Arc Angels

Thanks to Kevin and Amy and the SoCap Team for including me in this super event and to Frank for the lovely introduction. I'm here because Kevin asked me to tell you the story about why and how we became Arc Angels. It all came about as a result of talking to social entrepreneurs in the energy and water space and asking them about the biggest challenges they faced at the very early stages of building their businesses.

The Challenges

Difficult Money. We've talked to lots of social entrepreneurs – including some that are here like Ajaita Shah of Frontier Markets, and Konrad App and Homayoon Shahinfar of Stima Systems, Willem Nolens of Solar Now and Stewart Craine of Barefoot Power. As well as product companies like Greenlight Planet, D.Light, Envirofit, Ecozoom, Biolite Stoves, Wello etc. – and all say the same thing: the most difficult money in the world to raise is the first $1 to 2 million. When pressed further they say the most difficult of the already difficult money was the $50K to $150K that came right after friends and family but pre-seed investors which was essential for them to develop their proof of concept.

Reluctant Angels. Usually at these very early stages what entrepreneurs need is money to build prototypes, money to test and pilot systems or processes, and money to carry out market research to test demand among end consumers. They need evidence that their idea works so they can persuade investors to listen to their pitches. Invariably, at this very early stage they'll hit up seed or angel investors who tell them exactly the same thing – "Fab idea, but I need to see a proof of concept". Or "Come back when you need a larger sum of money, we can't do investments for under $1M". Or "Love your vision but bring in another investor I can invest with." So the entrepreneurs are caught in a catch-22 with a bunch of interrelated hurdles to cross – First, everyone loves their idea but no-one will give them what they need to make that idea a reality; Second, usually the amount of money needed is really small … too small an amount for a typical Angel investor; Third, their companies often don't have a track record so it's difficult to do due diligence on them; Fourth, the investors they are approaching want to see someone else has taken the plunge first.

Sound familiar?!!

Frustrated Change Makers. These budding entrepreneurs have great ideas – they are people who are solving real problems – how to bring light or water to poor people, how to build more efficient stoves, how to develop distribution channels for pro-poor technology, how to develop payment systems so the poor can pay for products in small increments. What they have in abundance is passion, commitment and a will to make their ideas a reality – but they keep hitting brick walls and what they need is some magic (or as one entrepreneur put it "divine intervention") to help them over their catch-22.

The Opportunity

Small is Beautiful. So enter Arc Finance – we realized that with a very small amount of capital we could help jump start these types of companies and catalyze their growth so that not only would they be actualizing their ideas but they would become investable much more quickly than without our support.

We give very small loans – from $20 to $75K – that are convertible into shares if the company is actually able to raise capital. The investment is so early stage that our due diligence is pretty basic – ensuring there is an incorporated company, a sound business plan, an interesting idea and an entrepreneur/management team that we believe in. We ask them for three things - to tell us specifically what they want to use the money for, to show us evidence that they chipped in too, and to keep us informed about their results on an ongoing basis.

Let me give you an example – SIMPA networks. We brainstormed with the founders from the very early stages. Paul, Jacob and Mike are all really smart chaps whose skill sets compliment each other and who had come up with an interesting idea that would allow poor people to pay for energy on a "pay as you go" basis using a payment regulator and an SMS fed software solution for payment processing and accounts settlement. Once they had settled on a name, legally incorporated the company and refined their business model we gave them $40K in the form of a convertible loan. They used the money to build a prototype and pilot the system with real clients. They asked us to serve as Advisors and over the next few months we gave them lots of both solicited and unsolicited advice and introduced them to a broad range of investors. Nine months after we had given them the loan - and incidentally right after the last SoCap meeting in San Francisco where they were featured innovators - they leveraged our $40K investment to line up two additional investors. They raised $1.3M in the first round and our $40K investment was converted into shares.

Most recently, they signed an MOU with E+Co to create a new Revolving Fund which will ultimately help them to underwrite the mass manufacture of their systems. Their goal is to pilot this Revolving Fund credit facility first in India then scale it there and across other E+Co portfolio companies globally. They are a really promising company and have a tremendous amount of potential and our micro investment helped them get to where they are now more quickly and effectively. They were the ones who dubbed us Arc Angels and they insist that the tiny amount we gave them was the most important money they got, particularly because being able to say that they already had secured an investor was key to getting their next set of funds.

Profile of an Arc Angel

Arc Angels are in the business of 'market creation" – the idea is to help jump start promising companies so that they can become investable – *what we are doing is creating the pipeline.*

Arc Angels can use a variety of funding or investment models. In our case, the funding we use comes in the form of grants given to us by corporate foundations (Citibank Foundation gave us the first pool of funds we used this way), family foundations and governments. These institutions agree with us that providing small amounts of money to jumpstart small companies is important, but they don't have the ability to look for lots of tiny investments and would rather do it through us. They believe in our mission – which is to find financing mechanisms to help poor people purchase clean energy and water. Since our supporters are providing grant funding the way they evaluate risk and returns is different than a typical investor. We help to mitigate some of the risk because they know that we will only invest in companies that are aligned with this mission, that we will be providing ongoing advice, connecting them to investors, that we will be tracking their impact and that we know the sector well. For them the return is that they can say their financing is creating companies that will improve the quality of life of poor people around the world and will ultimately generate triple bottom line returns. Depending on the type of funder they can also elect to go in independently when the company is ready for its first or second round of investment funding.

I'll close by saying we're not the only ones doing this and we think lots more people should be joining – either through organizations like ours or on their own. The world needs more Arc Angels!