INVESTING *FOR* IMPACT

POLICY BRIEF

Incubators and Accelerators: Bridging the Gap for New Impact Ventures in Europe

Although the impact investment and social enterprise sphere has received more attention in the last couple of years, there are still some challenges to overcome in order for the sector to thrive. To maximise the potential for innovation by European entrepreneurs, the European Commission has identified four factors[1] that have to be addressed. The first challenge refers to **funding**, namely the difficulty for public policies to bridge the gap to private investments, while breakthrough innovation requires large investments over a long time span. As a second factor, Europe needs a flagship initiative and anchor investors in order to raise **awareness** for innovation. The third challenge addresses the need for continental, as opposed to national, **scale** in order to compete at a global level. Finally, under the header of **talent**, the attraction of role models is called for, in order to encourage a risk-taking culture with empowerment through entrepreneurship. In addition to the challenges determined by the European Commission, EVPA has identified the **lack of an investment-ready pipeline** as one of the main limitations within the European social enterprise scene.

With regard to these challenges, it is of high importance to support social innovation from an early stage onwards in order to secure the impact ventures' full potential and minimise the loss of breakthrough solutions. Capacity-building initiatives, such as incubators and accelerators, can play a key role in this respect, preparing those ventures for the market and creating scaling conditions for them.

1 European Commission, 'Funding - Awareness - Scale - Talent (FAST) - Europe is back: Accelerating breakthrough innovation', January 2018.

WHO: INCUBATORS VS ACCELERATORS

In order to see their potential, it is important to understand the concepts of incubators and accelerators. Although they are closely related and often used interchangeably, they can be distinguished on the basis of four dimensions, namely (1) **purpose**, (2) **duration**, (3) **application process** and (4) **support provided** (see Table 1). Incubators target ventures in the ideation to product phase, preferably with a local focus, helping them in the early stages of development for a long-term and open-ended period of time. Incubators offer basic support through co-working space and mentoring on specific topics, such as impact management and business modelling. Accelerators, on the other hand, aim their arrows at social enterprises that have a tested business and impact model and are looking to scale up. They offer a short-term (usually 3-6 months) programme, in which they provide the carefully selected ventures with in-depth support, such as workshops, training modules, close contact with investors and opportunities to reach new market segments. In summary, incubators can be described as providing 'space', whereas accelerators offer 'programmes'.

	Purpose	Duration	Application	Support
Incubators	• Early Stage • Ideation to product • Develop a network of support	• Open-ended timeline • Often a long-term process	• Focus on local impact ventures with less pressure to grow	• Mentorship • Co-working space • ...
Accelerators	• Scale and growth • Product-to-market fit • Preparation for investment readiness	• Pre-defined timeframe • Usually 3-6 months	• Demanding application and selection process • Preferably international focus	• Workshops • Mentorship • Co-working space • Demo-days • Training modules • ...

Table 1 - Incubators and Accelerators comparison

WHY: CHALLENGE FOR IMPACT VENTURES

Every impact venture has a lifecycle that consists of four stages[2] (see Table 2 below), which are sometimes difficult to move through without external help. That is where incubators and accelerators come into play. Firstly, in the **blueprint** stage, there needs to be a compelling initial business plan and preferably some proof of concept, for example through successful prototyping or technology demonstration. Secondly, in the **validation** stage, the venture undertakers have to verify the commercial viability and scalability of their business model by conducting market trials, leading to the launch of the product. In the third stage, the conditions in the market have to be **prepared** and the organisational capacity has to be built in order to support sustainable scaling. When creating a new market, this might involve paying for customer education on the demand side, and improving capabilities on the supply side. After overcoming all these challenges, the venture might finally move into the **scaling** stage, where it is in a strong position for growth. New challenges surface by entering new geographies and segments, by exploiting efficiencies and by managing more investors and stakeholders.

When it comes to the funding of these social ventures, there is a clear mismatch between what the enterprises need at every stage of their lifecycle and what impact investors have to offer. In most ecosystems, there is abundant support in the blueprint stage. Unfortunately for the impact venture, few investors seem prepared to provide capital in the validation and preparation phases. During these stages of the lifecycle, social enterprises usually pursue investment below €500,000, whereas most impact investment funds are focused on amounts above this threshold to compensate for the high transaction costs of these deals. This market failure causes many impact ventures that try to move forward to end up in the so-called 'Death Valley': after they received initial funding, additional capital is scarce and the venture needs to bridge a gap to arrive at the scaling phase. This lack of funding prevents many ventures to develop and even forces some to cease existing. In the fourth stage, the venture typically has proven that its model works and investors are again willing to provide capital and technical support.

HOW: ROLE IN THE IMPACT VENTURE ECOSYSTEM

Incubators and accelerators have an important role to play in helping impact ventures overcome the Death Valley. Social enterprises are more effective in attracting high-risk capital, especially in early stages of development, if they can demonstrate a strong business and impact model, if they have stable revenue streams and if they are able to bring forward a robust long-term strategy aided by rigorous management control systems[3]. Incubators and accelerators specifically support impact ventures in these areas with the primary goal of giving them a better chance at survival, growth and scale. From a policy perspective, incubators and accelerators thus have a critical role in creating a stronger investment pipeline towards impact ventures by enabling them to become investment ready.

	1. BLUEPRINT	2. VALIDATION	3. PREPARATION	4. SCALING
Key activities	Develop prototype	Conduct market trials	Build organisational capacity	Move to new geo-graphies/ segments
Funding need	n/a	€150-500k	> €500k	> €3m
Funding availablilty	✓	✗	✗	✓

Table 2 - Impact ventures lifecycle

2 Koh H., Karamchandani A., Katz R.,'From blueprint to scale - The case for philanthropy in impact investing', April 2012.

3 Makey, T., *'Growing the social investment market: Investment Readiness in the UK'* Big Lottery Fund Research (72), September 2012 (page 8).

WHAT: A BENCHMARK FOR ACCELERATORS

With the increasing number of capacity-building initiatives within the social enterprise ecosystem, a variety of models and approaches for accelerators has emerged. As a first element, accelerator programmes are resource-intensive, so their **business model** and funding tools are of high importance. Firstly, accelerators can offer grants, acting as *sponsors*. Typically being foundations or corporates, they take on an acceleration programme as a way of bringing the innovation of the impact venture in-house. Secondly, acceleration programmes can be funded by means of *equity*. The accelerator provides support in exchange for a stake in the impact venture, with the underlying idea of increasing the value of that stake over time through the direct aid. Thirdly, accelerators can work in close synergy with *funds*. In addition to investments by the accelerator, the fund partially supports the venture, also promoting the opportunity to incorporate seed investment after the programme. A second key element is the accelerator's **focus**. *Generalist* accelerators take on any type of venture, without focusing on a particular industry or sector, whereas *specific* accelerators focus their recruitment on a predefined vertical, such as technology, mobility, or even impact. A third key element of accelerators is their preferred **stage** of the ventures' lifecycle. Although both are possible, accelerators are typically focused on growth-stage rather than *early-stage* ventures. They assist the impact ventures in finding a product-to-market fit through market trials and organisational capacity building in order to scale, thereby making them investment-ready. The **duration** of accelerator programmes, as a fourth element, is approximately three to six months. Finally, accelerators typically work with a limited amount of ventures, running two **cohorts** of about ten ventures per year.

EU POLICY INSTRUMENTS TO PROMOTE INVESTMENT READINESS

There is a range of policy initiatives at EU level that aims to fulfil the mismatch between supply and demand of capital in the social enterprise ecosystem. **EaSI** is the EU programme for Employment and Social Innovation. Directly managed by the European Commission, EaSI runs from 2014 until 2020. One of the objectives of the programme is to increase the availability and accessibility of microfinance for vulnerable groups and micro-enterprises, and to increase access to finance for social enterprises. In this regard, Strand D of the programme focuses on the development of social enterprises to become investment ready. With the help of EaSI funding, incubators and accelerators are important actors in generating a pipeline of social enterprises that are prepared to access social finance for their development and growth. From 2021 onwards, under the new Multiannual Financial Framework (MFF) 2021-2027, the EaSI programme will be incorporated in the European Social Fund Plus (ESF+).

A second relevant European policy instrument is **EFSI Equity**, which is part of the European Fund for Strategic Investments (EFSI), a joint initiative of the European Commission and the European Investment Bank (EIB) Group. EFSI Equity is managed by the European Investment Fund (EIF) and provides social impact investment instruments to or alongside financial intermediaries, providing risk capital financing to social enterprises in their early, growth or expansion stage. One of the social impact instruments supported under EFSI Equity is investments that are linked to incubators and accelerators whose primary objective is to help accelerate the growth and success of early stage social enterprises. With the introduction of the MFF 2021-2027, EFSI will be part of the InvestEU programme.

The **InvestEU** programme will bring under one roof all the EU financial instruments that are currently available during the period of 2021-2027. One of the four main pillars of the programme focuses on social investments and skills. Currently, €4billion is dedicated to this pillar. The adoption of the delegate act is foreseen in February 2020.

In summary, with their financial and capacity-building support, incubators and accelerators have the ability to support social impact ventures to be prepared for the market, to grow and scale up, and to overcome the funding gaps that occur during certain stages of their lifecycle. Incubators and accelerators thereby make ventures investment-ready, hence creating a pipeline of social enterprises for impact investors.

THE WAY FORWARD FOR INCUBATORS AND ACCELERATORS: FOOD FOR THOUGHT[4]

POLICY GAPS

The way forward for incubators and accelerators requires (1) **continuous support from EU policies and incentives** in order to ensure a complete coverage of support for social enterprises in different thematic areas and stages of the lifecycle, as well as (2) **national policies** to reflect national and regional needs. A big paradox still exists: while accelerators and incubators are very resource-intensive and need financial compensation for their services, the targeted ventures often do not have sufficient means. Apart from purely charitable grants or equity stakes, which often take many years to pay off, policy should aim at finding a seed-instrument to provide initial capital for start-ups, which can then be used to join an acceleration programme. Furthermore, an interesting question remains whether policy should be directed towards the capacity-building initiatives, or if the impact-creating enterprises should be targeted.

ACCELERATOR COLLABORATION

In order for the sector to further develop, collaboration between different national and regional acceleration programmes could be beneficial, for example through research sharing. However, since accelerators are often also competitors, it seems unlikely that this will voluntarily happen. Exchanges between programmes that are complementary because they operate on different verticals and stages in the lifecycle could be truly valuable to the ecosystem.

ARE INVESTORS IMPACT-READY?

Is the lack of a social enterprise investment pipeline also a function of the investors' inability to detect good opportunities? Many impact investors themselves do not have a clear idea how to go about it. Defining a strategy for setting up an impact fund is very complex, since it should not only consider the finance side, but also the needs of the company that aims to achieve social impact. Moreover, it is difficult to assess impact creation since there are no clear guidelines yet on impact measurement, nor are there specific key metrics.

To turn the question around, one can also ask if grant-funders are business-ready. Too often, impact ventures are excluded from grants because they also aim to generate financial returns. Still playing an important role for social ventures, grant providers and traditional charitable funders have yet to understand that impact and for-profit are not mutually exclusive.

EXAMPLES

I. CARIPLO SOCIAL INNOVATION

Cariplo is an Italian foundation that has created an integrated strategy in order to support the creation and growth of the impact investing system in Italy. The strategy is dedicated to three lines of actions:

(1) Capacity building is focused on the demand side. Cariplo offers training, grants and additional support for non-profit organisations in order to assist them in becoming financially sustainable in the long term. More specifically, they organise calls for grants, developed an open-source distance learning platform, LAB, and offer a range of workshops, seminars and lectures through their CSI TALKS.

(2) Focusing on the supply side, Cariplo offers an impact investment vehicle. Through direct and indirect investments with an impact-first approach, Cariplo aims at developing an impact investing culture in Italy. Their Giordano Dell'Amore social venture capital fund creates a supply of patient capital.

(3) Directly targeting social entrepreneurship, Cariplo provides investment readiness programmes to social start-ups. GET IT is a service-providing platform that brings together all the actors needed to support business initiatives in their initial stages of development in order to tackle relevant social challenges. These actors include incubators and accelerators. Their acceleration modules take three months, after which the social ventures are still entitle to join a three-months mentoring programme.

4 Based on the questions asked and feedback provided by the speakers and attendees of EVPA's webinar on incubators and accelerators in March 2019, which can be found here.

II. BETHNAL GREEN VENTURES

Located in the UK, the mission of Bethnal Green Ventures (BGV) is to invest in and scale tech start-ups that significantly improve millions of lives and deliver great returns for investors. Through the deployment of thirteen accelerator programmes, they have invested in 113 impact ventures. They are fully focused on companies that develop technology to have a positive impact on society or on the environment, on top of the potential for high-growth and significant investment. Within its programmes, BGV offers office space, investments with equity stakes, workshops, business reports, and a large network of investors, potential customers, and mentors. After the acceleration programme, social ventures are being followed up by one of the mentors. Since their approach is heavily resource-intensive, they apply a data-driven approach to prioritising the portfolios. BGV requires the start-ups to provide reporting on business and social impact measures, based on which the well-performing ventures are selected. Moreover, in order to overcome the Death Valley, BGV continues to fund its start-ups after they have finished the acceleration programme.

III. KATAPULT ACCELERATOR

Katapult Accelerator (KA) is based in Oslo, Norway, from where they attract worldwide social ventures for a three-month intensive residential programme. With a highly experienced team of consultants, private equity specialists, and start-up professionals, KA invests in impact ventures that have a scalable business model and leverage exponential tech, while solving societal and planetary issues. Moreover, they already have to be in the revenue-generating stage. KA's main message is that for-good and for-profit investments are not necessarily mutually exclusive. The accelerator continuously strives for return growth in order to keep attracting investors and to convince them of the impact investing possibilities.

MORE INFORMATION

In March 2019, EVPA, in partnership with MAZE, organised a webinar titled "Incubators and accelerators: bridging the gap for impact ventures in Europe". The webinar started with an introduction of the identity and role of incubators and accelerators within the social impact ecosystem by Luís Fonseca, managing partner at MAZE. Afterwards, three practitioners presented their success stories, thereby providing a practical view on how incubators and accelerators operate and provide opportunities.

A **recording of the webinar** is available on EVPA's website - here.

EVPA's Policy team is also available to provide more information on incubators and accelerators, as well as possible funding for such initiatives.

Do not hesitate to contact EVPA Policy team at policy@evpa.eu.com.

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