Lessons Learned in Scaling Innovations for Impact Investors and Founders Alike

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From my experience as the CEO of an energy impact innovation, I have come to understand several key challenges facing our ecosystem of impact startups. Current frameworks for initial funding makes it difficult for impact innovations - especially from startups designed to improve ESG (Environmental, Social, or Governance) related challenges facing our world today - to receive the investment they will eventually need. In this piece I highlight both some core problems and potential solutions to the difficulties facing impact innovations as they attempt to scale up their operations.

Shortcomings of Transition to Scale Funding

Transition to Scale funding opportunities for impact innovations largely exist with private funding giants such as The Global Innovation Fund, The Development Innovation Fund, ELRHA - Humanitarian Innovation Fund, Bill & Melinda Gates Foundation, and World Food Program Innovation, and demand reports on impact but not on commercial growth. That said, investors, even those providing "patient capital," demand proof of growth before investing. Today, while "funders," rather than "investors," provide crucial support for innovation growth, they can delay liquidity, negatively impacting the progress of the start ups they are trying to support. The process of growing an idea, incubating it, and launching it for initial trials is considered the "seed phase." There is significant funding both in universities and beyond to encourage this concept-to-prototype development. At the other end of launch is scaling a product at the level of pre-Series A, Series A and beyond, and demands proven traction with users. Then there are the murky waters of Transition to Scale. Why? It is the abyss between incubation and scale. It is particularly murky for impact innovations. According to Ehlra study Too Tough to Scale, while innovation focused incubators and funding initiatives continue to emerge, investment in research and development in the humanitarian sector remains low compared to other sectors; the best effort to quantify spending to date on research and development in the humanitarian sector identifies it at less than 0.2% of total funding in this category. Another consideration is that impact innovations need to keep an eye on both degree of impact and degree of usability. It's often the latter that is neglected by founders and funders alike. More support is needed.

In my own experience, failure for grantors to ask for financial growth models and figures – and mentorship in this area – is a failure by the system that impact innovation startups should be aware of. Practical, operational, and financial forecasts should be regularly revisited and revised to guide decision making through collaboration with top accelerators to hone business-related skills among innovators.

A positive addition in this direction is The Humanitarian and Resilience Investing (HRI) Initiative, and the associated Cross Boundaries. The Humanitarian and Resilience Investing (HRI) Initiative, initiated by the World Economic Forum (WEF) in 2019, aims to cultivate partnerships and promote the development of the HRI ecosystem. It focuses on its mission to assist the investor community in capital allocation for impactful investments. One of the key goals of the HRI Initiative is to help the investor community conceptualize the most effective capital allocation strategies for impact investing. To achieve its goals, the HRI Initiative emphasizes the importance of providing clarity, transparency, and comparability in the HRI sector. By promoting best practices and facilitating informed decision-making, the HRI Initiative ultimately aims to accelerate the growth and impact of investments in the humanitarian and resilience domains. Cross Boundaries, a cross-stakeholder platform associated with the HRI Initiative, plays a crucial role in bridging the gap between innovators and investors. It is a facilitator, bringing together the resources and expertise of both parties. My experience in working with Cross Boundaries highlights the organization's non-judgmental approach, supporting innovation with a business eye at whatever stage it finds itself in.

Impact Funders Advocate for Innovations to Secure Government Contracts

Collaboration with government agencies and multilateral organizations is crucial for the growth and branding of social innovations. It is essential to have advocacy support in order to navigate the complex landscape of securing government contracts. Drawing from my personal experience, I encountered a lengthy negotiation process spanning six months to secure a contract with Indian Oil Corporation, India's primary energy supplier. Unfortunately, even after receiving approval from the board of directors, the contract was ultimately rejected by the Ministry of the Environment.

Additionally, my team faced significant challenges when attempting to become a registered vendor in the US government's System for Award Management (SAM.gov), which is the portal for applying for any contract related to the US government, including the Department of Energy, Department of Defense, and Department of Homeland Security. We embarked on a challenging journey to collaborate with the Army Corps of Engineers and apply for research and development grants from the Department of Defense. Policy makers advised us that our initiatives were well-aligned with their objectives. However, the support we received abruptly ended there.

Often, the world of government contracts operates on the basis of personal connections and networks. Larger companies that have reached a significant scale can afford to establish dedicated advocacy departments. Grantors who invest in scaling impactful innovations must consider adopting similar strategies to effectively navigate the system and maximize their impact, and allocating a budget for advocacy can facilitate the process.

Additionally, creating government-partner relations departments within funding organizations can help steward contracts and support the growth of funded innovations. Just as funding organizations have legal departments to ensure binding contracts and financial departments to ensure financial due diligence, government-partner relations departments to help chosen innovations secure government/multilateral contracts are needed.

Let me clarify that government agencies, such as USAID and the Department of Homeland Security, are indeed investing in internal innovation centers. However, these centers often operate as separate entities, disconnected from the contracting and procurement processes within their respective agencies. While individual actions play a significant role in driving innovation, it is crucial to address the challenge of effectively transitioning and integrating innovations from these offices into successful contract procurements, rather than relying solely on grants.

A still relevant 2009 Stanford Social Innovation Review article explores the Policy Innovator funding model, a concept that is helpful to impact innovations. While, traditionally, many nonprofits and impact innovations have relied on the Public Providers funding model, tapping into existing government programs to fund the services they offer, the Policy Innovator funding model can allow nonprofits and impact innovations that are not clearly compatible with existing government funding programs to gain support for their alternative methods by harnessing advocacy networks to prove to policymakers that their products and services are more efficient and cost effective than existing solutions. Navigating this process can be complex; however, there are strategies that can help. I recommend that governments and foundations investing in transition to scale innovation also invest in professionals that will advocate for chosen grantee startups to secure government contracts, helping ensure their scaling and sustainability.

The Black Hole of Shipping Humanitarian Goods

Finally, shipping poses significant challenges for social innovations looking to scale. The cost of pre-scaled units and disruptions caused by international crises can halt the flow of raw materials and finished goods, jeopardizing the growth of companies. To overcome these obstacles, organizations can leverage the World Health Organization Emergency Service Marketplace (ESM) and World Food Programs Bilateral Service Provision (BSP) platforms, which provide support for cost-effective shipping. However, gaining entry into these systems can be challenging.

During the COVID-19 pandemic, the cost of oil experienced a significant surge, and shipping ports faced closures and disruptions. In our attempts at Sun Buckets to connect with the aforementioned government programs, we encountered challenges due to being a for-profit social enterprise. Our entry was denied based on this criterion. We found ourselves going in circles while trying to find the right person to approve and support our collaboration based on the humanitarian services we provided.

Advocacy support specifically linking our innovative startup with this multilateral shipping opportunity could have greatly assisted us. Those of us who have worked with various programs within the United Nations understand that it often requires the dedication of one person to advocate and drive initiatives internally. However, finding that person can be akin to navigating a labyrinth. Grantors can smoothe the entry process for impact innovations by themselves entering into collaborations with these services rather than expect already stressed scaling innovations to navigate these bureaucracies themselves.

Similar to the role played The Humanitarian and Resilience Investing (HRI) Initiative, initiated by the World Economic Forum (WEF) in bridging the gap between innovative projects transitioning to a larger scale and potential investors, an initiative is required to bridge the gap for transitioning innovations seeking cost-saving opportunities within NGOs and multilateral organizations.

Conclusion

My experience as the CEO of an energy impact innovation company over the past two years has shed light on the challenges and gaps within the current transition to scale funding model. While impact investors are actively investing substantial amounts of money in search of groundbreaking innovations, there exists a notable disparity when it comes to scaling operations for impact innovations.

The funding journey for commercial innovations, supported by commercial innovators, is relatively clear-cut and well-defined, allowing for a smooth transition from a quarter of a million to 2 million dollars. However, this transition becomes significantly more challenging for impact innovations, which are driven by the goal of making a positive social and environmental impact alongside financial sustainability.

This disparity highlights the need for a more comprehensive and inclusive approach to funding impact innovations during their critical scaling phase. It is crucial to bridge the gap and provide adequate support and resources to ensure the successful transition to scale for impact-driven ventures.

By addressing the gaps in the "Transition to Scale" funding model, we can foster an environment that encourages and enables the growth of impactful solutions. This requires collaboration among impact investors, policymakers, and stakeholders to develop new funding mechanisms, frameworks, and support structures specifically tailored to the unique needs and objectives of impact innovations.

Ultimately, by recognizing and rectifying the discrepancies in funding between commercial and impact innovations, we can foster a more equitable and sustainable transition to scale, propelling the development and implementation of impactful solutions that address pressing social and environmental challenges.