Investing as a Means

20 Years of Patient Capital

ACUMEN
CHANGING THE WAY THE WORLD TACKLES POVERTY

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Acknowledgments

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Cover: Azahar, Colombia (Photo: Fabiola Ferrero)

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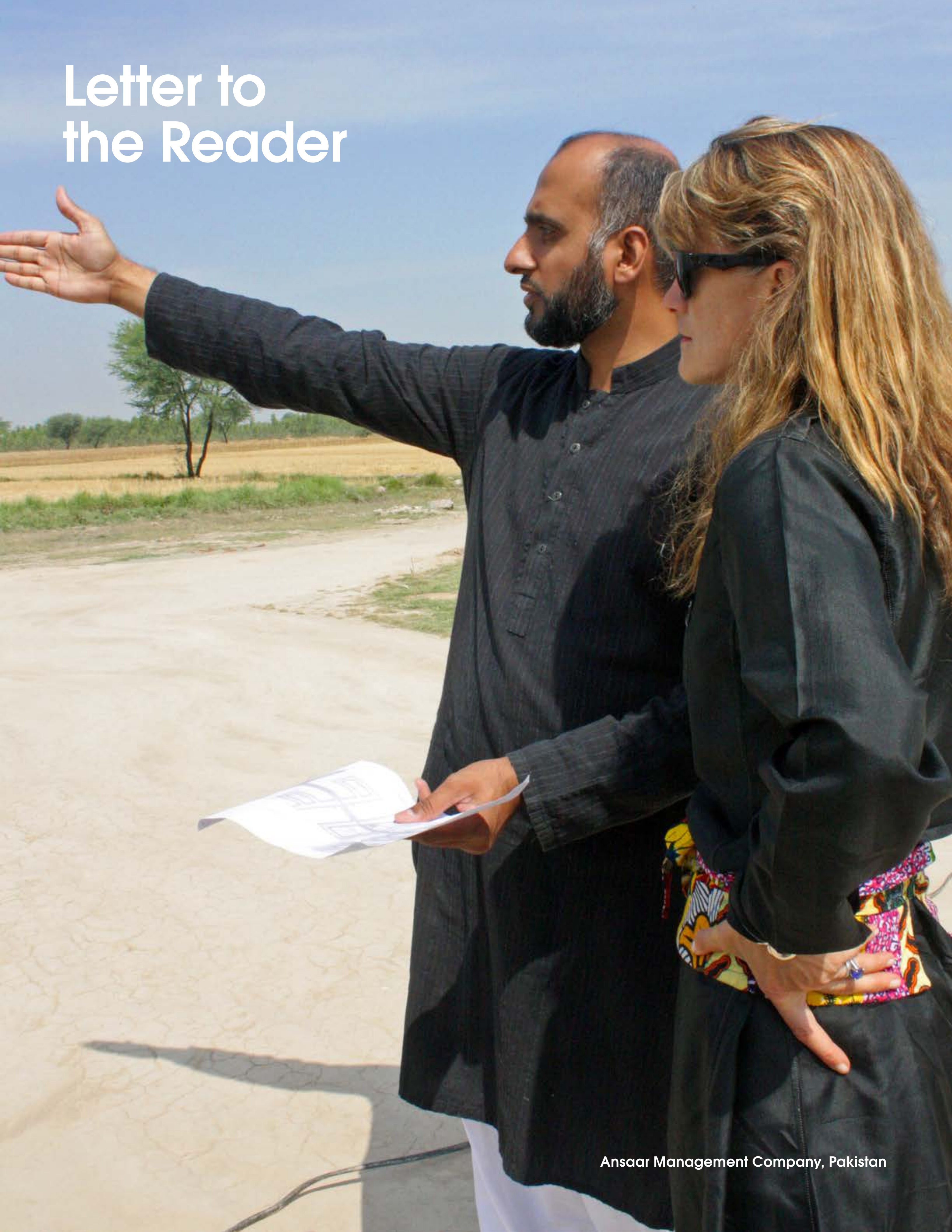
Letter to the Reader



Ansaar Management Company, Pakistan

Patient Capital and Impatient Leaders

In the 20 years since Acumen was founded, we have used investment as a means to solve tough issues of poverty. “Patient Capital” was our big idea, anchored by our belief in entrepreneurs and tailored to change the status quo. In our earliest years, we promised philanthropists outsized impact returns. “We won’t return your money,” we would say. “We will return you change.”

Since then, we have learned more than we could have imagined. We’ve seen the power of markets and recognized their limitations. We’ve come to understand when and how to use smart subsidies, and how the right partnerships can effect change. We have had to adapt our thinking, reimagine the possibilities, and embrace unexpected opportunities along the way.

What a privilege it has been, then, to see the impact this combination of philanthropy and smart investment can produce for overlooked communities, and to bear witness as hundreds of other impact investors have joined the fight. Today, the sector accounts for trillions of dollars invested more consciously across a wide spectrum of impact—and all of them are needed.

Acumen’s place within the field has consistently been defined by our unwavering focus on problems of poverty. Our direct investees have impacted the lives of more than 380 million people; globally, we’ve seen a 0.91x financial return, and our investments have leveraged nearly a billion dollars from those who’ve invested after Acumen. Yet those numbers tell just a fraction of our story, which includes thousands of jobs created in entirely new sectors and replacing the outdated narratives of dependency with stories of agency.

We’ve had our share of failures, too, and with each of them came lessons. We enter our third decade with deeper knowledge, more sophisticated tools, and greater understanding that planetary problems require planetary ambitions. Our manifesto remains the same: “It starts by standing with the poor.” Yet we’ve renewed our sense of urgency, challenging ourselves to propel into new frontiers of impact investing at the nexus of poverty, climate change, and inclusion, creating new business models with dignity at the center.

We’ve had our share of failures, too, and with each of them came lessons. We enter our third decade with deeper knowledge, more sophisticated tools, and greater understanding that planetary problems require planetary ambitions.

To understand this path forward, though, we had to look back. The following report tells the story of where Acumen’s Patient Capital has been most needed and effective over the past two decades: helping create markets where they didn’t exist; building businesses as a tool for peace in conflict areas; and creating

LabourNet, India

blueprints for public-private partnerships. And it recounts where even the most patient investments will fail to solve problems without significant government partnership. Our story has been one of risk-taking at a time in history that requires each of us to dare to do more. We firmly believe that impact investing as a sector can do better—if more funds allocate capital to where it is most needed, rather than to where it is safest.

No one does anything of importance alone. It takes a community to enact lasting, systemic change, and the Acumen community represents 20 years of trust, respect, audacity, joy, disappointment—and a lot of hard work. The people and organizations that have supported us, partnered with us, cheered us on, and believed in us along the way are core to our successes and drivers for what we will become. From the entrepreneurs and leaders who teach us, stretch us, and fully embody our commitment to change; to the companies, foundations, and organizations that share in our vision; to the philanthropists who were willing to make an investment that paid returns in impact; and to Acumen's employees, partners, and communities, who commit to our purpose and work steadfastly to achieve our mission: I am in awe of you.

Acumen is only beginning. We know how much grit, resourcefulness, and creativity this work requires—but we know that large-scale change is possible, for we've been part of it. And since it is possible, then there is no excuse not to try, not to dare. Patient Capital—and impatient leaders—can solve poverty and create a more just future that enables dignity for all of us.

Thank you for being a part of our journey. I can't wait to see what comes next.

Jacqueline Novogratz
Acumen, Founder & CEO

Executive Summary

EthioChicken, Rwanda

Investing for Impact

In 2013, 28 million people in Ethiopia could not afford or grow enough food to live on, and 6.5 million children—two out of every five—were stunted from hunger.[1] Right behind most houses was a potential solution: Two-thirds of Ethiopian households kept chickens in their backyards. Unfortunately, chickens were not addressing their food needs: One expert estimated that only 40% of new chicks lived to three months.[2]

The founders of EthioChicken sought to change that. In 2010, they acquired a struggling chicken farm and introduced chicken breeds that had lower mortality rates and laid more eggs, then partnered with local extension agents to distribute chicks and train customers on proper chicken-rearing.

In 2014, Acumen disbursed a six-year, $750,000 loan to EthioChicken's parent company, and we paired this with grant support to help EthioChicken understand their customers and quantify their impact.

This Patient Capital proved transformative: EthioChicken was able to build up its operations, increase its margins, and keep prices affordable for farmers. Acumen's investment was repaid in full and leveraged up 23x: EthioChicken had raised $18 million by 2018. From the start of the company's operations to 2018, stunting in the company's core region fell 25%, with the government crediting EthioChicken's efforts as a major contributor.[3] At least 100,000 children were closer to the height of their potential.

Twenty Years of Patient Capital

Our investment in EthioChicken illustrates why we believe in Patient Capital as a powerful tool to fight problems of poverty. Patient Capital is donated funds that Acumen invests as debt or equity in companies that address issues plaguing low-income communities. It prioritizes impact over financial returns through longer time horizons, greater risk appetite, and creative structures. It can be applied to urgent problems across the globe—lack of access to energy, proper healthcare, quality education opportunities, and more—that have historically been overlooked by impact investors seeking risk-adjusted, market-rate returns. When targeted wisely, Patient Capital has the potential to improve the lives of millions of people living in poverty.

This report looks back on Acumen's 20 years of Patient Capital investments in market-based solutions to problems of poverty. It is filled with success stories like EthioChicken, as well as investment learnings and analyses of our financial returns from our portfolio.

From 2001 to 2020, we invested $115 million of philanthropic capital into 123 organizations across five regions. In this time, we learned:

Patient Capital can build new markets that serve people in poverty and correct inequitable ones. Our investments have catalyzed growth for companies that create affordable access to critical goods and services, pay fair prices for produce and labor, and operate in regions where few others will. Through our investments in 27 off-grid energy companies, we have helped build a robust marketplace of off-grid solar products, ranging from lanterns to solar home systems, that have served more than 134 million people worldwide.

There are opportunities for Patient Capital beyond the "Pioneer Gap." In 2010, we posited that Patient Capital could be used to invest equity in early-stage social enterprises to fill the space between early grant capital and commercial investors, which we dubbed the "Pioneer Gap." This has proven true in cases such as energy but, in many sectors, commercially-oriented investors are still reluctant to invest in companies focused on low-income customers.

Delivering market-based solutions to problems of poverty requires investors to break free from the constraints and conventions of venture capital (VC), which is predicated on exponential growth, outsized financial returns, and liquid capital markets. For Acumen, focusing instead on the problems we want to solve and structuring investments to fit solutions opens a broader set of possibilities for deploying patient capital. We are funding new types of enterprises with a wider range of instruments, and forging new partnerships to bring their innovations to scale.

Financially sustainable solutions to problems of poverty are possible. Of the $115 million invested, we have recovered $36.8 million and value our current portfolio at $68.6 million, for a net loss of $10 million. That means, for every dollar invested, we are on track to get 91 cents back, excluding our costs. For Acumen, that's an acceptable return from a portfolio designed to optimize impact for low-income communities and create financial sustainability, rather than maximize shareholder value. These solutions take time to build and operate at lower margins. We partner with sustainable companies that bring modest returns; there are few unicorns here.

Within our portfolio, there are investments into farmer-owned cooperatives, nonprofit sanitation solutions for informal settlements, and clean-burning cookstoves. None of these would easily attract return-seeking capital, given their risky operating environments, thin margins, and slower paths to scale. Yet they are each generating impact beyond what traditional aid models have been able to deliver: They are fostering innovation on behalf of people in poverty, creating opportunities to redistribute wealth, and integrating customer feedback. Patient Capital, funded with philanthropy, allows Acumen to prioritize impact in ways that others do not.

We're excited to share this analysis because it confirms that to reach the most vulnerable people in difficult places, with solutions that can be sustained, investors can reasonably expect to get back more than nothing (as they would in pure philanthropy) but less than market rate (as most impact investors expect).

Twenty years of experimentation and deploying Patient Capital have shown us that you cannot have it all. 90-10 Investments, those that solve social problems while returning 90% of capital, are one of the most progressive and exponential uses of philanthropy: creating impact for the most vulnerable, pioneering at the edges, and recycling capital for repeat uses.

Overcoming inequality, climate change, poverty, and other systemic issues will require us to reject the binaries we've long accepted: for-profit or nonprofit, investor or philanthropist.

The problems in our world are thorny and complex, and the opportunities to tackle them profitably—to do well by doing good—are few and far between. Yet a plurality of impact investments remain stuck on the venture capital conveyor belt, narrowly focused on tech and financial services. Overcoming inequality, climate change, poverty, and other systemic issues will require us to reject the binaries we've long accepted: for-profit or nonprofit, investor or philanthropist. Patient Capital, deployed by impatient leaders in creative ways, can unlock market forces to confront these urgent problems.

EthioChicken, Rwanda

Patient Capital and Its Evolution

Selva Nevada, Colombia

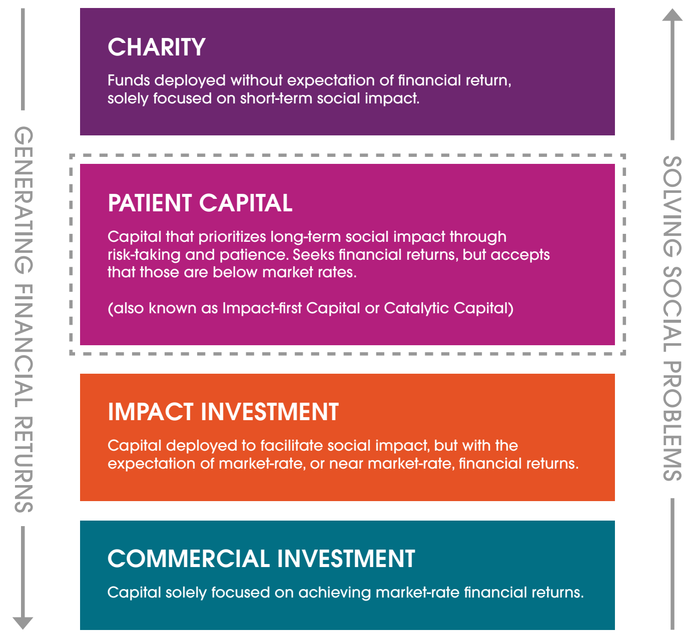
A Third Option

In April 1996, *The New York Times* ran a disturbing finding: "Three decades of foreign development assistance in the third world has failed to lift the poorest of the poor in Africa and Asia much beyond where they have always been."[4] It would have been difficult to argue. Billions in aid were directed through central governments for top-down projects, and international charities provided one-off handouts. Too often, these initiatives lacked accountability; there was no good way to tell what "worked" or was valued by beneficiaries. For the solutions that did appear to work, there was no way to ensure that they were sustained. Meanwhile, the private sector, with its built-in customer feedback loops and financial sustainability, ignored customers living in poverty. Patient Capital was designed to be a third option—a way to fuse the rigor and accountability of the markets with the ethos and flexibility of philanthropy. It would support market-based innovations, offer people pathways out of poverty, and offer its own proof of value: customers willing to pay.

The term "Patient Capital" has been adopted by a number of organizations and models; others may refer to it as "Impact-first Capital" or "Catalytic Capital" (see *Figure 1*).[5] At Acumen, we define Patient Capital as debt or equity investment that:

- Prioritizes impact *above*, though not at the exclusion of, financial returns
- Focuses on solving problems for poor and marginalized communities

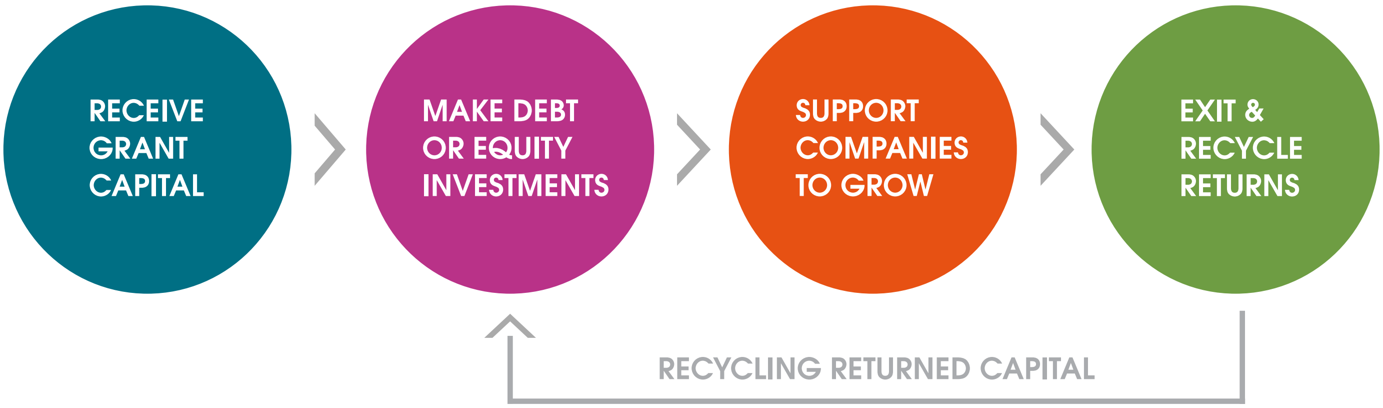
FIGURE 1: INTENTIONS ALONG THE CAPITAL SPECTRUM



- Has a high risk tolerance, uncorrelated with financial rewards
- Is more flexible in regards to returns and time horizons than closed-end funds

At Acumen, Patient Capital is always backed by philanthropy. However, the source of funding and destination of returns are not crucial to the term's definition. Its chief characteristic is the willingness to design capital to solve a problem.

FIGURE 2: ACUMEN'S MODEL FOR DEPLOYING PATIENT CAPITAL



Acumen's model for deploying Patient Capital resembles an evergreen venture fund, with a few significant differences. We continuously raise philanthropic capital and invest it. Proceeds from exits are returned into our general funds to cover management costs and be deployed into new investments (*see Figure* 2).

From 2001 to 2020, Acumen deployed $115 million in Patient Capital investments, across five regions and eight sectors, using equity, quasi-equity, and debt.[6] We built a diverse portfolio, evolving our investment approach as we learned and reacting to considerable shifts in the volume and variety of competition (*see Figures* 3-5).

In 2001, we secured the capital needed to start our Patient Capital approach and set out to build the pipeline of opportunities to invest in. By 2006, early social returns from our initial investments were promising: Aravind's breakthrough telemedicine model was impacting tens of thousands of poor families in India.[7, 8] A to Z Textile Mills Ltd., an antimalarial bednet manufacturer in Tanzania, employed thousands of people and was manufacturing over 3 million nets per year. And Kashf Foundation, a microfinance organization in Pakistan, had reached more than 100,000 borrowers. Acumen had funded each of these ventures when they were just starting out—and the growth, impact, and financial sustainability projected for each of them gave us confidence that Patient Capital works.

Today, Patient Capital is an essential ingredient for financing social enterprises, and we believe it can be even more. In this review of the last 20 years, we examine the markets we have built, the impact that they have created, and the returns that were possible along the way. Our findings suggest that Patient Capital can spark a leap beyond narrow asset classes to build new kinds of sustainable companies, and that it is a match for the magnitude of problems that we face as a global community.

FIGURE 3A: ANNUAL DISBURSEMENTS BY SECTOR

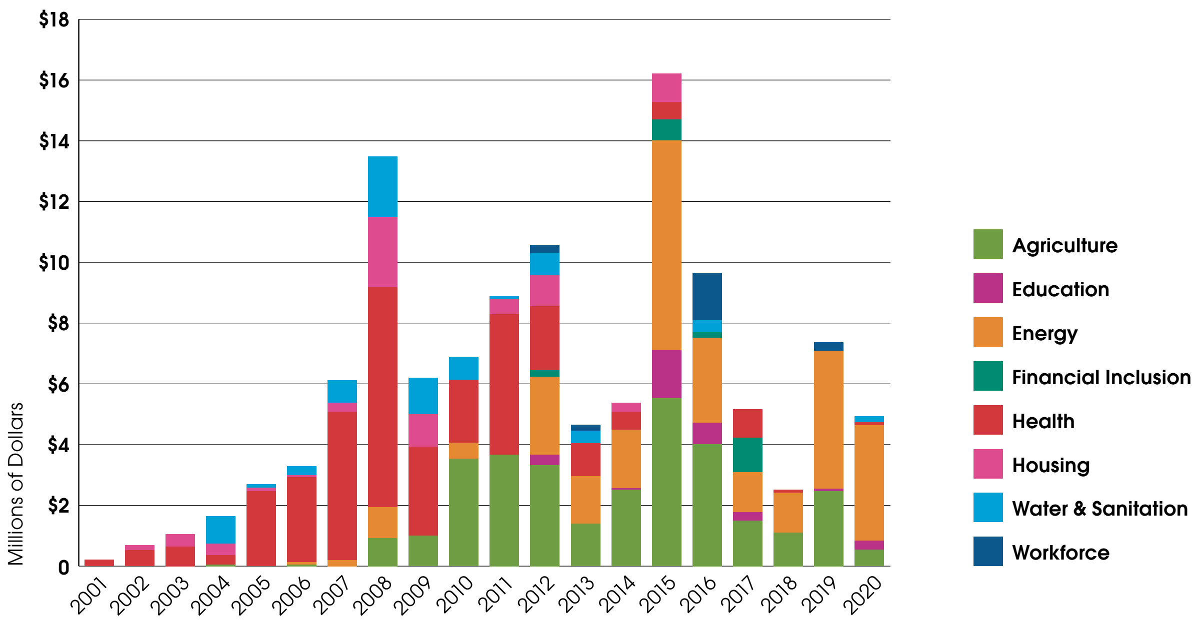
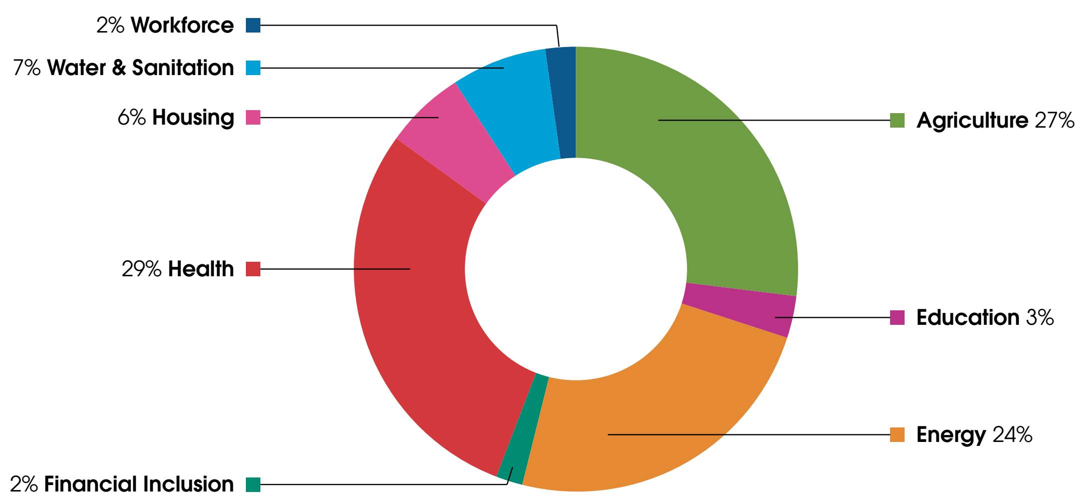


FIGURE 3B: TOTAL DISBURSEMENTS BY SECTOR



INVESTMENTS BY SECTOR:
Many of Acumen's early investments were in healthcare products. Over time, we moved away from sectors such as water, sanitation, and housing. In the last 10 years, we focused on energy and agriculture, with significant variations on a regional level.

FIGURE 4A: ANNUAL DISBURSEMENTS BY INSTRUMENT

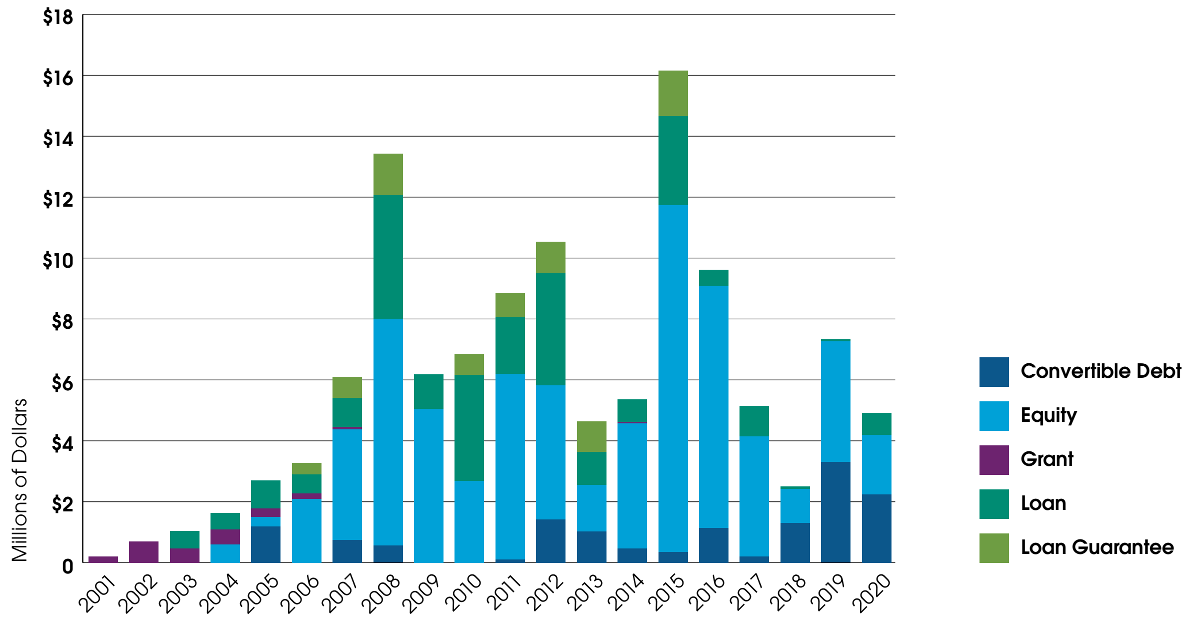
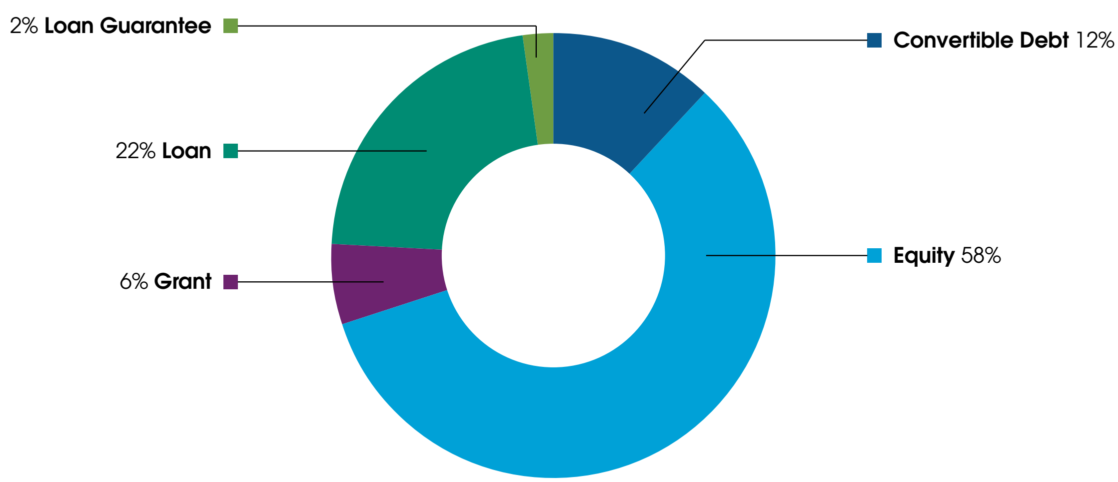


FIGURE 4B: TOTAL DISBURSEMENTS BY INSTRUMENT



INVESTMENTS BY INSTRUMENT:
To date, Acumen has deployed $69 million of equity, $32 million in loans, and $14 million in convertible debt. We began using convertible debt more when we realized the simplicity it brought to negotiations with early-stage companies.

FIGURE 5A: ANNUAL DISBURSEMENTS BY REGION

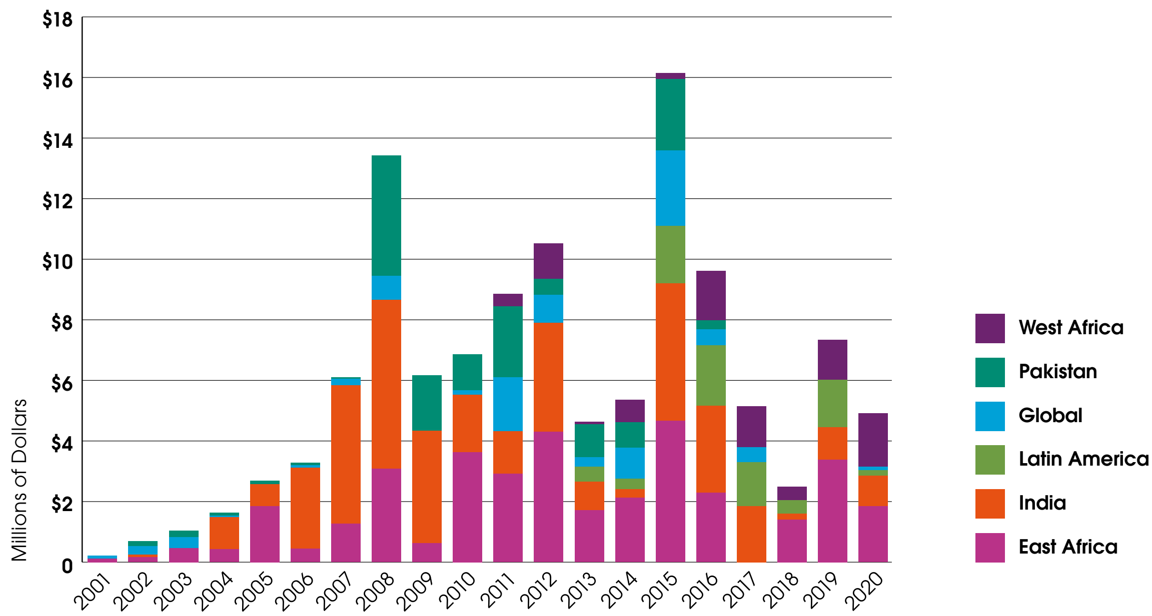
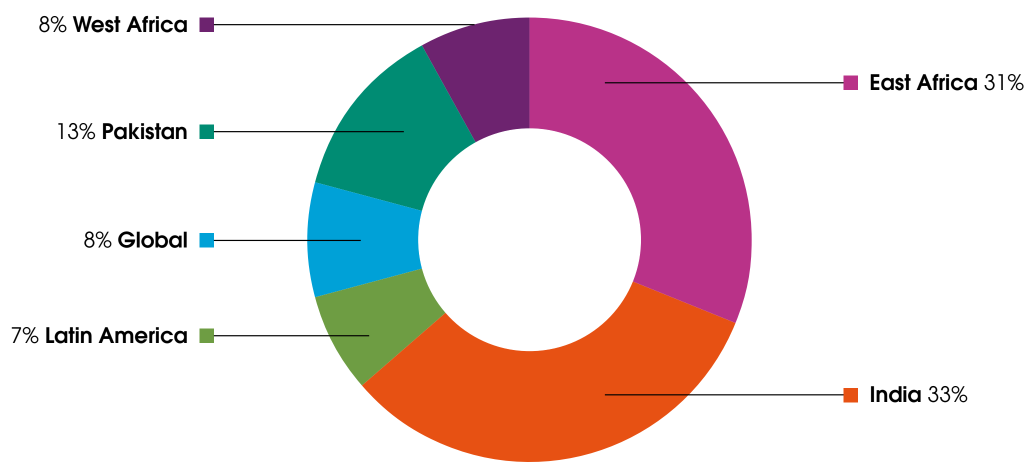


FIGURE 5B: TOTAL DISBURSEMENTS BY REGION



INVESTMENTS BY REGION:
Acumen has deployed the most capital, by geography, in India and East Africa—also the regions where we have the longest history.

Patient Capital in the World of Impact Investing

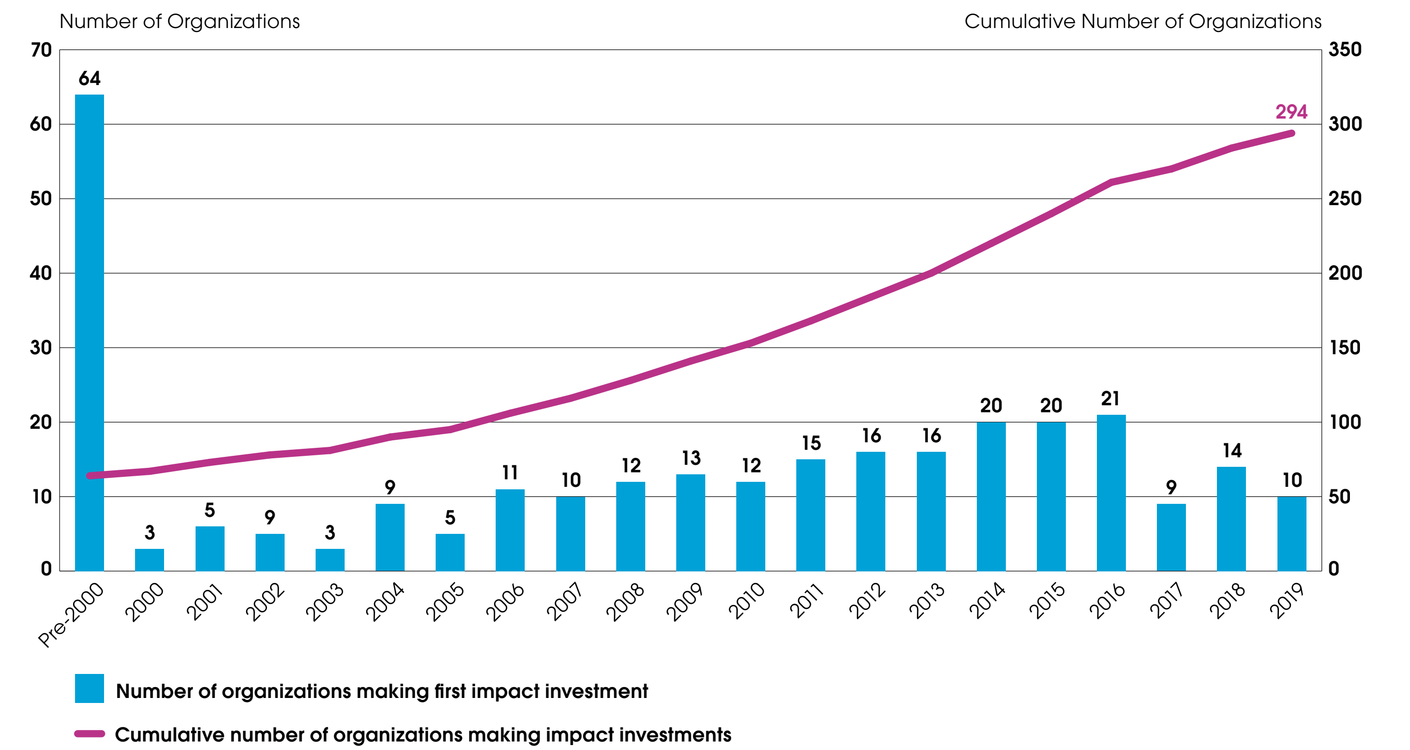
Since 2001, Acumen's place in the world has changed drastically. Back then, we were at the vanguard: Only seven other "impact investing" funds existed then. Today, there are more than 1,300 such funds focused on themes as wide-ranging as climate change, inclusion, and environmental, social, and governance (ESG) issues. There are a wide variety of fund managers, from corporate venture teams to impact-leaning VC funds to aid agencies (*see Figure 6*). Impact investing assets are now valued to be between $636 billion and $2.3 trillion.[9, 10]

On one hand, this growth has offered us new opportunities for partnership and induced a new wave of social enterprises. On the other, the flood of approaches has created a paradox: More capital and more players are promising to do well by doing good, yet progress on critical problems remains far too slow. And although there has been some anonymized research on impact investing returns, the lack of rigorous reporting makes it impossible to evaluate success on the dual objectives of most investors.[11, 12]

We believe that impact investing can do better—that it can solve the most dire problems the world faces, not merely the most lucrative ones. We can find creative solutions and structure funds to fit them. We can reject the false binaries of commercial or nonprofit, public or private, and actually solve problems.

FIGURE 6: THE RISE OF IMPACT INVESTING

Source: GIIN, 2020 Annual Impact Investor Survey



Building Markets for Low-income Communities

Biolite, Kenya

People and Markets

Our initial goal in 2001 was to deploy capital to for-profit businesses that served people living in poverty as customers, selling socially impactful products that responded to their preferences. When we talked about "building a market," we envisioned three core characteristics: **new categories of goods and services designed for poor customers, multiple companies competing in affordability and quality, and responsiveness to customer demands.**

The reality turned out to be more complex, which we'll explore below. We had also missed an important vector for impact: Markets do not flow one way. People in low-income communities participate in markets not just as customers but as suppliers and employees, too, yet the markets for their labor and goods are often broken and inequitable. We expanded our focus to include companies that made existing markets more equitable for suppliers and employees living in poverty. We began investing in agriculture in 2008 and workforce development in 2012, two sectors that drive impact through this lens.

This section will explore market-building and correcting market inequities, the impact we created, the places we failed, and what we learned along the way.

d.light, Kenya

RVE.SOL, Kenya

Building New Markets for Goods and Services

This subsection explores two case studies of building markets, one successful and one less so, before identifying the lessons we have learned from our investments in new markets.

A Market Is Born: Off-grid Energy

Nowhere have we contributed more to the establishment of a new market for people living in poverty than in the off-grid energy access sector. To date, the energy companies Acumen has invested in have served 134 million people—equivalent to 31% of all people who have accessed energy for the first time since 2010.

Back in 2010, 1.5 billion people still lacked access to electricity.[13] Kerosene was the primary lighting source for over half of all households in Africa, at an annual cost to consumers of over $4 billion.[14] In Kericho, a town in western Kenya, a 2009 survey found that 90% of off-grid devices for sale were battery-powered flashlights. Just two solar products were being sold and poorly-made, battery-powered flashlights were spoiling the market: 68% of all vendors reported issues with quality, and several had been assaulted by frustrated customers.[15]

By 2014, Acumen had invested more than $3 million in d.light and M-KOPA, two companies selling solar lanterns and home lighting systems, who served the off-grid market in Kenya. **In Kericho, the number of solar products on the market increased from two to 84. Prices reduced 65% and sales grew 32x. Customers could now access solar lanterns, work lights, and home systems, complete with financing and warranties.** One product, a d.light lantern, had become so popular that the term “d.light” was used by retailers to refer to all solar products.[16]

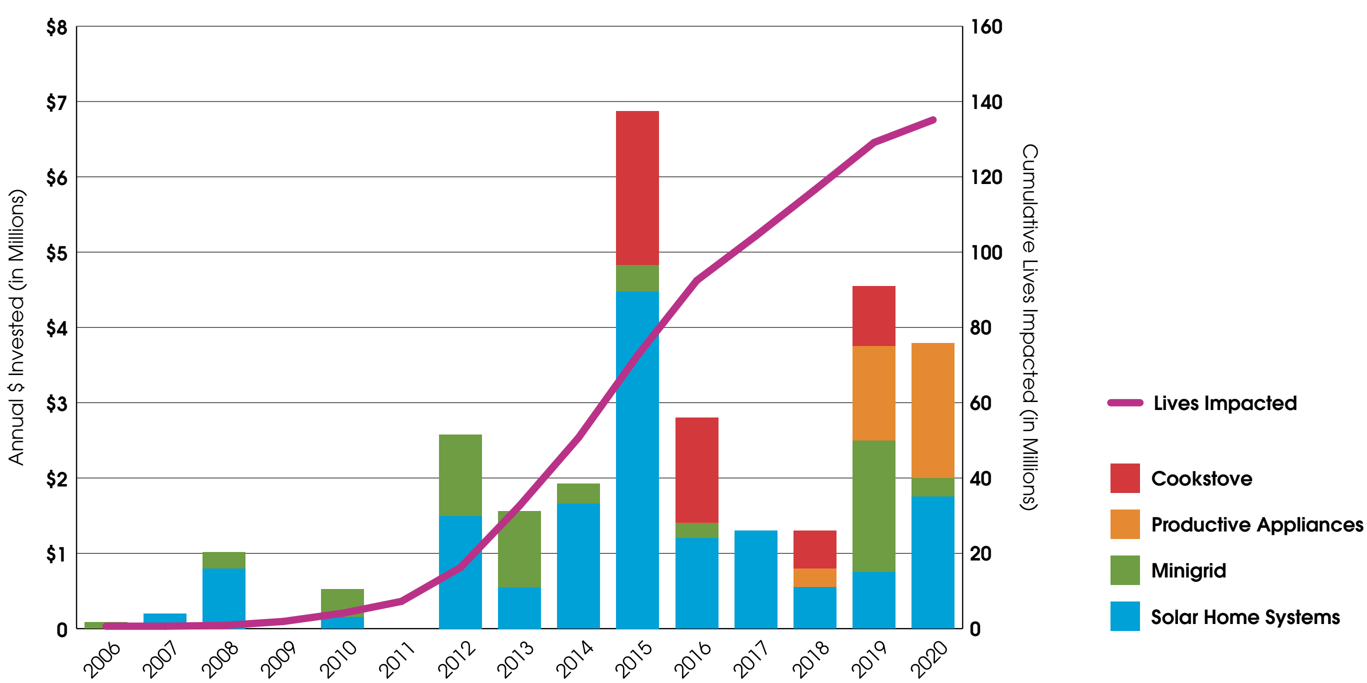
All told, from 2007 through 2020, we invested $30 million in 27 off-grid companies across a range of geographies and business models, helping them refine their products, build distribution networks, and develop the competencies needed to serve rural customers (sales, financing, and service). We helped spark a shift from pollutive kerosene and ineffective battery-powered products to a robust rural marketplace of high-quality solar-powered products.

d.light, Kenya

As off-grid solar became an increasingly credit-driven business, issues around consumer protection and portfolio health came into focus. Today, our goal is to continue expanding energy access in ways that are beneficial for, and protective of, the low-income households who need modern energy the most. Even in a robust market, these risks remind us that it is critical to attract capital that is aligned to the objective and realities of the business. Capital that incentivizes unrealistic growth can put low-income customers at risk

Beyond solar, other portfolio companies have created market-based access to much-needed products and services. From smallholder credit to rural irrigation to mobile payments, we have helped for-profit companies build markets for low-income customers. And **beyond just access, these markets created dignity: Treating poor people as customers means respecting their preferences** and delivering goods and services that they (not donors, development experts, or, frankly, investors) actually value. The markets we helped create enable honest conversations between companies and customers—and in these conversations, customers hold power (*see Figure 7*).

FIGURE 7: A MARKET TAKES SHAPE—ACUMEN'S ENERGY INVESTMENTS, 2006-2020



A Market Is Stalled: Health Clinics

Not all markets have come together as well as off-grid energy. Between 2004 and 2014, we invested in 10 companies operating private health clinics or hospitals serving low-income communities. **Of our nine investments in primary care clinics, just one company achieved financial sustainability.**

Why did the others fail? We tried to solve a recurring problem in primary healthcare with for-profit models in which low-income customers paid cost-reflective fees. Yet the cost of staffing clinics with trained personnel is high, and relying on low-income customers to pay kept margins low. Making the numbers work required a lot of customers, but not enough were willing to pay: Even low-cost options struggled to generate the customer volumes needed to break even in rural or peri-urban areas. One company paid doctors $75 per hour to staff each clinic but never averaged more than three customer visits per day.

The bottom line is: We do not have a single positive multiple among our primary clinic investments, although several are still operating. These issues broadly mirror what we have seen in rural water service, where **promising technological and business innovations could not overcome rural customers' limited ability to pay.**

LifeSpring, India

Lessons on Building Markets

These are two examples of markets we have built, or tried to build, that serve customers living in poverty. We are not suggesting that market-based solutions work in energy but do not work in health. Rather, we are saying that **there are certain conditions that must be established to build sustainable business models in which low-income people can be paying customers:**

- The product or service is valued by the customer, as evinced by a reliable willingness to pay for it.
- Customers must be able to pay prices with sufficient margin to cover the all-in costs of doing business, including the cost of capital.
- Funding is available (grants, equity, and eventually debt) to seed innovation and support scale; this is often hinged on a perception of profitability and potential for fast growth.

When these conditions come together, we see success: a market that responds to preferences, enabling people in poverty to choose what *they* value, not what *we* value for them. LifeSpring, a network of maternal health clinics in India, charges 12,000 INR (roughly $160 USD) for a normal delivery, approximately one month's earnings of its target population: working poor households. But tens of thousands of people have paid for the service because they value the quality and safety that LifeSpring provides.

Connected but distinct from a customer's willingness to pay is their ability to: **We've learned that it is extremely difficult to build companies that exclusively serve low-income customers.** Lean Data surveys of 3,800 customers from 12 Acumen portfolio companies, conducted between 2016-2020, showed that four in 10 customers earned less than $3.20 per day. That seems to be the share of paying low-income customers that for-profit models can reliably sustain.[17]

But what about poor households that cannot pay for critical services? In businesses such as primary rural healthcare (or others such as clean water, agricultural advisory, or microinsurance), we have found that low-income customers were not willing to pay full cost for these services, even when they clearly received value from them.

When Acumen sees an opportunity to drive social benefit that does not have a purely commercial path to scale, we search for alternative approaches. **The amount a person earns should not determine the quality of healthcare or water they receive.** Nor is it enough to disregard solving the problem as "the government's job," especially in markets where governments are chronically underfunded.

To date, we've invested in two alternative models of scalable, sustainable solutions: a third-party payer on behalf of low-income customers and hybrid models that include long-term grant funding alongside a revenue-generating business.

BURN Manufacturing, Kenya

If Classic Markets Don't Work, Find Other Models

We have helped build markets that incorporate low-income people in four ways:

- **Customer:** In traditional business-to-consumer (B2C) relationships, poor households pay a company for a good or service. (E.g. BURN Manufacturing is a manufacturer and retailer that sells efficient wood and charcoal cookstoves to low-income households in Kenya and elsewhere.)

- **Indirect:** Business-to-business (B2B) companies, such as wholesalers or processors, serve other businesses which sell to or buy from poor people. (E.g. Promethean is an Indian company that sells milk chillers to local dairies, enabling them to procure from more smallholder farmers in remote villages.)

- **Supplier:** Farmers or laborers sell their goods or services to a consumer-to-business (C2B) company. (E.g. Cacao de Colombia is a vertically-integrated cocoa company that supports smallholder Colombian farmers, buys the cocoa they produce, then processes it and brands it for sale in national and international markets.)

- **Beneficiary:** In business-to-government (B2G) models, a government or philanthropic actor pays for products and services that poorer citizens use. (E.g. Haqdarshak is an Indian social enterprise that earns revenue from corporate foundations and governments to connect employees and citizens with social benefit programs.)

Let's look at two beneficiary examples from Acumen's portfolio:

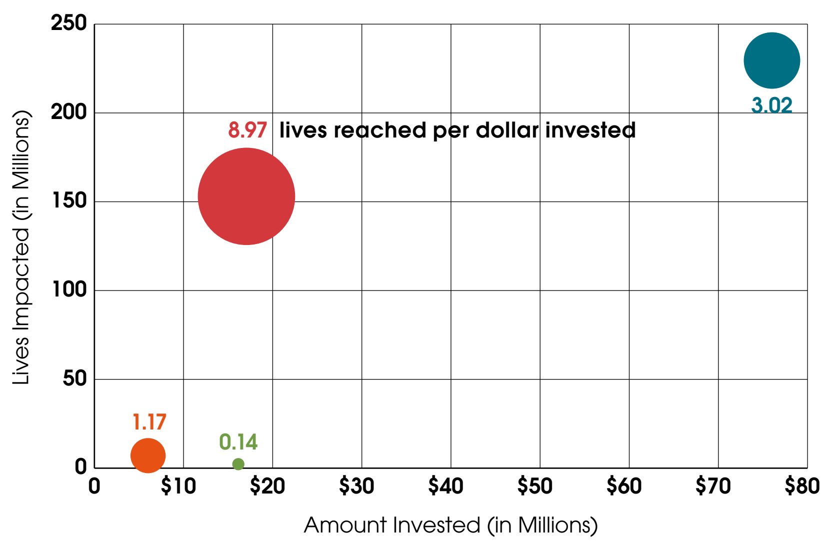
Ziqitza: In 2007, Acumen funded Ziqitza Healthcare Limited, the first private life-support ambulance company operating in India. Ziqitza provides emergency medical care partially by charging user fees and through services wholly paid for by state governments. They are now the largest ambulance company in Asia and have served 47 million people.[18]

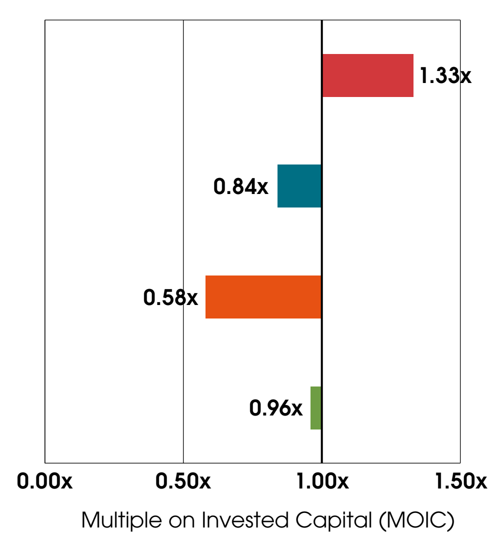
A to Z: In 2003, Acumen provided debt, grant capital, and technology transfer to A to Z, a Tanzanian textile manufacturer. Their improved antimalarial nets were bought by international organizations such as UNICEF and distributed to over 30 million people between 2003 and 2010.[19]

Figures 8a and 8b show that these two examples are representative of a larger pattern. When we compare capital deployed to each type of model with the resulting number of lives impacted, we see that beneficiary companies have created significantly more impact per dollar invested and have produced higher expected returns.

In short, **if we want to fill gaps in public goods and services, the cost cannot be borne solely by the people stuck in those gaps. It will take all of us.**

FIGURES 8A AND 8B: IMPACT AND INVESTMENTS BY BUSINESS MODEL





Beneficiary Customer Indirect Supplier


Ziqitza, India

Yet there are impact risks with third-party payer approaches. Services can evolve to fit the priorities of the payer instead of the user. This can create a disconnect from the customer, breaking that critical feedback loop on consumer preferences, priorities, and values. One example from Acumen's portfolio, highlighted in "Blueprint to Scale," showed how deep price subsidies for an irrigation company in Pakistan created "a misguided focus on selling the hardware." Customers were sold pumps that they did not know how to use, could not get repaired, and never valued.[20]

One of our roles in these models is to keep the customers' voices audible and make sure they are respected. We worked with Ziqitza to conduct phone surveys of their clients, which enabled the company's leaders to realize that their operations in new markets were not yet reaching poorer, more rural households. Ziqitza used these insights to refine its expansion, ensuring that poorer households who were hesitant to use their services were covered more deeply by their ambulance service in those markets. Likewise, we supported workforce training company Labournet—which links the unemployed and underemployed to work and skilling opportunities that boost productivity and fuel business opportunities—to understand participant issues in their training journey. This is the kind of feedback that is easy to miss when someone else is paying. **For third-party payer models to succeed in delivering useful impact, the voice of the customer must remain the bellwether of success.**

Sanergy, Kenya

Hybrid Solutions Are Still Market-based Solutions

With the rise of impact investing and social enterprise over the last two decades, we too often see a swift rejection of nonprofit service providers. The perpetual claim: “They’re not sustainable for the long-term!” Yet as we look across Acumen’s portfolio and the larger field of innovators working on social problems, **we find many examples of hybrid and nonprofit models that are anchored in market-based solutions and have sustained for years or decades,** even if they are not profitable as standalone entities.

The founders of Sanergy wanted to solve urban sanitation in Kenya through clean pay-toilet franchises, but knew that the rates their customers could pay for toilet usage wouldn’t be enough to build a profitable business. So they established two entities to implement Sanergy’s solution: Fresh Life Initiative, a nonprofit entity designed to manage sanitation service delivery, and Sanergy Limited, a for-profit company that would recover the human waste, convert it, and sell it as fertilizer, animal feed, and clean energy in the form of biomass briquettes. In 2013, Acumen invested in Sanergy Limited; all told, we provided $1 million in equity and debt to help scale their solution. Now, thanks to Sanergy’s solution, more than 150,000 people in multiple cities in Kenya access clean, safe toilets and sanitation services every day. The model remains partially grant-reliant on the nonprofit Fresh Life Initiative side, which serves low-income communities in urban informal settlements. But it has sustained for a decade and counting, and costs less than a quarter of what city governments pay to implement and maintain sewered sanitation in informal settlements in other African cities.

Azahar, Colombia

Sometimes, what a customer can afford to pay isn't enough to build a profitable solution. Sanergy's customers value its sanitation products and services, and willingly pay to use them, but the amount they can afford to pay does not cover Sanergy's full costs. Hybrid models have worked elsewhere as well, outside Acumen's portfolio: The nonprofit One Acre Fund has served 1.4 million farmers across Africa with a market-based business model that covers 75% of its costs.

Nonprofits can reach scale. Hybrid models can be sustainable. And private companies that are paid by governments to serve poor people can save lives. The problems we are facing urgently demand solutions, and we will consider any model that offers them.

Correcting Market Inequities

Acumen doesn't just build markets; we also invest in making them work better. In agriculture, inequitable markets keep smallholder farmers trapped in poverty, even though they expend the most labor and take on the most risk of any actor in the value chain.

When we started investing in agriculture, our goal was to fund companies that would help smallholder farmers earn more. Broadly speaking, we have invested in two types of models that do this: production support that enables farmers to improve their yields or margins (providing inputs, advisory, and access to market) and investments in correcting market inequities (fundamentally changing how profits are distributed across a value chain).

Producer Support

Our first agricultural investments were in single-input companies selling seeds, fertilizer, and irrigation pumps. We then realized that the complexities of agriculture and market dynamics meant that raising farmers' net incomes required bundled solutions.

In the early 1990s, the northern region of Uganda was a thriving producer of cotton. But by 2010, farmers' fields had sat unplanted as the region was torn by years of conflict with the Lord's Resistance Army, a terrorist group. The Gulu Agricultural Development Company (GADC) worked with farmers to help them return to their fields. In a public-private partnership with other cotton ginners and the parastatal Cotton Development Organisation, they hired field officers to teach farmers good agronomic practices for cotton and financed inputs for the planting season. GADC then set up buying agents and pre-financed them so farmers could be paid cash for their cotton at their farm gates, a vital requirement to build confidence in a cash crop. GADC then rehabilitated a war-ravaged cotton ginnery in Gulu to process the crop.

With Root Capital (an investor in agricultural enterprises that build rural communities), we provided funding for a revolving loan facility to GADC, renewed annually from 2010 through 2015. The company now has four operations, 1,200 employees, and serves 120,000 farmers annually, reaching nearly one million people. Farmers growing cotton that sell to GADC are guaranteed to receive cash immediately for their produce, at prices transparently related to the international cotton prices. This single company has had a transformative effect on rebuilding an area that had been devastated by conflict.

Since 2015, we have invested in 15 other companies that buy from low-income farmers, bringing the production improvements, value retention, and community empowerment that we see in Gulu to other regions of the world. GADC also shows us the importance of the creativity of Patient Capital: Working capital is not what Acumen is known for, but was exactly the kind of capital that this impactful company needed to help rebuild a region.

Azahar, Colombia

Value Chain Interventions

With other investments, we support companies that are changing how profit and risk are shared in a value chain.

In Colombia, **around half of all coffee farmers don't earn enough selling coffee to cover the cost of growing it.**[21] They are forced to be price-takers in global commodity markets designed to minimize the value paid to producers, where unpredictable price shifts and currency movements determine whether they will survive or fail.

When we invested in Azahar Coffee in 2016, the company was one of the only coffee buyers in Colombia paying a fixed price for premium coffee. Their pricing starts by determining what it costs farmers to produce high-quality coffee, then identifying international and local buyers willing to pay higher prices that result in better wages for farmers. They are currently sourcing from over 3,900 coffee farmers.

Pricing dynamics in cocoa are different, but just as inequitable. Uncommon Cacao is a U.S.-based exporter and distributor that buys premium cocoa from 4,800 farmers in 11 countries around the world. They also set higher price floors that guarantee a living wage. Now, they are working to address the inequities driven by information access. Farmers often only know the prices offered to them, not what their produce sells for in retail outlets. To reduce this imbalance, Uncommon publishes their full pricing information annually and shares it with farmer groups: what they pay to exporters, what exporters pay to farmers, and what their cacao sells for to buyers.

Solutions like bottom-up pricing and radical transparency are the kind needed to build more equitable markets for smallholder farmers. This impact is not limited to our portfolio companies: Azahar is building out a Sustainable Coffee Buyer's Guide to help other companies create equitable value chains that deliver living wages. Our goal of building fair markets—in which every farmer earns a stable, living wage—is very much alive.


Haqdarshak, India

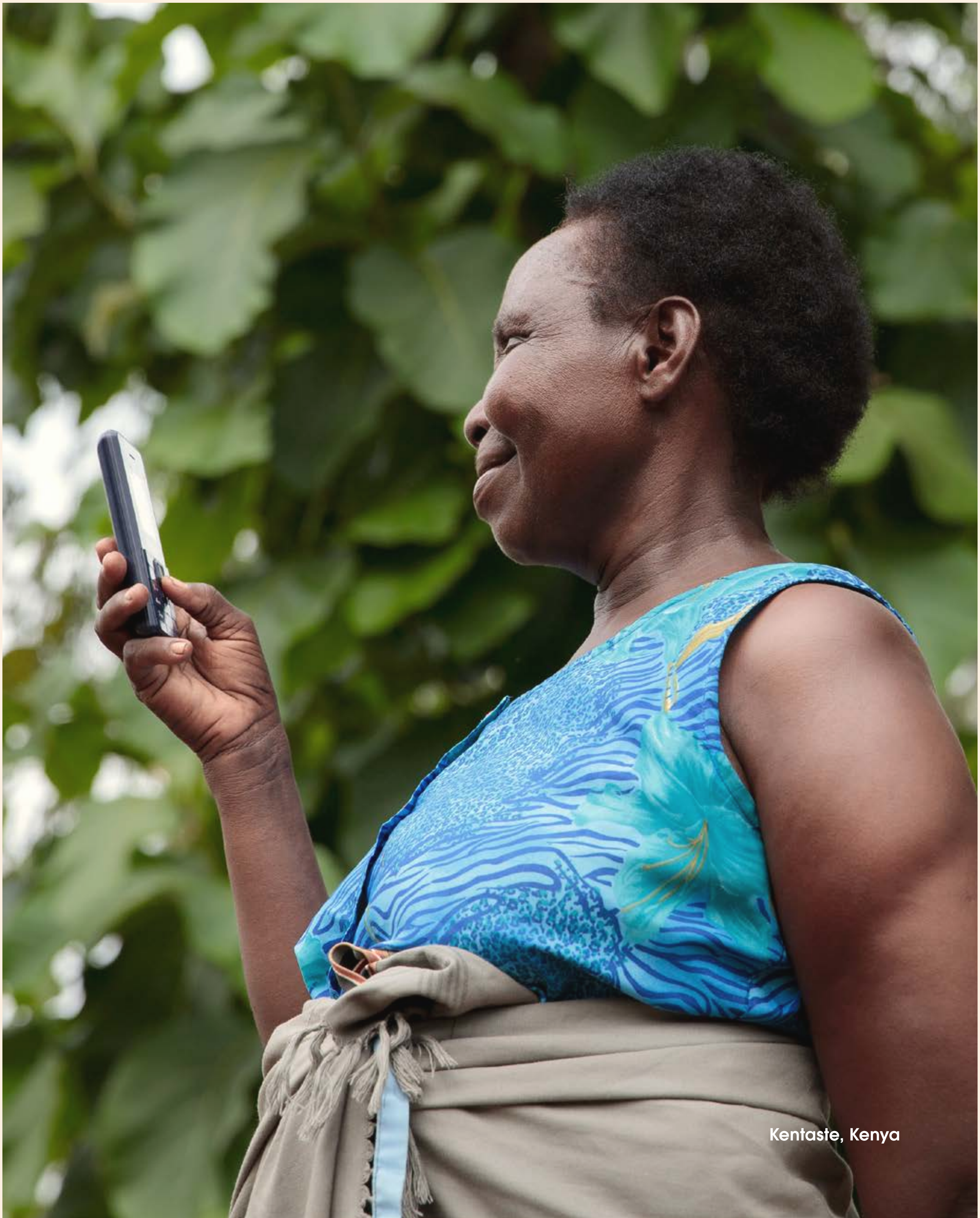
Summary

Acumen set out to build markets that serve customers living in poverty. We have grown to embrace a more thorough understanding of how those markets can work, the variety of models that can be effective, and the role of Patient Capital in enabling them.

The problems we are facing urgently demand solutions, and we will consider any model that offers them.

In places where for-profit standalone models work, we will continue to fund and grow them. But for many social problems, a purely private approach would exclude millions of people, while governments may lack the resources or freedom to experiment in ways needed to reach the poorest households. In these impasses, **Patient Capital can create space to move past the old dogmas, to transcend the artificial choice of for-profit or nonprofit, subsidized or sustainable.** Impact investors can make effective solutions work for everyone, and Patient Capital can help fund these alternative paths.

Impact Performance and Measurement



Kentaste, Kenya

Tracking Our Impact

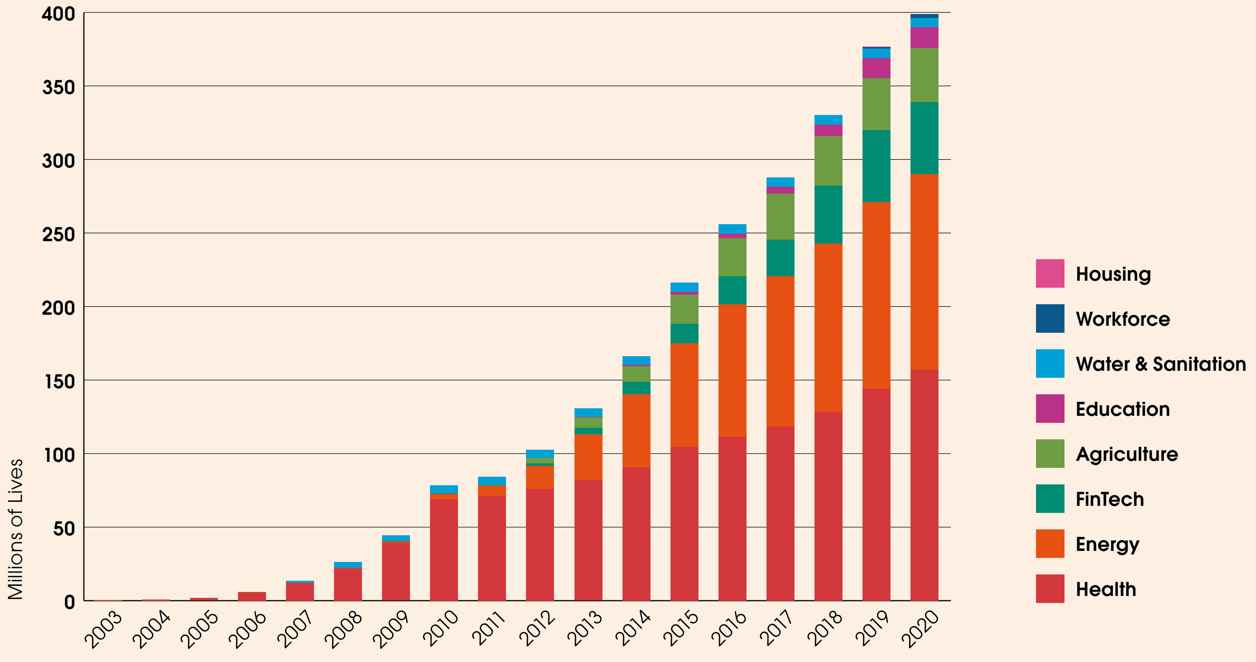
Without data, there is no accountability; we need it to prove the impact our investments have on problems of poverty. When we started, access—as defined by units sold or customers served—was the best we could measure, so we extrapolated from that to report lives reached. From 2001 to 2021, Acumen impacted nearly 400 million people, with at least 150 million of them estimated to be living on less than $3.20 per day. As you can see in *Figure 9*, early impact was focused in the health sector, then diversified as our energy, agriculture, and financial inclusion investments began reaching scale.

Yet we know that "number of lives impacted," while comparable across a diverse portfolio, is an imperfect metric. The way in which lives are impacted varies by product and country and is difficult to standardize. Most importantly, "lives impacted" does not tell the story of what impact was felt by each of those 400 million people, nor the relative importance or depth of this impact.

Improving Our Tools for Measurement

Throughout our history, Acumen has experimented with different impact measurement approaches and played a leading role in designing tools for the sector; these include IRIS, Pulse, and most recently Lean Data, a survey method that allows us to understand the effects of a product or service through brief conversations with 100 to 300 or more customers of a company.

FIGURE 9: ACUMEN CUMULATIVE LIVES IMPACTED



Lean Data was created within Acumen by a dedicated team, then spun off in 2019 as 60 Decibels, an independent impact measurement firm that continues to improve and innovate Lean Data approaches to impact measurement. To date, 60 Decibels has listened to over 200,000 people in over 60 countries, on behalf of over 500 clients.

First, we needed customer feedback in order to understand who our companies were reaching and keep them accountable. Conversations with those customers brought us closer to understanding the actual impact of the company, which meant including the **depth of impact** (how meaningful the impact of a product or service had been on a customer's life), **poverty focus** (the percentage of a company's customers living at or below the poverty line in their country), and **breadth** (number of lives reached). Combining these gave us a clear picture of the size and scope of impact.

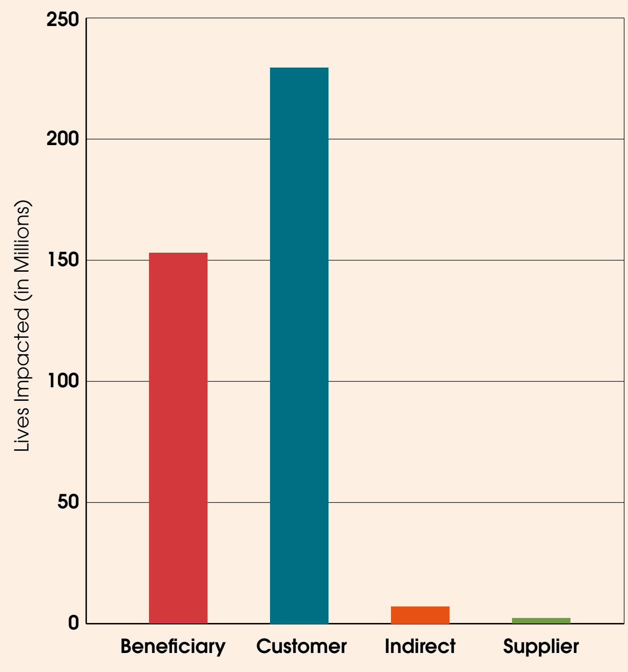
Through this data gathering, we now know that 52% of our energy companies' customers are accessing renewable and modern energy for the first time, that 62% of our agriculture companies' customers have no access to an alternative buyer or service provider, and that 58% of cookstove customers believe their stove has "very much improved" their lives. Across our most recent surveys, we know that 33% of all customers lived under $3.20 per day. Armed with a richer understanding of the value of these goods and services, and with an ability to benchmark these findings, we have been able to make better choices about where to direct our Patient Capital.

Improving Our Impact Understanding

Acumen's priority is always to create positive impact for people living in poverty. Ideally, our investments will help millions of people access transformative products and services. But there is a complicated trade-off between depth and breadth of impact. **We have come to realize that depth is under-measured, and therefore undervalued, across the entire impact investing sector.**

For example: Look at *Figure 10,* which compares lives impacted by different payer models. Supplier business models, which procure from poor farmers and producers, barely register as lives impacted.

FIGURE 10: LIVES IMPACTED BY BUSINESS MODEL



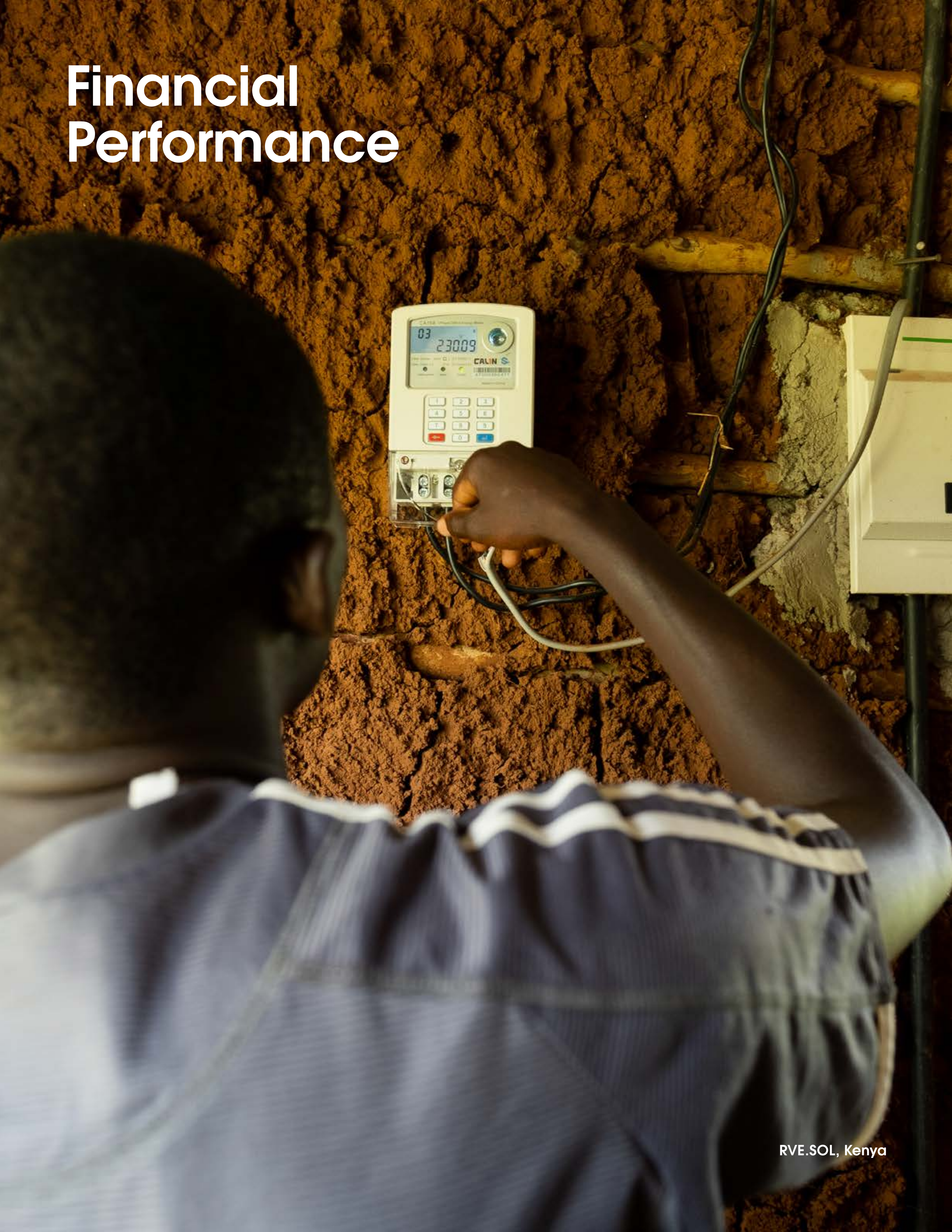
We know that these investments can be transformative. Yet it is beyond our ability at present to quantify the depth of that transformation over time, in a way that is comparable, affordable, and actionable across a portfolio of 80 companies. As a sampling, Acumen has funded companies that have created the following impacts:

- Added 2.9 hours of lighting per day for households in Uganda that purchased solar home systems.[22]
- Doubled weekly egg consumption for women in Ethiopia who bought young chicks.[23]
- Increased productivity 29% for construction workers who took a skills training course in Odisha, India.[24]
- Increased income 35% for farmers in Colombia who sold to their collective-owned coffee wet mill, compared to counterparts who sold to a private mill.[25]

We are not able today to compare the depth of impact of a housing loan in Bihar, India, with a workforce training company in Bogota, Colombia—and that's fine. **We believe in letting go of the illusion of comparability across a diverse portfolio, focusing instead on assessing each company's impact with an eye towards action.**


Kentaste, Kenya

Financial Performance



RVE.SOL, Kenya

Optimized for Impact

The financial performance of our portfolio, on the other hand, is something we *can* measure with more certainty. Patient Capital is defined not only by when and how it is deployed but also by the financial return one can expect from a portfolio optimized to create a specific type of impact, not to maximize returns.

Included in this analysis are investments made between 2001 and 2020; in this time, Acumen invested in 123 companies and exited or wrote off investments in 69 of them. Managing a fund-like entity with such a fluid portfolio makes it difficult to precisely state the long-term financial returns of Patient Capital, but below, we share our best estimates of financial performance of the capital we've deployed.

Our intention in sharing this level of detail is not to brag about our financial performance, nor to defend it. Rather, it is to demonstrate what an investor or philanthropist can reasonably expect from a portfolio designed and managed to maximize impact for low-income communities.

Returning 88 to 91 Cents on the Dollar

From 2001 through 2020, Acumen invested $115 million and recovered $37 million. We value our current portfolio at $68 million (the majority of which is outstanding), for **a net loss of $10 million, or 0.91x multiple on invested capital (MOIC).**

But this is a possibly optimistic way of looking at our returns. We know very little about how more recent investments will fare: For investments in the last five years, 91% of our returns are outstanding. Exiting even our successful investments is a challenge, as you will see; returns from this period are higher than previous eras, on paper, but it is too soon to tell how they will monetize.

Acumen invested $115 million and recovered $37 million. We value our current portfolio at $68 million, for a net loss of $10 million, or 0.91x MOIC.

In order to reduce the inherently positive bias of more recent investments, we also analyzed the returns for investments in our global portfolio made solely between 2001 and 2015.[26]

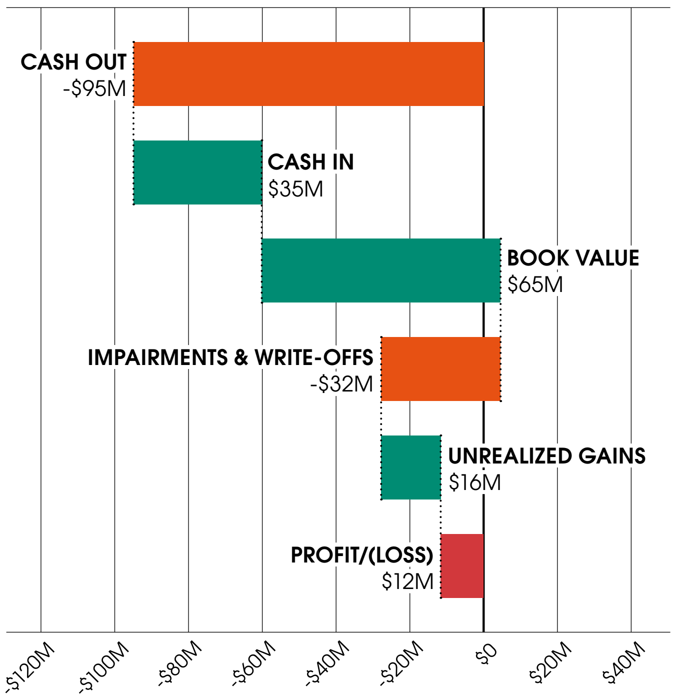
As seen in *Figure 11*, Acumen disbursed $95 million in this period. We have been repaid $35 million through interest, principal payments, and the sale of our equity. Our remaining holdings are $65 million on a cost basis (what we invested). Their value has been eroded $32 million through impairments and write-offs, and increased $16 million through appreciation of our shares' value. Altogether, our best estimate is that we will lose $12 million on that $95 million invested, or a MOIC of 0.88x, gross of fees and expenses (*see more on those in Box 1*).

Whether the long-run trend of Patient Capital will be closer to today's snapshot (0.91x) or the more seasoned view (0.88x) is unknowable. But this appears to be the range we can expect.

For Acumen, **0.9x is an acceptable long-run financial return for a portfolio of investments designed and managed to create the impact described above.** If we had given that money away, our returns would be 0x and our impact less sustainable. If we had sought a market-rate return, our capital would have been more impatient and less impactful; we might never have invested in farmer cooperatives in Colombia, a housing developer in Pakistan, or a rice company in Sierra Leone.

We are investors funded by philanthropists, and that allows us to do what is needed to solve problems of poverty—invest in new approaches, accompany entrepreneurs, step up in emergencies, avoid the false urgency of exits—and still get back most of what we put in. This type of 90-10 Investing is exponential philanthropy: impactful, pioneering, and recyclable.

FIGURE 11: EXPECTED MOIC, 2001–2015



BOX 1:

Acumen Costs

If we look at relevant costs (mostly portfolio and finance/legal staff) as a percentage of our assets under management (AUM), the costs of Patient Capital are proportionally quite high: 7-8% of AUM, annually.

But the actual costs are quite low. Percentage of AUM is a poor metric for a seed fund that manages so many small investments. It costs approximately $70,000 for us to manage a company annually, far less than a venture capital firm would pay, when the difference in level of support is not proportional to the difference in the size of the firms or the quantum of capital invested.

Biolite, Kenya

High Costs, Low Margins, and Accompaniment

Analyzing the factors that drive our returns helped us understand where Acumen could improve in the future and where philanthropic capital can be best positioned to fund companies that reach the poor.

Low-income households are more expensive to reach and require higher levels of service than their middle- and higher-income peers. Globally, 84% of people in severe poverty live in rural areas, many with poor infrastructure and limited access to markets.[27] Selling tangible goods, building brick-and-mortar service points, and offering in-person advisory in these areas is costly. And, as discussed, **serving low-income customers means navigating the narrow space between their threshold for perceived value added (which is high) and their ability to pay (which is low).**

Taken together, this means leaner margins. BioLite, an American manufacturer of solar home systems and other products, earns 2x the gross margin on the solar products it sells through retailers in the United States as it does selling similar products to African distributors. Lower margins mean unit economics only work when companies hit widespread scale or attract significant grant capital or government funds. In 2018, about one-third of our portfolio companies turned a profit, with an average revenue of $14.4 million. The two-thirds who made a net loss, on the other hand, had an average revenue of $3.7 million, just one indication of the scale needed to make a model self-sustaining.

Companies serving poor customers in emerging markets are often forced to internalize non-core functions in the value chain to guarantee affordability and service. In our current African portfolio, 10 out of 15 companies offer some kind of loan or lease product to customers, despite just two being formal financial service providers. Kheyti, in India, has needed to provide distribution, market facilitation, farmer training, financing, and agricultural inputs, all so they could sell their core product: greenhouses. They, and many other of our investees, did not set out to offer such a comprehensive bundle of services; they were forced to by the market.

These added functions have a cost: Operations are more complex to run and companies are harder to capitalize. It also requires more talented managers to achieve results within that complexity. But talent with the relevant skills is scarcer and more expensive in emerging markets. Lower margins and uncertain futures place limits on what entrepreneurs can pay their staff and, therefore, who they are able to recruit.

In addition, investors funding companies serving low-income customers accept a number of risks that do not provide a commensurate return. Some of these are inherent to any business in emerging markets, while some are more specific to social enterprises focusing on problems of poverty. For example:

- **Currencies in many of the markets we invest in are volatile,** with a secular downward trend that is expensive to hedge. This affects our companies' ability to borrow, reducing the impact of our equity.

- **Government regulations have impacted our companies' operations.** We bought equity in a company with significant landholdings, only to have foreign land ownership made illegal. Bottling fees were added to a low-income water seller, driving them out of business. These create direct losses for us and scare off other investors because of the (often valid) perception of political risk.

- **Companies can drift from their mission,** chasing more profitable market segments at the expense of their promised impact. We have exited early and taken premature write-downs from companies that abandoned low-income customers.

- **Corruption is a force with real costs:** We have written off or written down at least $7.8 million on investments where we knew corruption or fraud to be a factor. One company watered down its product to increase volumes, destroying customers' trust. Others have misstated revenues and hidden liabilities. Acumen has a no corruption policy and strict diligence on character, and we have exited as quickly as possible, even at a loss, in those moments.

Each of these are well understood in theory. **Yet too often, these social enterprises are held to standards—whether its speed of growth or returns to investors—that ignore their material costs and risks.** Some investors, frustrated by the difficulties of impact-first investing, are moving upmarket and shrinking their focus on new ventures and experimentation. For impact investors who responded to the GIIN Impact Investor Survey in both 2015 and 2019, investments in seed/startup-stage businesses shrank 45%, in a period when their AUM more than doubled.[28]

We need more honesty about what it takes to build markets that serve the poorest customers and why some investors are less willing to take the risks and bear the costs. More importantly, in a time of extreme inequality that has led to unproductive divisions and divisiveness, the world needs more capital flowing to where it is most needed—not simply to where it is safe.

Exits: How You Get Out, or Don't

Finally, we explore the reality of *realizing* returns from Patient Capital investments. Over the last 20 years, the impact investing sector (including Acumen) has organized itself around a VC model that relies on three assumptions that deserve reappraisal.

First, a VC model assumes that a few outsized financial wins will balance the rest of the portfolio's losses or more moderated returns. But of Acumen's top 20 most profitable companies, the aggregate return is 2.1x (three quarters of which is outstanding). *Figure 12* shows the MOIC for every investment we have made (0.0x being a complete loss, 1.0x being a full return of our capital, anything above 1.0x being a gain). As results show, **there is not a 10x or 40x in the mix, as one might expect in a Silicon Valley portfolio.** The reality is that our wins don't fully compensate for our losses, and our losses can still be impactful: 157 million people have been reached through investments where we expect some loss.

FIGURE 12: ACUMEN'S MULTIPLE PER INVESTMENT

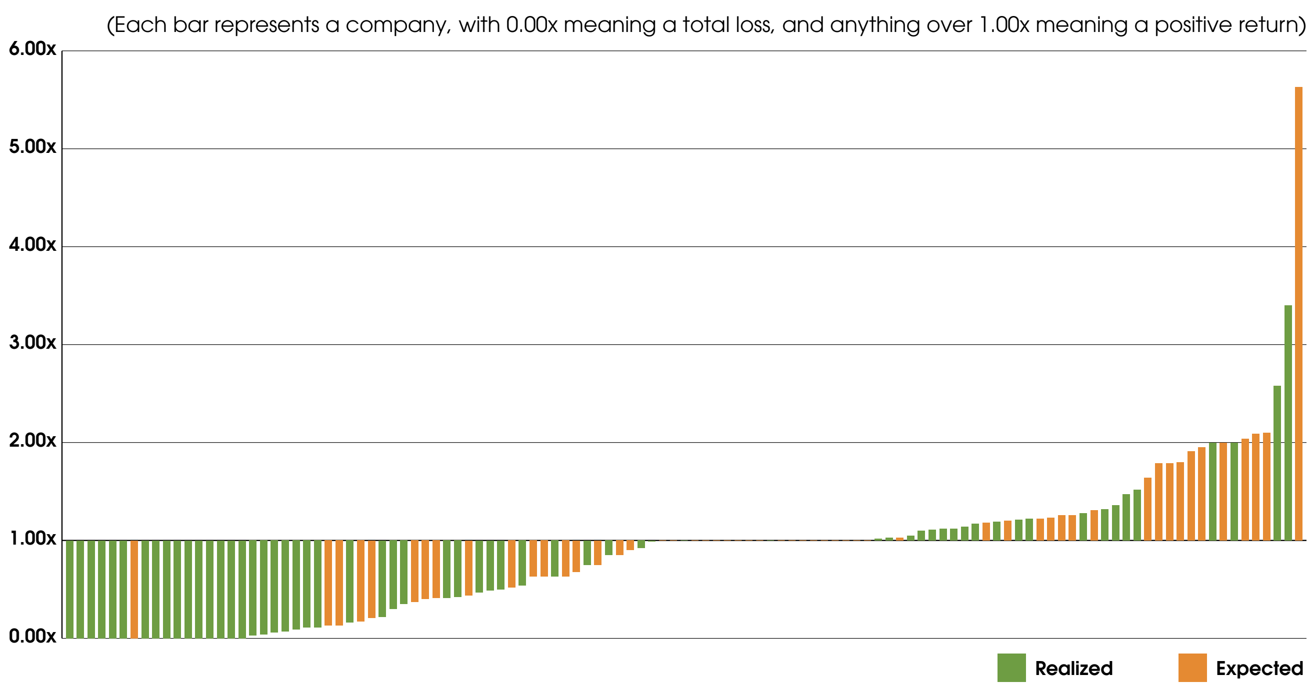


FIGURE 13A: ACUMEN'S EQUITY VS. DEBT OUT

(% of non-grant capital invested)

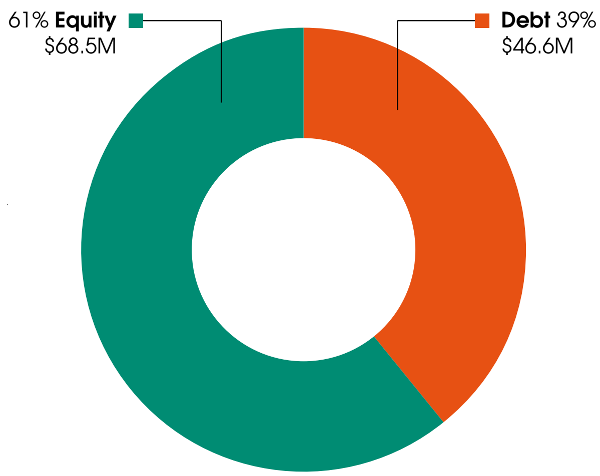
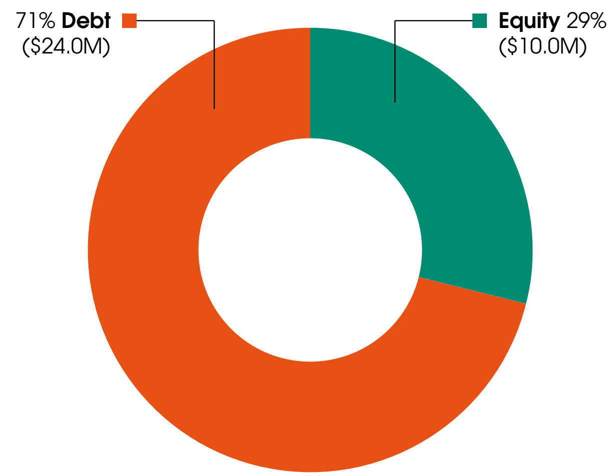


FIGURE 13B: ACUMEN'S MONETIZED RETURNS



The majority of our capital has been deployed as equity, but the majority of our monetized returns have been from debt. This shows the difficulty we have faced in exiting equity positions, which has led us to use more hybrid instruments.

The second factor is our longer time horizon. As highlighted above, it takes a long time to scale social ventures. In turn, this means we hold our investments for a long time. One estimate of the average holding period for VC investments that were merged or acquired was 4.9 years.[29] For our top 10 unmonetized companies, the average holding period is eight years; for our bottom 10, it is over nine years.

Finally, even for our winners, exiting is tough. In a VC model, investors are participating in a liquid capital market where others are willing to pay a premium to those who took the early risks and added value to the young company. Fully 70% of Acumen's returns are expected, and a lot can happen between "expected" and "monetized." The reality is that most Acumen teams work in illiquid capital markets, driven in part by their nascency, risks, and complexity. Many investors are uncomfortable with those facts. Of the 85 companies we have invested equity in, we have sold shares in just 16, and only six of those sales were at a profit. This is one of the reasons that **the VC model, with its assumption of follow-on growth capital, does not fit everywhere.**

By contrast, our debt portfolio has monetized more frequently. Look at our outflows and inflows in *Figure* 13, divided into equity and debt.[30] Although Acumen is primarily known as an early-stage equity investor, 39% of our capital (nearly $47 million) has been deployed as debt in the form of venture loans, working capital facilities, bridge loans, and convertible notes. We have been paid back $24 million on that debt (inclusive of interest), which is a disproportionately higher share of our monetized returns (71%) compared to equity (29%).

This should not be surprising: Debt is meant to be a shorter-term agreement between creditor and debtor, with a pre-planned exit. Whereas exiting equity investments, in a VC framework, requires a third party that may or may not exist. We can innovate around many things, but we cannot innovate a buyer. Does that mean that we should stop investing equity? No. But it does suggest a need to revisit the role of Patient Capital, and the instruments we use to deploy it.

The Pioneer Gap, Revisited

Azahar, Colombia

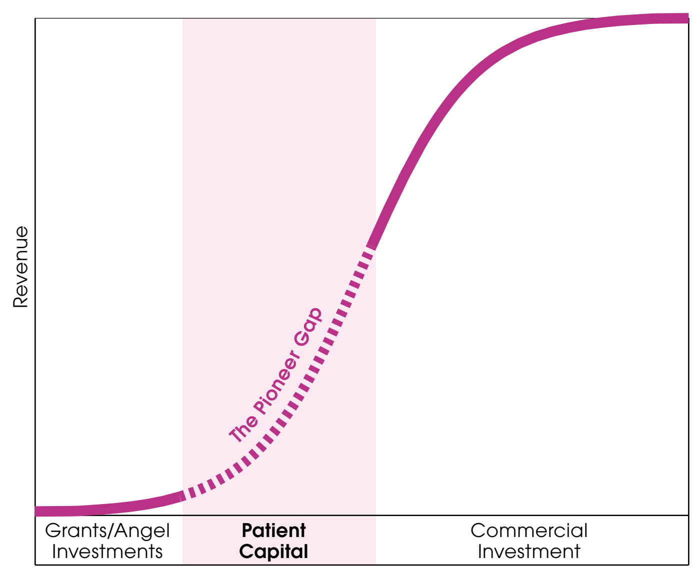
The Pioneer Gap

In 2006, Acumen published its first five-year report, in which we stated our intention to "demonstrate that small amounts of philanthropic capital, combined with large doses of business acumen, can build thriving enterprises that serve vast numbers of the poor."[31] There was an aspiration that our investments could catalyze other funding, but no mention of a VC framework or exiting our stake to commercial investors.

By 2012, Acumen was explicitly framing Patient Capital as a catalyst for growing social enterprises. The Blueprint to Scale report made the case that early-stage, Patient Capital investments in social ventures would fill the Pioneer Gap, a critical space between pilot funding and commercial capital for scaling (*see Figure 14 for a visual representation*).[32] Patient Capital, the theory went, could "establish models for inclusive business enterprises into which return-seeking capital could be invested to drive scale." This idea—using philanthropic capital to fill a stage-specific capital gap for social enterprises—remained the dominant public framing of Patient Capital over the next decade.

Today, we understand this framing to be partially correct, yet incomplete. **To solve the most pressing problems, we need to think about the role of Patient Capital more expansively.** A range of entities and business models go beyond high-growth models. They have different potential pathways and partners to scale, yet they all require the same patience, impact orientation, and return threshold flexibility as Patient Capital.

FIGURE 14: PATIENT CAPITAL AND THE PIONEER GAP



Where the Pioneer Gap Model Works and Where It Falls Short

Deploying Patient Capital to fill the Pioneer Gap, in a VC model, works best when these three conditions exist:

- **Scale:** Highly scalable models have a chance at achieving a rapid growth trajectory in 5-10 years' time.
- **Margins:** Business models must have a reasonable chance at achieving profitability over the longer term. Healthy profit margins on a per-unit basis are needed to attract institutional capital providers.
- **Complementary Capital:** Filling the Pioneer Gap requires the presence of both angel funders and grants to seed ideas, plus institutional capital later on, to provide larger investments needed for scale and exit opportunities for early-stage funders.

When these conditions are present, the Pioneer Gap hypothesis works well. Across Acumen's portfolio, our companies have raised more than five times our $115 million invested. Later-stage investors have relied on Acumen's diligence and hands-on accompaniment to help companies prepare to take on larger capital injections and plan for growth. Perhaps nowhere was the Pioneer Gap hypothesis better proven than in off-grid energy, where Patient Capital has catalyzed growth and scale. Overall, our nine standalone off-grid companies have raised over $300 million in follow-on investment, 11x our initial outlay.

In other sectors, the Pioneer Gap model does not always fit. Acumen invested $31 million in 30 agribusinesses between 2009 and 2020, across a wide range of business models. Since then, these companies have leveraged much less additional capital than those in off-grid energy (3x leveraged versus 11x). Perhaps even more striking, **we have yet to sell a share of equity in an agribusiness;** our realized returns in the sector to date have all been from debt repayments.

A range of entities and business models go beyond high-growth models. They have different potential pathways and partners to scale, yet they all require the same patience, impact orientation, and return threshold flexibility as Patient Capital.

Quick returns on straight equity have rarely worked in agriculture. The time horizons are longer because there are so few secondary market opportunities. Beyond the limited financial returns, the majority of our agriculture investments have failed to achieve S-curve style rapid growth: On average, the agribusinesses in our portfolio served an average of 3,800 farmers in 2020. However, we also know that providing bundled services to smallholder farmers can significantly improve their productivity and incomes, and that in terms of depth of impact, this is some of the most transformative work we can do.


Juhudi Kilimo, Kenya

Patient Capital Beyond the Pioneer Gap

But beyond standalone energy products, financial inclusion, and health products, there have been few high growth-models in Acumen's portfolio that follow the linear path of blueprint –> validate –> prepare –> scale, at least not on the timelines preferred by profit-seeking capital.

Even within energy access, investors in solar home system companies have struggled to exit.[33] The Pioneer Gap in *Figure 14* also fits poorly with other models, such as mini-grids, that have exponentially higher capital expenditures and slower growth curves. It takes years to amass the volume of connections and corresponding electricity revenue to the point that companies are able to cover their high capital costs, which makes them often depend on tenders and government programs.

This does not mean we should abandon mini-grids as a path to energy access. Mini-grids still require capital that is patient, impact-oriented, and flexible on returns. But this capital will look very different from seed-stage equity investments in the Pioneer Gap model, and might instead be structured as a combination of result-based financing, grants, and project finance that can better match the growth trajectory and capital requirements of these models.[34]

As the impact investing sector has evolved, **we've seen capital increasingly swarm to a narrow subset of social problems: 41% of impact assets in emerging markets were allocated to financial services and over half of all VC funding in Africa was in fintech in 2021.**[35] Here, the S-curve models hold: Growth, profitability, and returns are all within reach. However, while financial inclusion is important, it is not the greatest single problem emerging markets face. Financial services attract so much investment because they are the most reliably profitable businesses that can serve poor households.

It is increasingly accepted that there is, and ought to be, a continuum of returns in impact investment. In theory, there is room for everyone: commercial, subcommercial, and grant capital can all create social impact, each with different time horizons and return profiles.[36] In practice, there remains a dearth of impact-first capital, and it shows in the type of sectors that do and do not receive funding. Just 9% of all impact assets in emerging markets were invested in water and sanitation, education, housing, and healthcare combined.[37] And while $61 million was invested in clean cooking in 2019, we needed $4.5 billion.[38] Despite all of the money in financial services, there is a $106 billion gap in finance for smallholder agriculture in Africa and Asia.[39] These are capital-intensive, thorny sectors and returns may not be commensurate with risk. But there is huge, unmet demand for more investment in high-impact, slow-return solutions.

Patient Capital, Reimagined

Acumen set out to solve the needs of poor communities. For solutions where bridging to scale that is funded by commercial capital cannot achieve that end, we must pursue scale through alternate means. In this vein, we now recognize that Patient Capital must be reimagined along four dimensions outlined below.

TABLE 1: THE FOUR DIMENSIONS THAT PATIENT CAPITAL MUST ADDRESS

	From	To
Type of Business	For-profit, high-growth	For-profit, high growth For-profit, lower growth Hybrid entity (nonprofit/for-profit)
Payer	Low-income end users	Governments Institutions Mix of low- and middle-income customers
Instrument	Equity	Debt-like equity Equity Debt Grants
Returns	Goal of capital preservation (1x)	Return targets based on the nature of the solution, with higher priority given to liquidity

This reframing builds upon work done by global consultancy Dalberg Advisors with Omidyar Network, which states that the lack of “meaningful differentiation among enterprises and their financing needs… contributes to confusion in the market and misaligned expectations around risk, financial returns, exit prospects, and impact potential for small and growing businesses.”[40]

Acumen wants to rewrite the script of how change-making enterprises can be funded. We already have promising examples of how we can optimize investment for impact, not just to close a capital gap.

Reimagining Financing for Farmer-allied Intermediaries

Returning to agriculture: the farmer-allied intermediaries that Acumen invests in—aggregators, processors, producer organizations, and vertically-integrated brands that source from smallholders in a way that strengthens their capacity—are scaling slowly, we can’t get our equity out, and we know that this is a path to deep and lasting impact. These models will generate sufficient cash flow and growth to return capital to investors over time, but that value is unlikely to be monetized by a secondary sale or IPO. How do we better direct our Patient Capital? How do we structure our investments to fit the growth trajectories and return-generating capabilities of these businesses? And how do we ensure that we are assuming some of the risks of smallholder agriculture that farmers bear every day?

BOX 2:

Convertible Note Structure

In 2021, Acumen invested in Lizard Earth, an organic cocoa company in eastern Sierra Leone. The company’s revenues were below $100,000 at the time of due diligence. Although we projected that the company would see an average revenue growth of 150% over the next 2-3 years, its profit margins would remain low due to the thin gross margins on smallholder sourcing. But Lizard Earth sees considerable potential to further increase its gross margins by targeting the global niche market for ethically produced, speciality cocoa, and by increasing the efficiency of its logistical and off-taking processes

To provide financing that would enable the company to grow and plan for a realistic exit, without creating an undue debt burden, Acumen structured a convertible note wherein the company would make royalty payments for the first five years that were a small fixed percentage of the preceding financial year’s revenue. This structure allows the company to not be overburdened with debt payments while growing its operations. At the same time, it allows Acumen to earn a reasonable return on our investment and recycle our capital into similar solutions elsewhere.

Over the last several years, beginning in Colombia and continuing in Sierra Leone and India, Acumen has made six investments into farmer-allied intermediaries using self-liquidating equity and quasi-equity instruments, structured for eventual buyback by the company or farmer association. **These structures still enable the company to access the capital and time it needs to scale, and they ensure we are closely bound to the governance and operations through our ownership, while offering a more predictable and moderated return.**

Our job as investors is to better understand the right capital for these companies and deliver it to them.

If creating deep impact in agriculture means investing in slower-growing, riskier, farmer-allied businesses that retain value locally, then our job as investors is to better understand the right capital for these companies and deliver it to them. With adjustments to how we structure investments and plan for returns, there is a world of possibility to drive the right financing to scale agribusinesses.

BOX 3:

Where Agriculture and Venture Capital Models Do Fit

In addition to the farmer-allied intermediaries that Acumen focuses on with Patient Capital, there are other subsectors within agriculture that have proven to be more appropriate targets for venture-style investing. There are companies that are tech-enabled, with a growth mindset, and include low-touch agritech models with the potential to scale. These companies have raised significant impact capital.[41] Commercial farms and livestock operations have also attracted capital from impact investors and private equity, but they often do not work with low-income farmers.

In 2018, insights from our agriculture investing informed the creation of the Acumen Resilient Agriculture Fund (ARAF). ARAF is an equity fund that focuses on digital platforms, innovative financial services, and aggregation models, which are better suited to equity funding and more likely to achieve the S-curve growth and profitability that returnable funds require. The fund has a first-loss tranche—a layer of Patient Capital that absorbs a portion of investment losses—and a technical assistance facility to pay for the critical pieces of agricultural development that governments fund in richer countries (customer research, R&D, extension).

Hard-to-Reach

A second example of structuring capital for impact is the energy sector, where years of investment and growth have created companies that are sustainably serving off-grid communities but in relatively few countries. All told, investments in off-grid energy have been concentrated: East Africa received approximately 60% of global off-grid energy access investment in the last decade, and roughly 75% of the investment in sub-Saharan Africa. Customers in under-invested and underserved markets are at risk of being passed by. These are typically countries grappling with political instability and extremely poor populations, with low density and poor connectivity in many areas.

For off-grid operators, many of these markets are perceived as too risky and sometimes too small (e.g., Malawi, Burkina Faso, and Burundi). Without targeted and innovative financial investments in these markets, we estimate that 215 million hard-to-reach people could be left in the dark.

We are eager to use Patient Capital to encourage market-based options for bringing energy access to hard-to-reach customers. In 2021, we began our first experiment to push energy access distribution beyond the obvious markets. We provided a loan to one of our existing portfolio companies to on-lend as trade finance to a local solar distributor in a high-risk, underfunded market. Acumen offered an impact-linked interest rate discount that will unlock if a sufficient number of poor households gain first-time access to modern energy from that distributor.

Customers in under-invested and underserved markets are at risk of being passed by. Acumen is excited to expand the off-grid sector to places it might not otherwise reach.

Acumen is excited to expand the off-grid sector to places it might not otherwise reach. Using a multi-pronged approach of expansion and distributor finance, layered with startup grants, we hope to reach millions of people with clean, renewable energy. By matching the risk-return expectations of capital to the profile of companies in underserved markets, Acumen can back off-grid companies from start-up through development and scale-up, incentivizing impact at every stage and mobilizing additional investment into under-funded markets. This is an example of using the right kind of capital to take on the right kind of problem.

EthioChicken, Ethiopia

Moving Forward with Patient Capital

In the GIIN's 2020 investor survey, 67% of respondents, managing over 95% of impact investing assets, stated that they expect risk-adjusted, market-rate returns.[42] Their capital flows mostly to the narrow slice of impactful solutions that can provide those returns: infrastructure, tech-enabled solutions, and financial services. Neglected are the important, thorny problems that impact investing should tackle, such as agricultural extension, healthcare, and education to people living in poverty.

But that is why we're excited about our findings: **Now we know, for a fact, that to provide innovative solutions to the most vulnerable people in difficult places, you can reasonably expect to get back more than nothing but less than a dollar**. That's the market rate, and it means philanthropy is essential to enable the risk-taking that this impact requires.

Conclusion

Haqdarshak, India

Investing as a Means

As we look back on our history and consider the state of the world and our impact investing sector today, there are clear lessons to embrace going forward.

First: The time for easy binaries is gone—for-profit or nonprofit, investor or philanthropist. We need more people, institutions, and entrepreneurs who can see the possibility in combination rather than division, who can use the best of both models to build sustainable solutions.

Second: We need to collectively grow the proportion of impact investments that hold the needs of the most vulnerable at the center, and set their return target accordingly, even if it is below 1x—not the other way around. Companies that serve poor customers cannot continue to be the domain of Acumen and a few others. Models that demand more value than they create are not just condoning inequality; they are contributing to it. We need more Patient Capital and impact-first capital, and we need it now.

Third: All of us must break free from the capital conveyor belt of early-stage equity and VC models and work instead within a broader range of possibilities, for both scale and returns. We need investors who understand where a company is going and where they are not, what financing will maximize their impact, and what paths exist to take their impact to scale.

Lastly: Impact takes time, and this is the greatest asset that Patient Capital can buy. We know that changing impact investing and philanthropy, and shifting big risk-averse institutions, will require more visionary partners like those who have supported Acumen the last 20 years. It took us years to find the right model, and years more to find the right places and sectors to apply it.

Our planet is facing immense, entrenched problems. We need Patient Capital and impatient leaders to solve them. Our commitment is to keep experimenting, to get sharper at measuring for action, to use investing as a means to tackle the most severe problems that people in poverty face, and to keep sharing what we are learning. We hope you'll join us.

Endnotes

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