Chapter 13

EDA CapitalConnect: An Online Platform for Social Enterprise Financing

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ABSTRACT

Since its inception in July 2008, EDA CapitalConnect (EDACC) has sought to address inefficiencies in the market for funding to social enterprises worldwide. To tackle these challenges, the company has developed an online platform that allows social enterprises and institutional funders to communicate with one another, initiate financial transactions, and analyze market trends. The platform seeks to increase deal flow and transparency in the social enterprise space by facilitating information dissemination and the exchange of funding offers between capital providers and seekers of all sizes. As the platform develops, the challenges of achieving financial sustainability and scale will require EDACC to continue to fine-tune its services to meet the evolving needs of the social enterprise community. EDACC's experience in its nascency suggests that technology providers to microfinance institutions and social enterprises – particularly start up organizations – must pay close attention to the behavior of their target users, and modify their services based upon trends in usage and market perceptions.

INTRODUCTION

Over the last few decades, social enterprises\(^1\) around the world have risen in prominence, as their impact on people’s lives has become increasingly evident. These organizations are growing in scale, structure and reach, and their capital needs – both debt and equity – are increasing as well. In the United States alone, there are roughly 1.5 million non-profit or social ventures which have combined revenues of $700 billion, and control assets valued at $2 trillion (Wei-Skillern, 2007). At the same time, the investing and lending community worldwide is becoming more socially responsible, and has increasingly sought to provide capital support to these social enterprises; by 2052, an estimated $6 trillion will flow directly to social enterprises in the United States alone (Thompson,
This growing interest has not been limited to socially responsible investors and lenders, as mainstream funders have also begun to provide greater amounts of capital to social enterprises.

Despite increasing interest and widespread growth in this sector, the flow of information between providers and seekers of capital remains imperfect and asymmetric (Arzeni, 2004). Many social enterprises are unable to effectively engage institutional lenders and investors in the development sector because they are physically isolated, small, lack sufficient financial and human resources to effectively outreach to funders, or are unfamiliar with the funding process and do not know how to structure a funding offer. Similarly, many institutional funders are interested in investing in social enterprises but are unable to easily connect with the ones that meet their funding requirements. This lack of information flow prevents many deserving organizations from obtaining the funds that they need, and hinders funders’ ability to achieve the highest financial and social return on their investments.

To address these concerns and capitalize on the increasing prevalence of the internet throughout the developing world, EDA Rural Systems launched EDACC in 2008. The purpose of this interactive online marketplace is to facilitate the initiation of primary and secondary debt and equity transactions and partnerships, and increase information flow in the social enterprise sector. Combining elements of online auction and social networking sites, the platform allows social investors and enterprises to communicate, initiate financial transactions, and access market trends and benchmarks to further facilitate deal flow.

This chapter describes EDACC’s journey to provide an innovative service to the social enterprise sector. Basic background information on EDACC will be provided, followed by current trends in the market, and lessons learned from reviewing the performance of similar online platforms, all of which contributed to the conceptualization of EDACC. The discussion will then cover EDACC’s current offering and operations, the business model, the performance to date, and conclude with a discussion of the organization’s key challenges, lessons learned and future goals.

**BACKGROUND**

EDACC was conceived by Director and Founder of EDA Rural Systems, Mr. Sanjay Sinha. In 1983, Sinha established EDA Rural Systems as a development sector consultancy, research and capacity-building organization. Through its trainings and academic publications, EDA Rural Systems became well-known in the development sector and in Asia’s microfinance sector in particular. As the sector grew, Sinha observed that there was a pressing need to improve the availability and flow of information between microfinance institutions (MFIs) and other industry stakeholders, which he believed could reduce the information asymmetry in the market for capital. From this observation and the success of EDA Rural, Sinha and his team launched Micro-Credit Ratings International Limited, (M-CRIL), which developed and implemented the concept of producing credit ratings of MFIs. In addition to a review of financial performance, these ratings include a risk assessment, projections of future performance, and recommendations for investment. Over its first decade of operations, M-CRIL expanded its services in terms of the number of MFIs rated and the quantity of funds channeled to MFIs. In 2005, EDA pioneered the assessment of the effectiveness of MFIs’ systems and services for the achievement of its social objectives by developing the first social rating tool for MFIs (Sinha F., 2006).

As EDA and M-CRIL adapted to the substantial growth of the microfinance sector, Sinha and his team became increasingly aware of broader funding trends for social enterprise organizations – of which microfinance is a subset – and identified several inefficiencies that characterize this emerging and yet fragmented market.
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