

Just for a change powered by the Bertha Centre for Social Innovation and Entrepreneurship

Episode 10: Changing the way we're financing the world

[00:00:00] **Kentse Radebe:** [00:00:00] Welcome to the, Just for a Change Podcast, powered by the Bertha, the center for social innovation and entrepreneurship. First off, what you need to know about us is that thinking differently and innovatively about solving big social issues is what makes us tick. We love offering new perspectives on social innovation and social justice. So we hope you'll be inspired to make a difference. And for you are we're changing the way we're changing the world.

[00:00:32] Welcome to the, Just for a Change Podcast with me, your host Kentse Radebe. Investors around the world are reimagining how capital can be utilized to have a positive impact on the world. How you might wonder, through impact investing.

[00:00:48] On today's episode, we're going to unpack how we can use impact investing to drive more capital into high social impact areas, such as health, education, access to water and decent [00:01:00] housing. And this is in a context where millions of South Africans still struggled to meet their basic needs. This is particularly critical as we celebrate human rights day this month in South Africa, we're thinking about how we use impact investing as a vehicle to bring social justice.

[00:01:17] Our Bertha Center team are some of their family and friends with they think impact investing needs. Let's hear what they had to say.

[00:01:25] **voice notes:** [00:01:25] Impact investing is investing in a business that not only has a sustainable financial model, but also makes an impact in the environment and society around it.

[00:01:38] I think impact investing is about investing in companies that not only want to make a profitable return, but also want to try and meet some, um, social or environmental need.

[00:01:53] **Kentse Radebe:** [00:01:53] If there was any doubt of the coming age of the impact economy, 2020 provided a perfect vision. [00:02:00] The chaotic year of 20 20 exposed, deep systemic vulnerabilities and the negative externalities associated with our current economic system, from the environment to how we organize labor government spending, and even how we value household labor. All of this magnified, the need for reimagining, how we use capital to address splintering, social and environmental dynamics across the globe.

[00:02:25] In light of the expose fragility of the global economy near the peak of the first wave of the COVID 19 pandemic, Peter Bakker and John Elkington who, when leaders in the sustainability space highlighted the need to future-proof capitalism by carefully considering social and environmental issues in decision-making.

[00:02:45] Investors have gradually been making the shift. Well, almost a third of global assets under management now have some sort of impactful data or consideration for environmental, social and governance concerns. There is a growing move towards deeper

[00:03:00] intentionality, measurability, and accountability of the impact of capital. Similarly impact investing mechanisms are increasingly being used to forge pathways of change that not only produce financial returns, but very importantly have impact.

[00:03:14] It addresses the world's most pressing challenges in sectors, such as sustainable agriculture, renewable energy conservation, microfinance, and affordable and accessible basic services, including housing, healthcare, and education. One of the driving forces behind this movement is the millennial generation who have shown a tendency to align their capital with their hearts impact investments.

[00:03:38] According to the global impact investing network, our investments made with the intention to generate positive measurable social and environmental impact alongside a financial return. At the Bertha Center, we believe we can create a world where impact investing has the power to catalyze and scale, social impact. Align public and private [00:04:00] stakeholder incentives, and more effectively distribute capital across the philanthropic mainstream and government spectrum.

[00:04:07] You see, historically asset owners divided their capital into two buckets. The first being traditional investing intended to maximize profits and the second philanthropic investments with the intention of achieving social good. Impact investing can then be described as the range of investment opportunities that exist between traditional investing and philanthropy.

[00:04:30] In other words, if traditional investing seeks financial returns, regardless of environmental, social, or governance factors, And philanthropy, disregards financial returns in favor of social and environmental solutions and impact investing falls on a spectrum in between these two worlds. There have been many breakthroughs in the design and implementation of impact investing and in advancing social innovation from the early days of the Bertha Center's existence, the [00:05:00] innovative finance team has worked with social finance experts across the world and partnered with government enterprises and investors to research, incubate, and test promising innovative finance models and vehicles across Africa.

[00:05:14] Some of their work, includes the development and use of innovative finance models to assist small to medium-sized social enterprises, to raise funds and get early stage financing. And that's what we'll be discussing on this episode. Looking at early stage research and fund development. While the early stage funding gap is anecdotally acknowledged, there has been little research into the experience of early stage social enterprises, raising funding in South Africa.

[00:05:43] Today I have the privilege of speaking to Zak Essa and Stephen McCallum to chat more about impact investing. Steven is my colleague and senior analyst here at the birth center. He's passionate about advancing the impact investment market to see lives transformed and environment protected [00:06:00] through active involvement in the sustainable development space and research outfits.

[00:06:04] Zack recently joined the innovative finance team as an innovative finance consultant. Xact worked with Obama city, where he supported the development of entrepreneurs based in townships, across Cape town. I also met Zach last year when his team won the ECT

leg of the Oxford Matha system competition, where he's team was looking at the barriers, preventing women living in townships from scaling their businesses.

[00:06:27] Zak, Stephen, welcome to the podcast. I hear that you're all the way in the Eastern Cape. How's that going?

[00:06:35] **Zak Essa:** [00:06:35] Yeah, it's been incredible. It's it's unbelievably beautiful. My Xhosa is embarrassing at best. Um, but I'm loving and learning every single day.

[00:06:47] **Kentse Radebe:** [00:06:47] That's wonderful. Um, Steven you're in sea point, but he, this morning we were chatting about how you will go into a coffee shop and exploring what's happening in the city. So I'm really excited to be chatting with you [00:07:00] because as a fellow colleague, we haven't been in the same office together, but before we jumped straight into all the little bits around impact investing, I really wanted to sort of take a step back and start at the beginning. Stephen, if you can impact for us, why should the average person care about impact investing?

[00:07:16] What does it offer us? What is the potential that it has for our society?

[00:07:21] **Stephen McCallum:** [00:07:21] So this is a question I sort of actually had to deal with when I'm studying towards a degree in financial analysis, a number of years ago, and, you know, looking into we'll invest are traditional investments, actually making an impact as well.

[00:07:38] And the answer is yes, they are. Um, they are creating more jobs. You are investing in infrastructure, which improves our daily lives. But through impact investing this this more than we can do. Um, I think we all felt the, what, uh, uh, shifting social dynamic and do to our daily lives over the [00:08:00] last year and what environmental damage is doing across the globe.

[00:08:06] And what, what impact investing does it allows us to align our capital with some of the purposes. And that go go beyond sort of just traditional investing in infrastructure, but also to create social and environmental good. Um, and it's, so it's great to say that you're passionate about environmental preservation or doing social good, but what the question I had to ask myself is, is my capital also doing that all my savings, my tax contributions, my retirement annuity.

[00:08:39] is that sort of aligning with where my heart is around sort of making a difference. Um, and we are heading in that direction. We not, we, the market is growing, but impact investing does provide a way to align and to create an accountability, um, and integrity [00:09:00] behind investments to actually make a measurable difference.

[00:09:04] And I'm personally, personally quite hopeful that in the future retail investors like yourself, and I will have the opportunity to do that more directly and through financing things like water and sanitation projects or affordable housing. We're not quite there in South Africa where we can necessarily invest directly like that.

[00:09:25] Um, it's more the broader institutional players or your. Um, private equity players, your high net worth individuals, but I think we're going to get there. Um, so I'm excited for that time.

[00:09:38] **Kentse Radebe:** [00:09:38] Stephen liked the fact that you emphasize the unique context that South Africa is operating in. And Zak, I want to bring you in a little bit, and I want to focus on some of the work that you've done with entrepreneurs and the experiences that you've gleaned from that. Why do you think impact investing is so relevant for closing the funding gap here in South Africa?

[00:09:58] **Zak Essa:** [00:09:58] So [00:10:00] Kentse I'm quite a relentless optimist and I get caught up, I dunno, ... from my friends. Um, but I've worked with some inspiring and incredible entrepreneurs of the last few years from different socioeconomic backgrounds and different places.

[00:10:15] And I've really been so inspired. Um, and, and I found myself being excited about closing two different funding gaps. Um, so on the one hand we live in. It's a developing country. And I always, um, when I speak to my friends, I, I speak about this imagined world. The world is not poverty and lower inequality and clean energy.

[00:10:37] Um, and we have a lot of social issues we need to tackle with very limited money to do so. So government alone, isn't going to be able to help us reach that ideal very fast. And the social sector has this incredible role to play, but at the same time, Doesn't have enough capital to spur that growth. And so we're, I think impact investing is really exciting, um, to close this funding gap for social [00:11:00] issues is by mobilizing business as a force of good, um, on the other hand and from direct experience with entrepreneurs, um, it's been incredible to see how small amounts of capital can go such a long way.

[00:11:12] Um, I once worked with an entrepreneur in Philippi, he owned a fruit and veg. Um, fruit and veg business. And he was incredible at what he did source locally grown fruit and veg, but it was a very seasonal operation. And so his cashflow was really, really lumpy. And for that reason, he was completely neglected by commercial lenders and by non financial institutions, banks. That's the second way I see impact investing, being very exciting is to close the financing gap for early stage businesses and social enterprises. Uh, impact, investing can provide capital using alternative and innovative financing mechanisms that can help small businesses unlock the capital they need to help us as a country stimulate inclusive economic growth create decent jobs and reduce poverty..

[00:12:00] [00:12:00] **Kentse Radebe:** [00:12:00] So, Zach and Steve, you've both painted a picture of what the context looks like in South Africa. And Zak, I understand that you've been working on an early stage research report. What have you discovered to be the overarching challenges that are facing social enterprises, particularly those in their early stage.

[00:12:20] **Zak Essa:** [00:12:20] That's a great question Kentse. And I remember last year when, when we presented the map, the system. Challenge to you about why women owned businesses fail, um, realize that problems are so complicated and intertwined. And I wish I could point to one specific problem and challenge because I'll make it really easy to solve as well.

[00:12:39] But, uh, we spent the last few months interviewing about 162 social enterprises across South Africa. And there were a lot of challenges, both from the entrepreneur side and the funder side. So from the entrepreneurial side, there's both inflammation and systemic barriers that prevent people from raising funding.

[00:12:58] Uh, social entrepreneurs are unsure [00:13:00] who to raise money from where to raise it, what the best instrument is or how to reach funders. And it's also true that there are some systemic barriers as well. A black social entrepreneurs tend to raise a lot less than their white counterparts as well as women. And those who are less educated, struggled to raise as much money as they need, um, to, to grow there. It businesses.

[00:13:24] Social entrepreneurs specifically. And like I mentioned earlier are also more likely to have lumpy or uncertain cash flows, which is frowned upon by traditional lenders. Um, and then from the supply side, there's simply a lack of capital because of the risk seen at an early stage. So private sector funds rarely invest at an early stage because they can't see a clear path to exiting the investment and the transaction then due diligence costs often make it hard to achieve the required rates of return. So there's challenges across the entire system.

[00:13:57] **Kentse Radebe:** [00:13:57] Thanks Zach, for laying out what those [00:14:00] challenges are. And Stephen, I want to bring you back into the conversation because the innovative finance team is Bertha Center has been looking at ways to assist social enterprises, to overcome some of these barriers. Can you unpack what some of that work is?

[00:14:13] **Stephen McCallum:** [00:14:13] Great. Thanks Kentse. Yes. Um, we've been working at these issues for the last seven years or so. Um, and one of our, our main goals is to be at the forefront of overcoming blockages in the social finance ecosystem and with the ultimate goal of driving more capital towards social and environmental

[00:14:33] And as Zak mentioned, there's lots of issues within our smaller businesses and raising finances, especially social entrepreneurs. So just to highlight a couple of our initiatives that we've been busy with, the first one would be the Green Outcomes Fund, which was launched in 2020, the beginning of 2020.

[00:14:53] And it looks to incentivize local South African fund managers to increase investments [00:15:00] into green SMEs by paying for outcomes such as green job creation, climate mitigation and improved water or, or waste management. Uh, it, it also creates a demand, uh, for verified green outcomes, but at the same time, builds the impact investing market in South Africa and creates this common base um, and understanding around a new sort of model and it can be used to essentially funnel more finance towards, uh, the green economy.

[00:15:32] Another one that we we've been involved with, uh, actually for the last five years with, um, some private donors and the SAB foundation is the Student Seed Fund. And, and what we've done is design and implement a social enterprise seed fund, which is open to both current and alumni of, of UCT.

[00:15:51] And it has two sort of strategic benefits. Uh, the first one, it allows students to raise seed funding for some [00:16:00] impactful ideas that are actually often being incubated within the university's entrepreneurship program. Um, and the second one would be that it also allows students and aspiring impact investors to gain experience in the impact investing market, uh, by being part of the management of the fund.

[00:16:19] As Zak actually also just mentioned some of the early, early research that we've been doing

[00:16:23] into, um, early stage social entrepreneurs. And we want to use that to build a early stage high impact fund. And essentially what we want to look into doing is how can we use blended finance and innovative finance at which we might touch on a bit later to bridge the funding gap for social enterprises?

[00:16:45] Um, beyond that we also want to look at at how do we democratize the decision-making process? How do we, how do we change some of the power dynamics owning traditional type investing? So how can we bring the social entrepreneurs voice [00:17:00] into designing the fund? How can we bring their voice, um, into the decision-making process around it, possibly by involving them on the advisory committee or investment committee.

[00:17:12] And then we also want to look into what does lean sort of impact measurement and management, uh, do for a fund like this, and can we actually integrate the user voice, the end user? So the people that we are really trying to impact do they have a voice in, in this whole process? Um, so those are just some of the considerations we have top of mind at the moment, um, in this, in this very new project that we're looking to undertake.

[00:17:39] **Kentse Radebe:** [00:17:39] So Steven, I imagine that a lot of this, as you mentioned, is focusing on some of the context and what's happening here in South Africa, but we do know that so Africa, isn't the only node where social enterprises are developing and growing and flourishing. But we do know that currently the largest market in Africa for impact investing is here in South Africa. What [00:18:00] makes South Africa so unique? And what prospects does that hold for the rest of the continent?

[00:18:05] **Stephen McCallum:** [00:18:05] So South Africa is an interesting place for impact investors because it has this advanced financial system and it has role players across the impact investing process to help facilitate effective investment.

[00:18:21] But at the same time, it has a host of social and environmental problems. Those those broad categories, that and systemic issues that, that Zak talk around around inequality and poverty, um, are illuminated every day in, in our South African news. Um, and they need to be tackled. So it creates a nice blend for impact investors, where they can actually die, uh, disperse, good amounts of capital through an advance financial system and address some really pressing needs.

[00:18:56] Um, so this helped draw impact investors into the country [00:19:00] from pretty early on in the impact investing sort of journey. Um, but having said this, the Zambian and Kenyan and Ghanaian sort of impact investing markets are really grind well, and this all really bodes well. Uh, when we look into developing African solutions for African problems,

[00:19:18] **Kentse Radebe:** [00:19:18] Zak I want to bring you in a little bit here and pick up on the thread that Steve was speaking about around some of the size of some of these impact deals. And I want to find out from the research that you've been doing, what is the average size of an impact deal?

[00:19:31] **Zak Essa:** [00:19:31] So like Steve mentioned earlier, the ecosystem for impact investing in Sub-Saharan Africa has been growing and quite rapidly. And South Africa is the largest a player in that it's really hard to, to pinpoint an average deal size. But what we do know is that less than 2% of capital as going as gone to investments with ticket sizes under

15 million rand. So this creates a bit of a problem. There's an under supply for capital for early [00:20:00] stage social enterprises, which makes it difficult to create investible larger deals.

[00:20:06] It's almost like we were in a valley and on the one side we have all our cars and the other side, we have all our petrol and we just don't have a bridge to get the car to the other side. And so, as a consequence, we have a lot of money chasing very few deals at a late stage and many enterprises that are stuck in the growth at an early stage.

[00:20:26] **Kentse Radebe:** [00:20:26] Thanks for, for that analogy. I think it's very useful in sort of painting a clearer picture of what's happening in this context. And, and Steven, I want to bring you back in here as well around. Earlier you were speaking about the work the birther center is doing, but what else can we do to make finance more accessible to the smaller players?

[00:20:44] **Stephen McCallum:** [00:20:44] So that's where this term innovative finance in that we've been throwing around can, can actually play a role and maybe just to pause there and sort of differentiate or, um, give a better understanding of, of impact investing and [00:21:00] innovative finance and where, where they come together. Impact investing holds a lot of potential to change the way that finance is allocated.

[00:21:09] Um, because it plays between that traditional finance, um, side of the spectrum and the philanthropy side of the spectrum. However, the market within that space often doesn't have all the tools that they need. And that's where innovative finance comes in. So innovative financing is an approach to finding a enterprises or interventions that are really creating positive social and environmental impact.

[00:21:39] So that's sounds pretty similar to what impact investing does, but here's the difference. It looks at all the available financial and philanthropic tools to support that growth of those enterprises or interventions. And when the right tools don't exist or actually even work, it creates new ones. And that's where we can really play a role within our team [00:22:00] and where we're looking to build the market.

[00:22:03] **Kentse Radebe:** [00:22:03] So, Steven, perhaps just to make it a little bit more clearer, can you give us an example of an innovative finance model?

[00:22:10] **Stephen McCallum:** [00:22:10] Sure. Um, without getting into all the technical structuring behind an example of a deal, I think a good example, um, of an innovative solution to vehicle finance could provide some insight into why and how, uh, we, we look into innovative financing.

[00:22:28] So in 2018, Jumo and Uber partner to provide the driver partners with vehicle finance and they created a unique digital vehicle financing product that actually eases the barriers to car ownership for existing Uber drivers. So what they found was that it was quite difficult for Uber drivers to finance their own vehicles when they were renting, um, because they had to build up enough disposable income and build a strong credit record to finance their own car, maybe through [00:23:00] traditional means. Which means I actually had to do drive a lot. And a issue around that is what happens if they fall sick or had family issues, then, you know, then there's the potential to actually fall behind on payments, which, which are major barriers around that.

[00:23:15] So Juma and Uber created the solution that uses behavioral patterns and data prediction to facilitate a credit scoring based on the data that Google already had on their drivers. They then use this to create flexible payment terms and they added other things like maintenance plans as well. Um. So essentially it's a pay as you drive solution.

[00:23:39] Uh, what we would in, in more technical terms in the innovative finance space, probably call it revenue based finance. Um, but it ensures that the Uber drivers were in control of their financial health. Um, because instead of paying the fixed monthly rate, um, they could pay a percentage of the, their rides towards, uh, paying off their [00:24:00] cars.

[00:24:00] And then they actually determine how quickly they pay off their car, um, by their driving capacity. So if they fall sick, they don't have to worry about getting behind on the payments because that percentage will only will only be taken off the, the rides that they do.

[00:24:17] **Kentse Radebe:** [00:24:17] Thanks, Steve. And I'm guessing that that model would be context specific. And I think this speaks to some of the early examples that you were also sharing around some of the work that Bertha Center's doing, but also the fact that innovative finance offers us the flexibility to try out different things in different places.

[00:24:35] **Stephen McCallum:** [00:24:35] So context is really important when looking at these sort of deals and especially trying to test them and. What we've seen through our work. What we've specifically been doing is testing them in our local market, in the South African market, in a space that we know, um, and then looking to use knowledge developments from those to, to scale to a broader region. Um, but also knowing [00:25:00] who we trying to actually assist with it through from the capital provision side or the supply side.

[00:25:05] And the demand side is. Is really important and the flexibility to actually develop a solution that that is innovative and, and can drive context-specific, um, solutions to the, to the issues, uh, to the risks or barriers is, is really important and a great part of, of the innovative financing work that we're doing as well.

[00:25:28] **Kentse Radebe:** [00:25:28] So Steven and I just, we reaching the end of the podcast and I want to come back to something you said a little bit earlier around solving, you know, African problems with African solutions. And following that thread, I want to go back a little bit to the 2008 financial crisis. And since then, and even before then, actually.

[00:25:45] A lot of activists and advocates have been called for a complete overhaul of capitalism, particularly here on the continent, in terms of thinking about some of the negative externalities associated with our current economic system. But your work in the innovative finance space [00:26:00] is certainly unique in the sense that you're working within the system. What would your response be to those critics?

[00:26:06] **Stephen McCallum:** [00:26:06] Hmm, we might need a whole other podcast episode to unpack that question. Um, but without diving too deeply into a contentious debate between capitalism and socialism, I'd say it's important to, to work within the system, to, to overhaul the barriers that can drive a form of more conscious capitalism.

[00:26:30] So, if we can remove the barriers that are preventing the disbursement of capital towards social and environmental, um, good and emerging evidence is showing that you

don't necessarily have to sacrifice returns to, to invest with considerations beyond the bottom line. It makes a very strong case, uh, to move capital towards those impact align projects.

[00:26:54] So I also believe that the financial industry is, is actually facing and feeling the pressure to [00:27:00] integrate concerns into the decision-making, uh, beyond bottom line, but they also need the correct structures and vehicles to disperse capital into. So we work within the system as a marketable that that research has tastes and collaborates to inspire systems change by overcoming blockages. So once those free up, it's easier to motivate to a shifting philosophy

[00:27:28] **Kentse Radebe:** [00:27:28] In closing, I'd like both of you to reflect on what would you want people to take away as one of the most fundamental important aspects in understanding impact investing and the value that it brings. And I'll start with you, Zak.

[00:27:42] **Zak Essa:** [00:27:42] Sure. So

[00:27:44] my undergraduate degree was in economics and finance, and I never knew what impact investment was until after I graduated. Um, and so I think my one big takeaway for everyone, um, that I wish I had [00:28:00] was just knowing that the space exists. I think too often, there's falcy that finance exists to make profit and. I think that the tide is changing quite a lot, not just in terms of conscious capitalism and conscious consumption, et cetera, et cetera, but business purely as a force of good.

[00:28:21] **Kentse Radebe:** [00:28:21] Thanks Zak. Um, Steven,

[00:28:25] **Stephen McCallum:** [00:28:25] A growing movement around this and the space is growing quite quickly and it, what really excites me is that there's. Um, a grind space where we take accountability for where we actually are using and deploying our capital. There's an intention there, the T behind, behind that in creating social environmental good. And there's a mission ability that loops that back, um, towards an integrity behind what we are actually trying to achieve. Um, I think we're, I'm really excited as well. Is that a potential [00:29:00] move towards not just these reflective evaluations, uh, perhaps of how much impact we made, but looking towards a space in, in managing for impact to creating as much impact as possible.

[00:29:16] And, um, what Zak said also just really excites me about, um, there's an increasing movement around, uh, the upcoming generations, the millennials and gen X who are starting to, uh, receive and move the money that aligns with some of the values. And I think that's going to grow the space even more with the big wealth transfer that will occur within the next 30 years or so.

[00:29:41] Um, and just. Just also pointing out again that how, if we speak in about, um, aligning our values and our capital, are we doing that already and how we built in the system and with the money that we do have in our hands, right now.,

[00:29:56] **Kentse Radebe:** [00:29:56] Zak Steven, you've both been wonderful. Thank you for joining us on the [00:30:00] podcast.

[00:30:01] **Stephen McCallum:** [00:30:01] Thanks so much.

[00:30:02] **Zak Essa:** [00:30:02] Thanks so much for having us.

[00:30:05] **Kentse Radebe:** [00:30:05] COVID-19 forced many small businesses to close their doors. However, for some businesses, this provided the opportunity to pivot in ways they had never expected. And now next up is the positive outlook segment with Simnikiwe Xanga.

[00:30:22] **Simnikiwe Xanga :** [00:30:22] Today we talked to Sebastian Daniels from ground culture and online marketplace and organization that believes in supporting small scale entrepreneurs.

[00:30:31] They are passionate about making a difference in their communities. Ground culture was founded in early 2018 as a platform to develop and grow support for entrepreneurs in and around Cape town. They believe that by supporting local business, you help grow the economy and aid in the creation of jobs and entrepreneurial development.

[00:30:54] They believe in bringing community back. And that's why they relentlessly focused on [00:31:00] becoming the go-to online store for home delivery. Everything they sell is made by local environmentally conscious entrepreneurs, wanting to make a difference in their communities. Welcome Sebastian. We excited to have you on the, just for a change podcast today.

[00:31:19] **Sebastian Daniels:** [00:31:19] Well, thank you so much for having me. I'm so happy to be here.

[00:31:23] **Simnikiwe Xanga :** [00:31:23] Great. So to kick start our conversation. And know many people wouldn't want to go back to 2020, but in your case, let's just rewind to the start of 2020. What are you doing and how was your social enterprise?

[00:31:38] **Sebastian Daniels:** [00:31:38] I was doing all right. Uh, kind of both over the two years prior and really just on a, on a scalable bootstrap model where I was just trying to figure out what is the bare minimum I can do with that funding to grow.

[00:31:52] Um, and I built up about a database of 75 coffee shops that are buying about six to seven different products that I'd source from [00:32:00] Khayelitsha and other local entrepreneurs. In South Africa, I was really building a cool ecosystem. Uh, between the 75 local independent coffee shops and the six or seven suppliers that it was working with. So things were going great.

[00:32:12] **Simnikiwe Xanga :** [00:32:12] You were a recipient of the student seed fund. How did that impact you and your growth?

[00:32:18] **Sebastian Daniels:** [00:32:18] I, I was a recipients and it was an absolutely amazing honor to, to be a recipient, but I actually had received at about nine months prior. Um, two just before COVID and I had been waiting for an opportunity to use it in something, um, better, really wanted to throw it all my weight behind.

[00:32:39] Uh, so yeah, I had only used, I think, about 20,000 to help build a honey business in Khayelitsha. And that needed capital just for working capital management to buy honey. So we could bottle it and sell it to the 75 coffee shops.

[00:32:54] **Simnikiwe Xanga :** [00:32:54] You mentioned something interesting about working with entrepreneurs in Khayelitsha. Uh, I'm sure this [00:33:00] must have been impacted

when COVID struck. So could you tell us, could you share with us what went through your mind when COVID happened last year?

[00:33:07] **Sebastian Daniels:** [00:33:07] Uh, I mean, COVID is such a wild experience. I don't think anyone could have predicted such a crazy event. I think when it first struck, we thought this was going to be maybe a month or two months long process. So my immediate reaction was I need to shift stock. I need to get rid of all stuff that I'm sitting on. Um, so I can last this process. So. I knew a lot of my coffee shops are going to close. And about 75 of them did immediately, as co as a lockdown was announced. And the three days prior to lock down, I put together a little WhatsApp menu, which had all these small businesses that I was working with and a few extras.

[00:33:46] And I try to just shift as much product as I could. And in those three days prior to lockdown, I did 23 sales. Um, In those three days, and these are my first sales direct to consumer. But before I'd [00:34:00] been doing business to business sales, where I would supply coffee shops now selling directly to consumers, and this got me thinking, Hmm, I can make 23 sales in three days. Why don't I upscale my products massively work with a lot more entrepreneurs, put my margins up and sell directly to the consumer. And this is when the seed fund really kicked in. And, and I started kind of exploring this online store kind of model.

[00:34:24] **Simnikiwe Xanga :** [00:34:24] Sebastian. I really liked your outlook on being flexible. And you've indicated that during these trying times of COVID, you've been able to pivot and look at ways of how to take businesses online. And you've mentioned a few businesses from Khayelitsha. Could you share with us as an impact enterprise? What is the impact of your business?

[00:34:46] **Sebastian Daniels:** [00:34:46] Yeah, I think that's kind of an interesting angle because impact is one part and an impact is something that we like to. Not looking at it from a one-sided lens. I think the township best entrepreneurs and the khayelitsha based entrepreneurs [00:35:00] that I work with and that we work with is ground culture, impact us equally as we impact them. So, as you were going into lockdown, we kind of realized there's a big need for township basis entrepreneurs, especially now to reach the formal sector.

[00:35:14] So what we really do is we stand, we work alongside entrepreneurs, you help develop their businesses. They brand to be more formalized, to be more. Facing to kind of formal consumers that want to see a ingredients. They want to see a little story. They want to see a proper label. They want to see glass packaging.

[00:35:32] We assist the entrepreneurs in moving their brands away from that. And then following that we market their products, using the amazing stories that these entrepreneurs have. And that's what I said, that the impact is, is both sides because us has grown Ground Culture. We gain a lot from working with these entrepreneurs because of their amazing stories.

[00:35:50] Um, but at the same time, but entrepreneurs gain a lot because we as Ground Culture have a network and we have an audience that we really market the products to. [00:36:00] So it's really a multifaceted impact side where we really. We want to ensure that both sides are gaining from this. And it's not a kind of hand on it's actually both parties are gaining because if we can do that, that's how we can achieve scalable growth and impact at the same time.

[00:36:15] **Simnikiwe Xanga** : [00:36:15] Hmm, indeed. I like what you shared. Um, Sebastian, because it indicates that spirit of ubuntu. I mean, many of us are products of spaza shops and many of our parents are entrepreneurs. And especially you see spaza shops around in, in, in townships. And you're inspired by the work that goes into that. On that note, I actually wanted to ask, what are some of the barriers you faced when raising early stage financing?

[00:36:45] **Sebastian Daniels**: [00:36:45] Uh, well, I, I think the barriers are, is as high as you put them at. I was head of the entrepreneur society UCT, um, for year. And I found it really interesting because I would host lots of pitching events and we host lots [00:37:00] of like, kind of. Um, networking events and funding events and nude always get the same questions, which is w which are generally kind of privileged entrepreneurs, students that want to be entrepreneurs.

[00:37:10] And they're always, the first question would be, how do I keep my ideas safe? And secondly, how do I, how do I get funding? I always got really annoyed by those two questions because firstly, you can't keep your ideas safe. Cause he always does as good as its execution. And that's really where the battle comes in.

[00:37:26] And number two is that funding is like something that comes much later in the development of your business. Um, so what we really focused on at the start is, is when I was trying to work on Trump mirrors. I realized that township based entrepreneurs is a lack of, uh, immediate capital is the lack of access to capital.

[00:37:46] And this really limits the growth of township based entrepreneurs. So what I realized is that I could not build just a, um, kind of inventory or database of just township based products, because that would [00:38:00] leave me incredibly cash strapped because I'd have to pay cash up front. And I wasn't even sure the concept is going to work.

[00:38:06] So what I did is I started working with kind of privileged entrepreneurs from the suburbs and from Cape town that, uh, had started business because they're passionate and sort of business because they wanted to, to share something of their own with the world. And I would buy their products on terms often two month terms, I'd buy their products at move, push their products into formal sector, as fast as I could.

[00:38:28] And then I would use that cash flow to pay the township based entrepreneurs upfront. So you kind of have a blended model between using privileges from an the former sector guys that can afford to actually give you products on terms, not consignments almost. And then combine that with entrepreneurs that have amazing stories from Khayelitsha that really sell.

[00:38:47] And these are, these are best sellers at the township based entrepreneurs, but doing that, we didn't actually need to get funding for the first year because we'd kind of mix the two together, which would give us about a month of leeway [00:39:00] just to push products and keep cycling it over and over. And then additionally entering grants kind of competitions like the SAB Innovation Fund, which, which are the Student Seed Fund, which ready then helps scale up the business and put the infrastructure in place to continue making impact.

[00:39:16] **Simnikiwe Xanga** : [00:39:16] That strikes me in, in how I've been listening to you is how you've been able to build those relationships and how you've been good at it. Be-

cause most of the time, the gap is where we need to connect people. And it looks like from what you're saying, and also what I've seen on your website is that you've been able to create this bridge and connect people that wouldn't have necessarily, uh, crossed paths because on your online platform, you're able to bring in these entrepreneurs from communities like Khayelitsha like Siki's coffee, as well as Ubusi, sea, and the Spinach King, as well as I'm sharing a space with Culture Lab who [00:40:00] produce kombucha drinks and many others that are on this platform and taking into account that we've been put back because of COVID and I've been able to access resources or access, uh, good quality products. So on that notes, what would be one piece of advice you'd give to a fellow entrepreneur who is feeling the pressure of surviving right now?

[00:40:30] **Sebastian Daniels:** [00:40:30] I think the biggest piece of advice. And it's a piece of advice that I have to keep telling myself is just keep surviving because we don't know when thing is going to come to an end, but if you can just weather the storm and you can keep surviving until the end of this and keep laying foundations, I think that's the most important thing is to just keep putting foundations in place.

[00:40:51] So if you fall, if you fail, you only falling to the level of your foundation, you're not falling all the way back to the ground. So I would not advise [00:41:00] shooting for the stars right now. I think it's going to be a very hard time. We've still got hard times to come, but I want to advise is making small, successful growth where you're, you're creating a foundation in everything you do.

[00:41:12] You're not, you're not just taking every deal that comes you picking opportunities that directly pull back to your core business and you're allowing yourself to develop and grow and develop a strong business at, through these difficult times. These COVID times. That when COVID does come to an end, because it will come to him, you are then able to shoot for the stars, shoot for the stars, but from an incredibly strong base, from a foundation that you really can scale from.

[00:41:42] **Simnikiwe Xanga :** [00:41:42] So inspired by your approach. Clearly you've had fun and you've had challenges, but the aim is to keep trying and keep building those relationships. And also in the process, keep finding ways of how to change the world and have an impact, um, [00:42:00] really, really inspiring and to keep it local. Uh, exposing some of the local produce is what I've seen, uh, doing. And you showing your passion through how you talk about the ventures that you've been through. So thank you for your time.

[00:42:14] **Kentse Radebe:** [00:42:14] That is a lot of food for thought, impact investing, certainly challenges. The long held views that social and environmental issues should be addressed only by philanthropic donations and that market investments should focus exclusively on achieving financial returns.

[00:42:30] This is particularly important as we grapple in a post pandemic world about how we can build a different society, where we center regenerative economies and sustainability. This is work that has never been done before. And we're looking forward to hearing more about this and other innovative finance models.

[00:42:48] When we follow up with the innovative finance later this year. Thank you for tuning in to, Just for a Change powered by the Bertha center for social innovation and [00:43:00] entrepreneurship. The podcast where we offer new perspectives and social innovation and

social justice. If you're curious about solving social issues in your community, or believe we can make a positive, tangible difference in the world, then make sure you subscribe so that you don't miss any of our upcoming episodes.

[00:43:17] Also remember to have a look at the show notes, if you're interested in finding out more about the Bertha Center for Social Innovation, Entrepreneurship.