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SINGAPORE FINTECH FESTIVAL™

Beyond Profit: What Impact Venture Funds Seek in Startups

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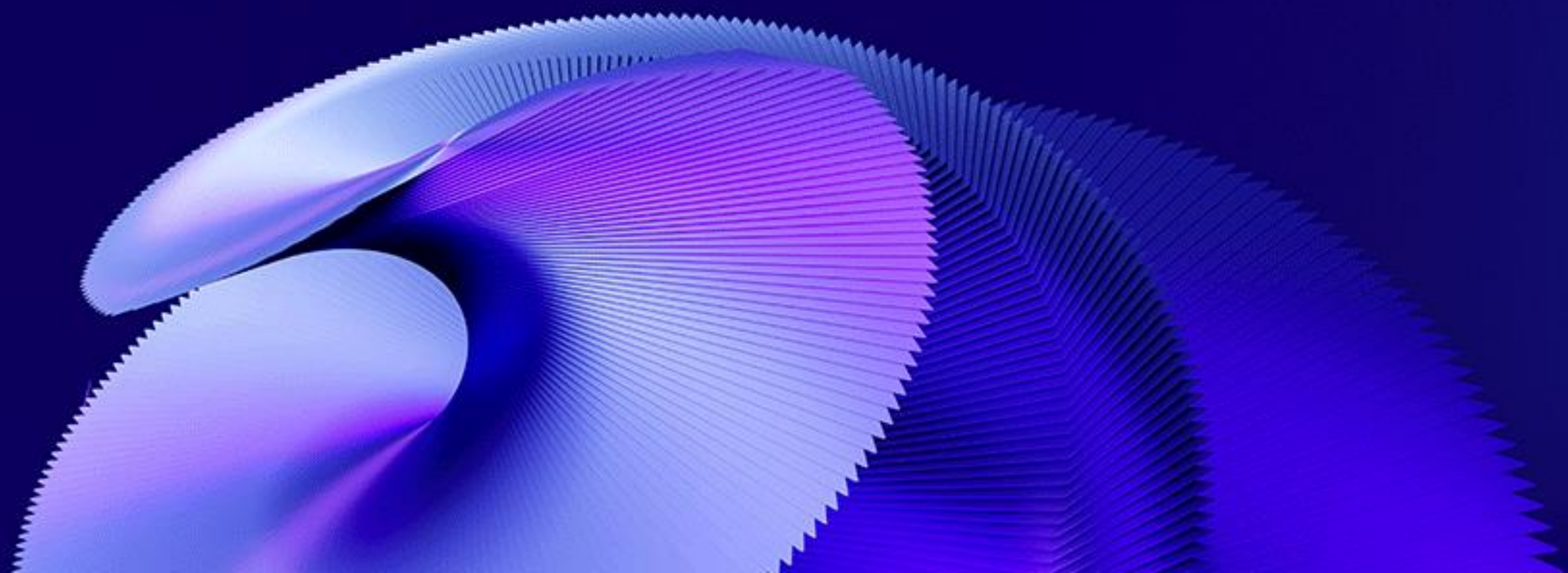
If you are a startup seeking investment, you might initially consider venture capital or business angels. However, with the increasing awareness of global needs for humanity, society, and the planet, impact investing has emerged as a significant source of finance for good. This market, which was valued at approximately USD 230 billion in 2017, is projected to reach around USD 1 trillion by 2025.

For mission-driven startups addressing critical issues in healthcare, education, or climate change, it's essential to explore the potential of attracting impact venture funds. These funds offer not just capital but also collaborative opportunities. Even if you're just starting out or operating on a small scale, understanding the investment criteria early on is crucial.

Impact venture funds aim to generate measurable social and/or environmental impact alongside financial returns.

In addition to the conventional expectation of financial performance, here are 5 key investment criteria for impact venture funds.



#1 The Impact is Positive

But what does "impact" actually mean? Many people use the term in a generic sense to describe some positive effect of a business or organisation. However, in the world of “impact investing”, impact has a specific meaning.

Impact is the ultimate large-scale contribution of a business, company or country to society including the environment.

This impact can be both positive and negative. It is fair to say that in the process of producing goods and services worldwide, positive and negative impacts are created simultaneously. The key question is whether the positive outweighs the negative.

#2 The Impact is Social or Environmental

As for a business, company, or country's contribution to society, the UN Sustainable Development Goals are a solid framework are a solid framework for orientation. These are the pressing problems that once improved will lead to a more balanced and sustainable future.

Any company of any size and from any industry can easily identify which of the SDGs their products and services support.

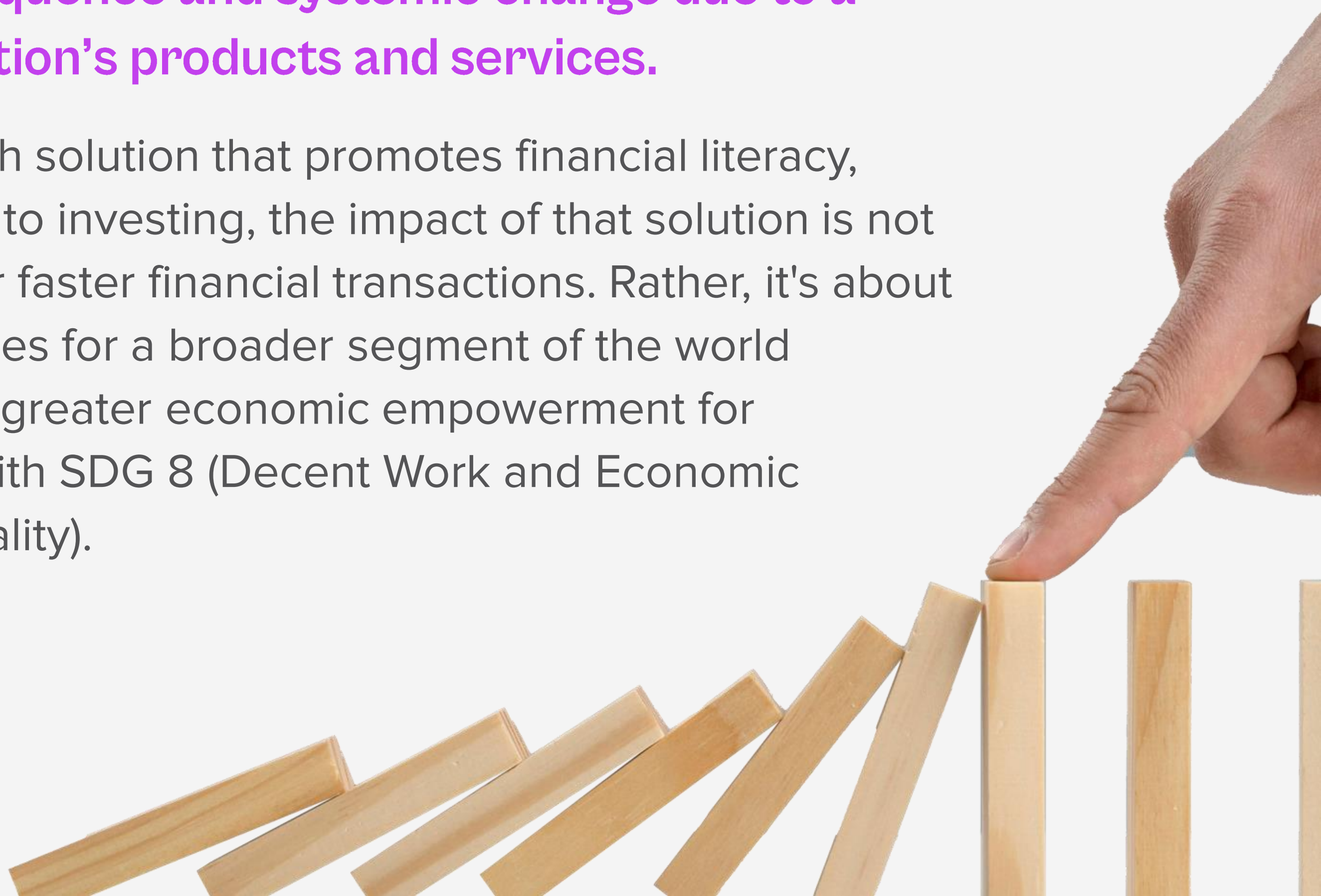
By using references to certain SDGs organisations can then communicate their vision and mission more clearly to investors but also other relevant stakeholders such as governments, communities, suppliers, and consumers.

#3 The Impact is Long-Term

The “ultimate” aspect of impact refers to the fact that impact is not about immediate outputs or outcomes.

Impact is the long-term consequence and systemic change due to a continuous use of an organisation’s products and services.

If we take the example of a fintech solution that promotes financial literacy, transparency, or inclusive access to investing, the impact of that solution is not that people benefit from easier or faster financial transactions. Rather, it's about creating new financial opportunities for a broader segment of the world population, potentially leading to greater economic empowerment for underserved groups – aligning with SDG 8 (Decent Work and Economic Growth) and SDG 5 (Gender Equality).



#4 The Impact is Scalable

The "large-scale" aspect of impact is critical for impact venture funds, as they seek to invest in scalable businesses that can amplify positive outcomes. Given the urgency of global challenges, there is no time or resources to spare on small-scale solutions. The geographic location of a startup or its initial focus on a specific region is irrelevant – what matters is its potential to grow and address pressing global issues efficiently.

If a product, service, or solution is sufficiently generic and easily scalable to reach a broader audience and various markets, the potential impact of that business will be appealing to impact venture funds.

#5 The Impact is Measurable

It is easy for organisations to remain vague or qualitative in their statements about impact, particularly when discussing the positive and charitable aspects of their actions.

If organisations are serious about creating change, they need to treat impact as an equal measure to profit.

In the impact realm, deriving meaningful KPIs can be complex. Collaborating with an impact venture fund not only sets the expectations but also provides guidance to establish a transparent framework of KPIs to measure a business's impact.

"If you can't measure it, you can't manage it".

PETER DRUCKER

Ecosystm Opinion

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Many believe only social businesses qualify for impact venture funding. In reality, any (tech) company solving societal or environmental issues is inherently impact-oriented. The key is awareness, measurement, and partnering with the right people.

Check out the websites and portfolios of impact venture funds – you'll be surprised by the diverse areas and industries they support. Your startup might be the perfect match!

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