable, impactful, and profitable alternative to current impact investment opportunities for Nordic investors who are looking to generate considerable social change with their investments while also making profitable investment choices.

Nordic impact investors are slowly waking up to the potential of early stage emerging market investments for their impact and monetary potential currently embraced by several global ecosystems, but there are many hurdles that prevent this space from growing into a less niche market. Whereas there are some Nordic enterprises with an emerging market focus, and some Nordic emerging market investors who fund later stage startups, the pipeline is still too thin and the administrative cost for finding investments is still too high for investors. To make this a vibrant, well-functioning space, the ecosystem needs to support both impact investors' and social enterprises' needs with activities and support mechanisms that match different stages in the social entrepreneurship journey from inception to scaling.

From an impact perspective, there are many good reasons to increase connectivity between the Nordics and emerging market social entrepreneurship ecosystems. We have summarized them into three main impact channels:

Table 2

CHANNEL	IMPACT POTENTIAL	OPPORTUNITY
Accelerating Innovation Leveraging well-established Nordic innovation methods and technologies in new markets, and collaborating with innovation methods in emerging markets to strengthen social impact innovation methodologies	To accelerate innovations in larger markets where impact is greater	Closing the pipeline gap through incubation and acceleration programs
Global Support Systems Building innovation and entrepreneurial support ecosystems that leverage networks of Nordic expertise and capacity building for developing and commercializing solutions, in partnership with local support ecosystems that leverage deep local expertise and knowledge	To unlock the potential of global impact innovations, which often lack support and capacity building needed for scale	Providing capacity building activities to social entrepreneurs and partnership generation to all actors in the entrepreneurial ecosystem
Nordic Funding Channeling Nordic capital to the most impactful solutions globally	To grow impactful solutions that are operating in markets with larger resource and capital constraints than in the Nordics	De-risking investments through close collaboration with emerging markets and pooling of resources

To utilize these impact channels, a holistic strengthening of the entrepreneurial ecosystem for emerging market solutions is needed. This means 1) creating incubation and acceleration programs that build and strengthen the pipeline, 2) building stronger ties to emerging market entrepreneurial actors (investors, entrepreneurs, experts) to lower the risk and increase market understanding, and 3) better organized impact investment vehicles that allow pooling of funds and identification of investment targets with lower administrative cost.

Overall, leveraging the connectivity between the Nordic and emerging market social entrepreneurship ecosystems to fill the gaps in the currently fragmented funding and social enterprise ecosystem in the Nordics can accelerate the impact that the Nordics can have on the SDGs.

Notes

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