COLLABORATIVE
FOR FRONTIER FINANCE

Annual Local Capital Provider Survey 2022

Small Business "Missing Middle" Finance in Africa and the Middle East

ANNUAL LOCAL CAPITAL PROVIDER SURVEY 2022

Small Business "Missing Middle" Finance in Africa and the Middle East

Authored by

Dr Susan de Witt and Drew von Glahn (Collaborative for Frontier Finance)

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Photos by Dharmit Laxman, Collaborative for Frontier Finance Annual Convening 2022 in Dar Es Salaam.

Report Sponsors

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Abbreviations

AUM	assets under management
bn	billion
BDS	business development support
CFF	Collaborative for Frontier Finance
DFI	development finance institution
FoF	fund of funds
FTE	full time equivalent
FX	foreign exchange
GLI	gender lens investing
GDP	gross domestic product
GP	general partner
HNWI	high net worth individual
HoldCo	holding company
IRR	internal rate of return
LCP	local capital provider
LP	limited partner
m	million
MDB	multilateral development banks
MENA	Middle East and North Africa
PE	private equity
SDG	sustainable development goals
SGB	small and growing business
SME	small and medium sized enterprises
SSA	Sub Saharan Africa
TA	technical assistance
VC	venture capital

Esther Nditi (Unconventional Capital)

Introduction

This survey

- Provides market-based insights as to the realities “on-the-ground”
- Bolsters the value proposition that fund managers present in financing SGBs and solving the problem of the missing middle
- Provides insights into the range of investment strategies and tools that fund managers are using to address diverse challenges of risk, size and governance of small business finance
- Illustrates recent performance taking into consideration early stage of market development
- Builds value proposition for commercial and concessionary LP investors, in terms of financial and impact returns
- Highlights emerging trends over last 2 years and which stakeholders are driving growth
- Demonstrates potential for adequate finance to support the development of a conveyor belt of businesses that can be investable for larger funds and banks

Audience

The CFF aims to to “demystify frontier finance” in order to increase the number of domestic and international LPs and quantum of investment into local capital providers or fund managers. This report is for institutional limited partner (LP) investors, market builders and policy makers who want to gain a better understanding of these fund managers across Africa and the Middle East for the purpose of supporting these intermediaries and building the asset class.

Key Framing

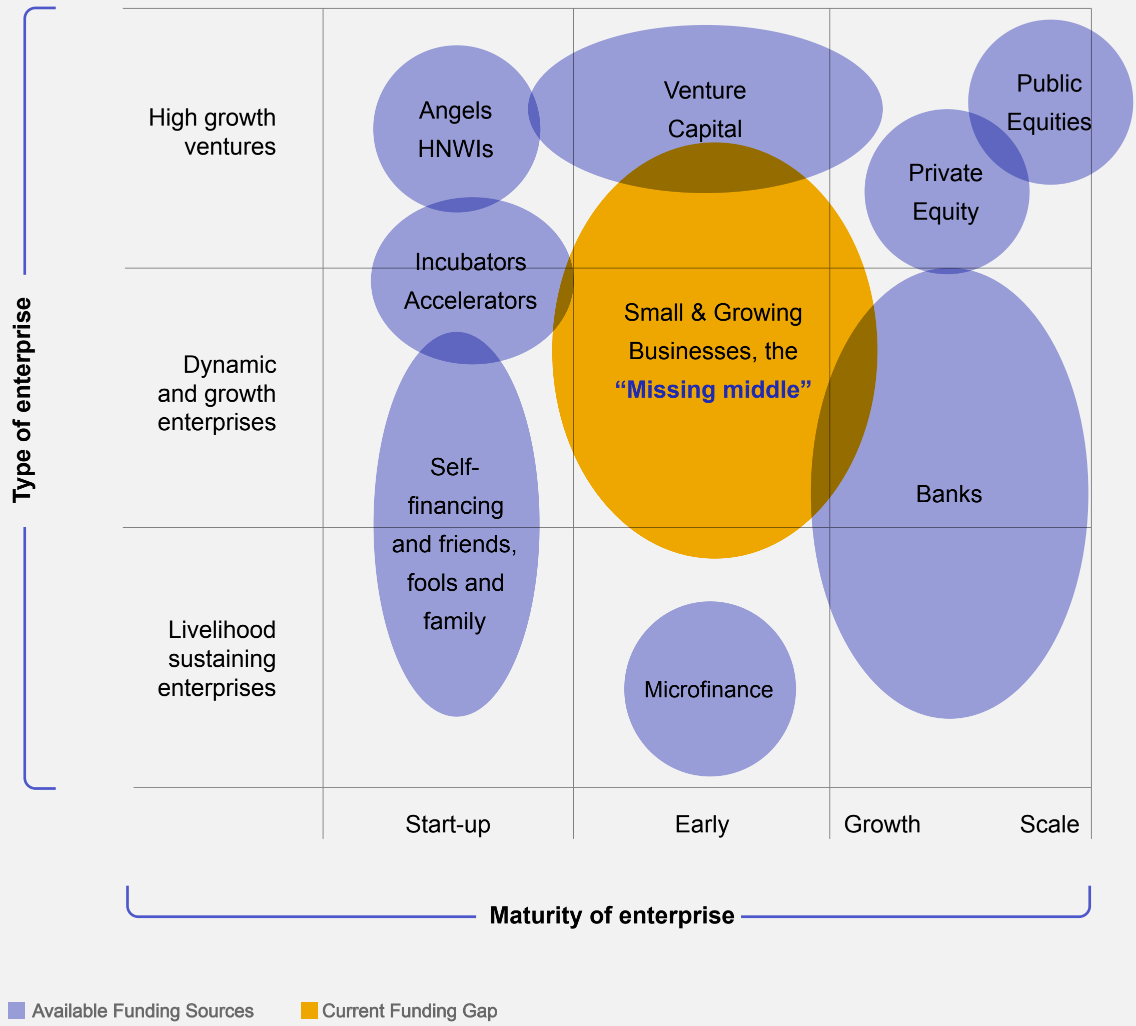
Small and medium-sized enterprises (SMEs) are one of the primary growth drivers in emerging-market economies, absorbing up to 70% of the labour market and generating 40% of gross domestic product (GDP). They account for a disproportionately large share of new jobs and tend to address sustainable development goals by responding to, the often underserved, need for goods and services in the real economy.

The combination of risk, size, collateral, and governance makes small business an unattractive investment proposition for traditional investors and lenders, leading to a significant financing constraint for those in the “missing middle”. According to the International Finance Corporation that gap is ~USD330bn in Sub Saharan Africa (SSA) and ~USD185bn Middle East and North Africa (MENA).

There is a new class of locally-based fund managers rising to meet the financing challenge of these businesses, providing growth capital without the credit rationing due to shortage of collateral. Collectively they are shaping an emerging asset class with the potential to make a significant contribution to closing the gap.

In this context the “missing middle” refers to small and growing businesses that are too big for microfinance and to small or risky for bank lenders and private equity investors. We use the term “missing middle finance” to refer to the type of funding that addresses SGB financing needs. These businesses are generally early or growth stage requiring financing of between USD50k and USD500k in order to grow.

Current Funding Gap for Small and Growing Businesses in Emerging Markets



Samuel Ndongo (Samawati Capital Partners)

Methodology and taxonomy

Context

The CFF has developed this survey to assess the “state-of-play” with regards to the small business financing sector in Africa and the Middle East. It is designed to better understand the emerging class of LCPs who are a heterogeneous group of indigenous fund managers using alternative structures to provide capital to SGBs in their local markets. This flagship publication builds on the initial edition published in 2020, highlighting the market movement that has taken place during that time and revealing new insights into this asset class.

Survey fielding

Q2 2022

Circulation

A 48-question survey shared with CFF and partner networks, regional industry associations and market builders; and posted publicly on social media channels. Targeted outreach to fund managers investing ticket sizes of between $20k and $5m into small and growing businesses in the SSA and MENA regions.

Respondents

46 fund managers that provide capital for small and growing businesses in their local markets.

Survey design

Divided into 6 sections

- Organizational Background and Team
- Vehicle’s Legal Construct
- Investment Thesis
- Pipeline Sourcing and Portfolio Construction
- Portfolio Value Creation and Exits
- Performance-to-Date and Current Environment/Outlook

Reading the SGB Finance Survey

Financing of SGBs in emerging markets is an underserved area of the global capital markets. Hence, there is a learning curve on a few dimensions including the standardization of emerging terminology. As such we have provided some guidance below on the taxonomy as well as made certain adjustments/choices with regards to the data in order provide the greatest clarity and consistency.

Emerging taxonomy for this segment of the capital markets

Small and growing business (SGB)
SGB is terminology initially developed by the Aspen Network of Development Entrepreneurs (ANDE). The CFF has continued to refine this segmentation. SGBs can be considered a subsegment of the well-established small and medium-sized enterprises (SME) framing. The common characteristics include:

- Business models that are demand-driven, responding to the need for goods and services in the real economy and creating jobs
- Commercially viable businesses that have both intentionality and opportunity for significant growth
- Most of women-led businesses in emerging economies tend to fall into this segment
- Have five to 250 direct employees, often on the lower end of this spectrum
- Typically seeking growth capital from USD20k to USD2m (range varies by size of local economies)

This framing is used in preference to the broader SME categorization which can vary in employee/turnover/ asset size between countries/sectors and include businesses that are much bigger and more established than SGBs.

"Fund" manager vs. "capital" manager

- The term fund manager is used because it is well understood by the wider LP/institutional investor market even though is does not fully represent the variety of intermediaries in this asset class. The CFF prefers the term local capital provider (LCP) which encompasses investment intermediaries investing between USD20k and USD2m into SGBs, using diverse investment theses, tools and instruments and having deep local knowledge.
- The term fund manager has been used in lieu of respondent throughout the document

An emerging financial asset class – SGB Finance
While sharing some characteristics with other more established asset classes such as PE and VC, SGB Finance differs in several ways. As noted, the stage of the enterprise differs, as do their funding needs, growth expectations finance has been a traditionally underserved segment of business in emerging markets.

We have chosen to refer to this market segment as an emerging asset class even though fund managers are using a variety of instruments. They are however all addressing the problem/opportunity of missing middle finance and aligning on purpose/underlying asset.

One of the advantages of establishing an asset class is to create a degree of familiarity for investors of the risk/return profile of this type of investment. The common characteristics of SGB Finance include:

- Purposely target the early stage of capital financing for SGBs – the "missing middle" traditionally covering ticket sizes between USD20k to USD2million, the majority of which are below USD500k.
- Locally based capital managers and investment teams leveraging their knowledge of the local ecosystem, customer and market needs and supply chain etc.
- Financing needs that are primarily working capital and growth capital.
- Intangible nature of investments with financing requirements such as staff build-out, expanded sales & marketing capabilities, new markets, operational and support systems, etc.
- Cash flow-oriented lending/investing with minimal collateral-based protections
- Impact-oriented focusing on job creation and Sustainable Development Goals.
- Diversity/inclusivity of fund management teams is an intentionality of most funds.
- Given early-stage nature of portfolio often incorporating/partnering with local business development services as part of investment thesis.

Standardizing the data and inputs from this survey

Range vs midpoint

- As many of the questions require respondents to select and answer within a range, we have taken the liberty of presenting the data using the midpoint of that range. This has been done for the purposes of clarity and brevity. The questionnaire can be found in the Annex.

Equity and debt

- For the purposes of analysis between debt and equity we have categorised secured and unsecured senior debt, mezzanine debt, shared revenue and convertible as debt or self-liquidating instruments. Common and preferred equity and SAFEs have been categorised as equity.

Target LP capital

- Target capital raise or fund size is the amount of investment that fund managers expect to raise from LP investors.

SGB financing needs

- Venture launch: Invest in initial staff, product/services development and market acceptance etc.
- Inventory and working capital requirements
- Small-ticket tangible assets: Invest in computers, routers, mobile and connectivity systems, office equipment etc.
- Major capital investments: Facilities, production equipment, fleet/ logistics, etc.
- Enterprise growth capital: Intangible investments such as staff build-out, expanded sales & marketing capabilities, new markets, operational and support systems, etc.

Stage of business

- Start-up: Pre-revenue, concept and business plan development
- Early stage: Early revenue, product/service development, funds needed to expand business model
- Growth: Established business in need of funds for expansion, assets, working capital etc.

Business types[1]

- Dynamic Enterprises: Proven business model applying tech-enabling to accelerate growth
- Growth Enterprises: Proven business models in established sectors, seeking market share and market expansion growth opportunities
- High-Growth Ventures: Tech-based and disruptive business models targeting large markets with high growth potential
- Livelihood Sustaining Enterprises: Businesses seeking small, incremental growth, often with family management team

Currency

- Figures are quoted in USD and depicted as $(x).

[1] Adapted from Dalberg. (2020). Segmenting Enterprises to Better Understand Their Financial Needs.

Samuel Yeboah (Mirepa Capital

Executive summary

Why do these fund managers matter?

Real Economy Finance

Invest in SGBs that are core to local economies' product and service requirements, often meeting underserved market demand.

Societal impact

Invest in SGBs that have **"inclusive"** focus, creating employment and moving businesses into the formal economy. All funds addressing at least 3 **SDGs** and 80% considering **gender**.

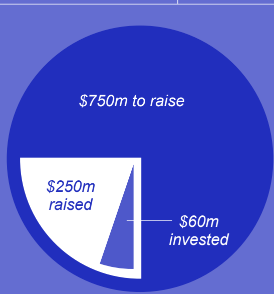
First stage of access to finance

Typical investments **$50k – $1 million** range, and usually first formal of external financing for SGBs.

Local economic impact

Invest growth capital, **creating jobs** in over 90% of businesses financed thus far.

2/3 fund managers reporting >10% **revenue growth** in the last 12 months.



Collective scale ~$1bn

~$1bn target AUM[1] represented with a potential 1200 SGBs financed. $750m investment opportunity.

[1] In CFF estimation this sample represents about ¼ of the current number of similar fund managers in the SSA and MENA market which roughly translates into a potential market size closer to $4bn.

What do these fund managers invest in?

~60%
focus primarily on Agribusiness (value chain/tech not farming)

75%
using
technology to enable
business growth regardless of business model

~10% investing in pure tech businesses (in small print)

>95%
invested in
"early"
or
"growth"
stage businesses demonstrating market traction, as opposed to the start-up/pre-revenue business models.

Top 3 SDGs are
decent work,
gender equality
and
no poverty

80%
make major capital investments.
90%
provide at least some working capital.

2/3
of investments have an expected
tenor
of >4 years

Terms not available in local lending market

Who are these fund managers?

Fund managers are investment intermediaries investing between USD20k and USD2m into SGBs, using diverse investment theses, tools and instruments and having deep local knowledge.

90%
of the funds are led by executives with prior experience and strong local knowledge of their markets.

~80%
have made direct investments.

Over **90%** of fund teams are **operating and investing in Africa**

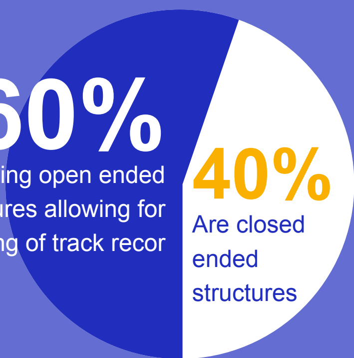
75%
are deploying ticket sizes **<$500k**

60% using self-liquidating instruments and the remainder investing in equity

50%
are majority **female-owned** and led funds.

1 in 3
made first close

80% are investing
whether they reached first close or not.

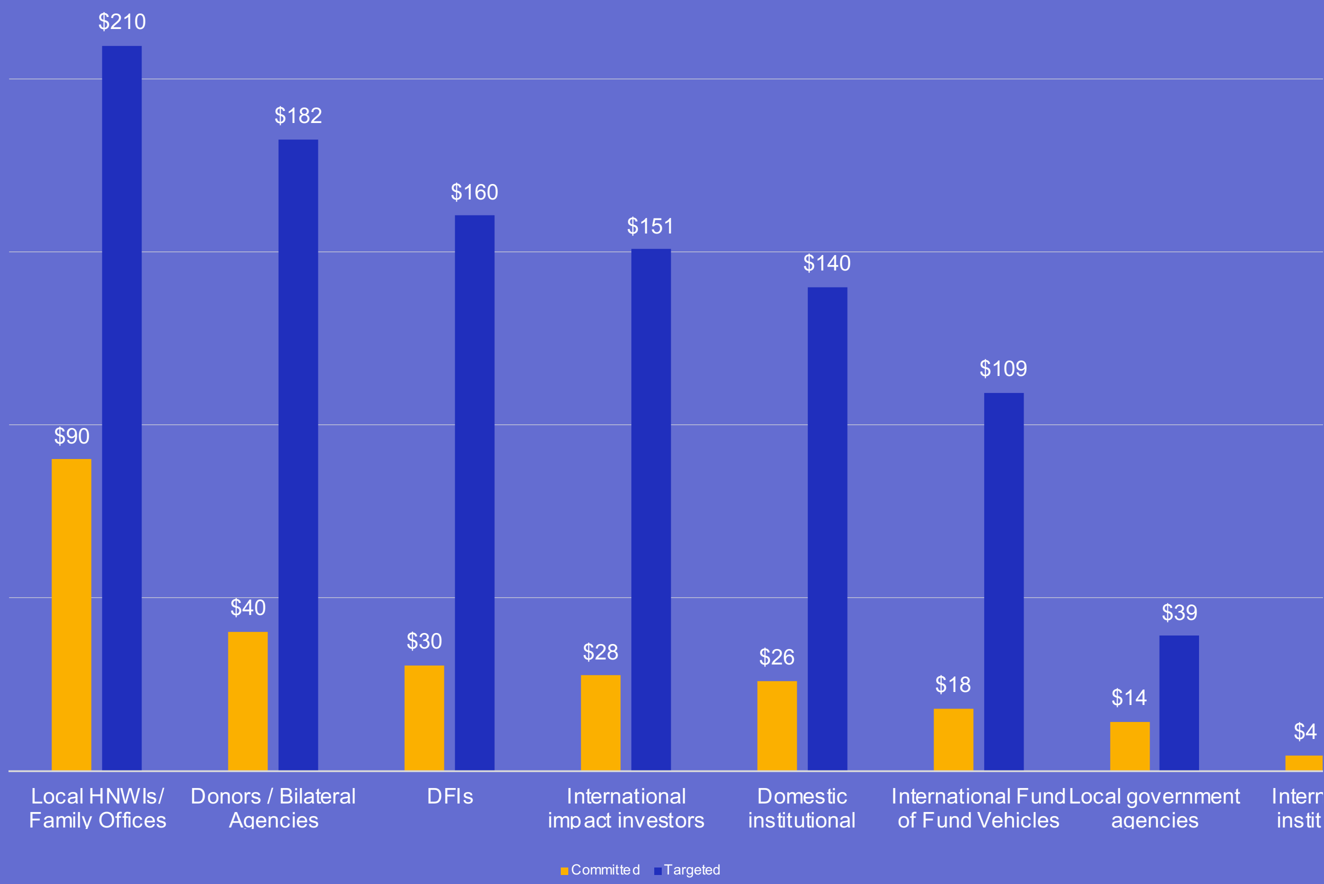


60%
using open ended structures allowing for building of track recor

40%
Are closed ended structures

Who is investing in these fund managers?

Committed and targeted investment sources $(m)



50%

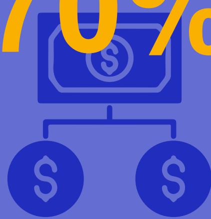
50% of capital expected from HNWI And Family Offices

15%

15% of capital expected from DFIs has been raised.

Two thirds using **concessionary capital** for fund or SGB support.

70%



are using **fee structures** outside of traditional 2&20 fee models.

How do these fund managers create value?

Fund managers are seeking to achieve commercially viable investment proposition for LP investors in n SGBs.

Pipeline conveyor belt

Investments sourced predominantly through fund managers' own network

Grow SGBs

60% invest growth capital for intangibles.

80% make major capital investments. 90% provide at least some working capital.

Provide technical assistance

95% provide financial management support to businesses. 2/3 consider strategic planning and sales/ marketing the highest priority areas de-risking for LPs.

Monetising portfolio

Equity exits are a challenge

~10% of equity funds have been investing for over 5 years.

Funds are monetising through self-liquidating instruments

~75% of debt funds have monetized investments in current portfolio.

Manage risk

Local currency risk and international financial market turbulence are the biggest concerns in the coming 12 months.

Major risks and constraints confronting fund managers

Lack of access to DFI and institutional capital (international and domestic).	Major capital holders applying investment criteria more associated with VC and larger PE firms.	Imbedded currency risk when accessing international funds.	Smaller fund vehicles, challenging fund economics in the early phase of their operations. Limits access to critical human talent in managing their funds.	Working with smaller enterprises, inherently taking on higher risk than established corporates.

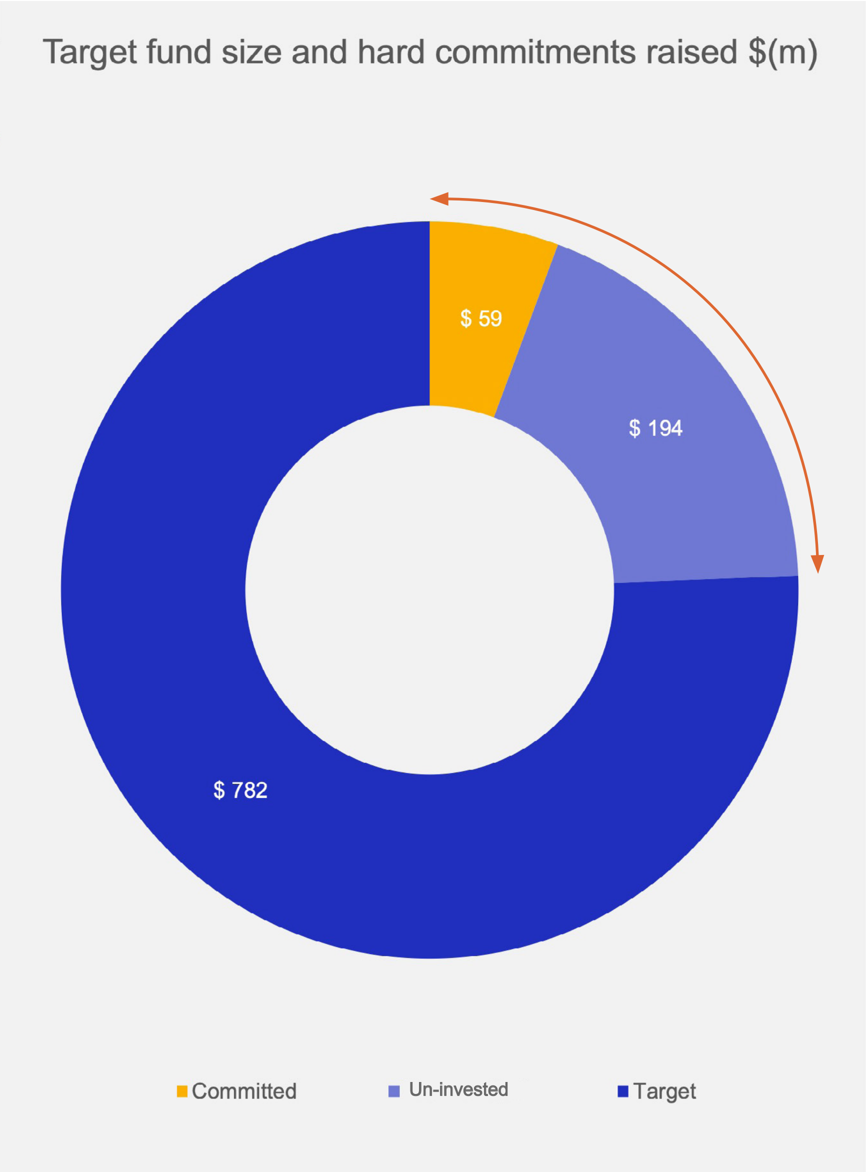
1. Why do these fund managers matter?

Fund managers present scalable solution to financing “missing middle

~$750M is needed to fully capitalise fund managers over the next two years, with opportunities for impact and commercial investors worldwide to participate.

- Cumulative target size of ~$1 billion* which translates into ~1100 investments into small businesses
- $600m of this funding is to be deployed as debt/self liquidating investment and $400m as equity or equity like investment
- A quarter of that has been raised in hard commitments
- ~$200M has been invested by funds equating to over 200 investments into small businesses
- Three quarters of of fund managers indicated that capital raising is their area of highest priority over the next 12 months

** The actual range is between $900m and $1.15bn*



Portfolios drive job growth and gender inclusion

SDGs are a universally known and accepted framework against which fund managers are developing mandates and reporting frameworks

- 95% fund managers are reporting against at least 3 SDGs.
- Decent work and economic growth is targeted by almost 80% of fund managers

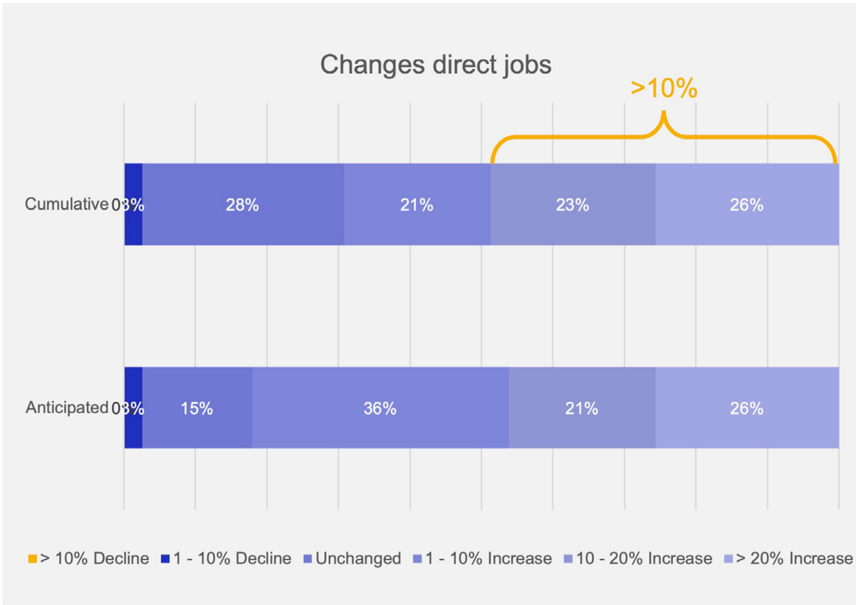
**Respondents had option to select up to three answers*

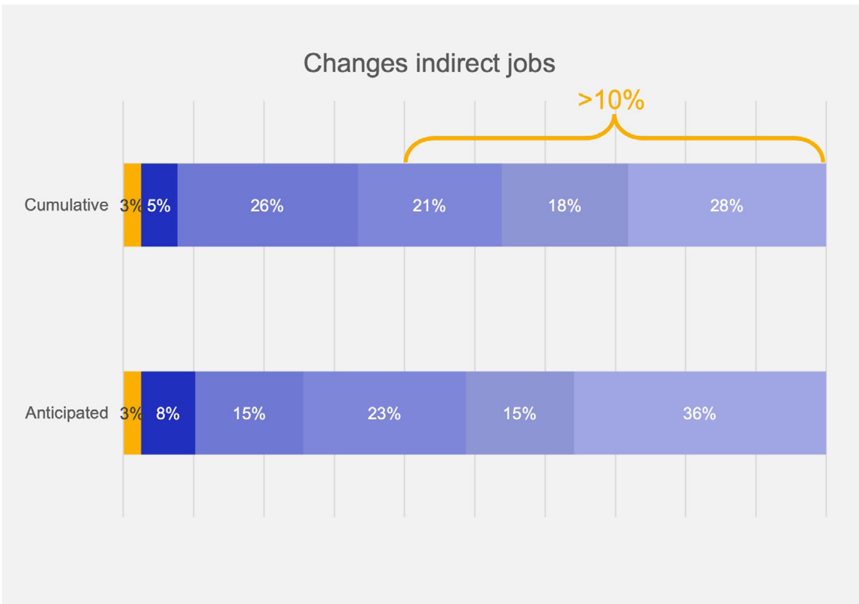
Resilient job creation

In a year when 22 million jobs were lost across Africa*, 70% of fund managers have reported a growth in direct jobs in their portfolio enterprises

- ~50% fund managers experienced a >10% increase in jobs in underlying portfolio companies in the past year
- ~45% fund managers anticipate a >10% increase in direct jobs in underlying portfolio companies in the next 12 months

**https://www.afdb.org/en/knowledge/publications/african-economic-outlook*

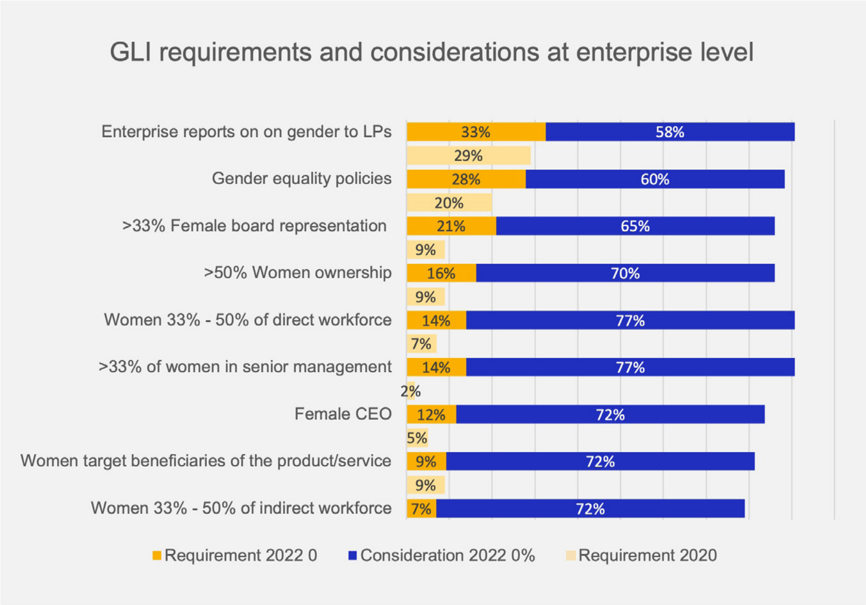




Prioritizing women entrepreneurship

80% of fund mangers at least consider all 2X gender lens criteria.

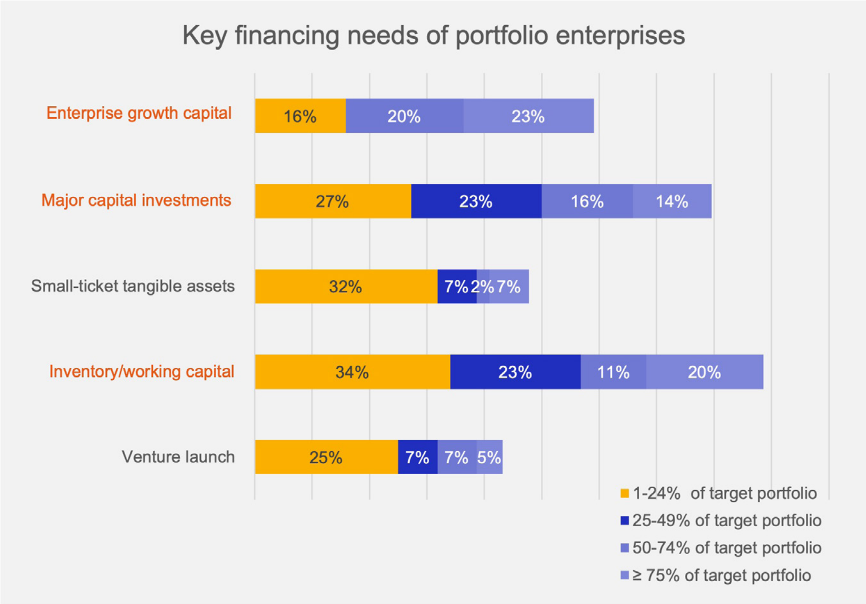
- A third of fund managers require enterprises to report on gender related indicators. There is little change from 2022



Investment thesis focus on funding core business needs to position enterprises for growth

Growth capital for non tangible investments, working capital and capex are the major needs of small and growing businesses

- The majority of fund managers fund across capital needs of growth orientated company
- Almost 90% of funds provide working capital/inventory finance and 80% make major capital investments



- A quarter of fund managers invest almost all of their capital in enterprise growth
- Almost 90% of funds provide working capital/inventory finance and 80% make major capital investments
- 20% of fund managers invest almost all of their capital in working capital/inventory
- The need for small ticket tangible asset investment has doubled since 2022 but otherwise the results are similar*

**Emerging Market Small and Growing Business Capital Provider's Survey Results (CFF, 2020*

Definitions

- *Venture launch (e.g. invest in initial staff, product/ services development and market acceptance)*
- *Inventory and working capital requirements*
- *Small-ticket tangible assets (e.g. computers, routers, mobile and connectivity systems, office equipment)*
- *Major capital investments (facilities, production equipment, fleet/ logistics, etc.)*
- *Enterprise growth capital (e.g. intangible investments such as staff build-out, expanded sales & marketing capabilities, new markets, operational and support systems, etc.)*

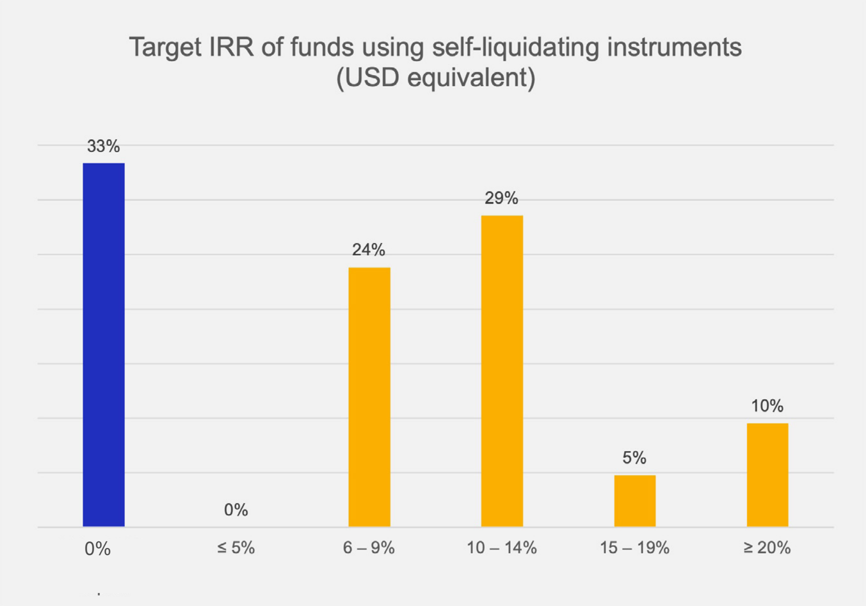
LPs are targeting returns higher than what has historically been achieved in this market

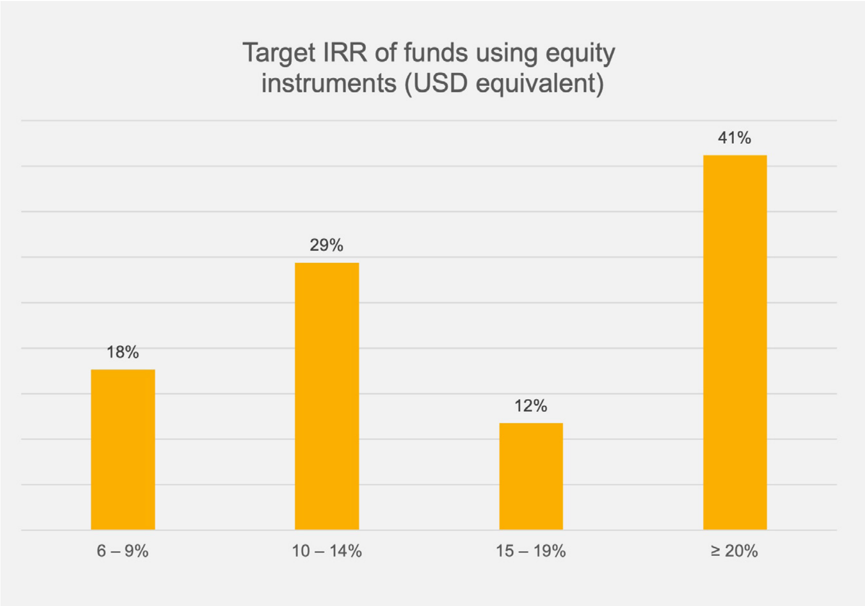
Their LPs are targeting double figure dollar returns

- Over 40% of the LPs in debt funds are expecting IRR of ~10% USD equivalent
- 80% of funds investing debt or debt like instruments expect a return of <15% USD equivalent
- By comparison South Africa PE/VC market achieved return of pooled IRR of -2.2% USD equivalent in 2021* and DFI data of 365 funds indicated a net IRR of ~1% for VC funds and ~7% for SME funds

**RisCura, 20221*

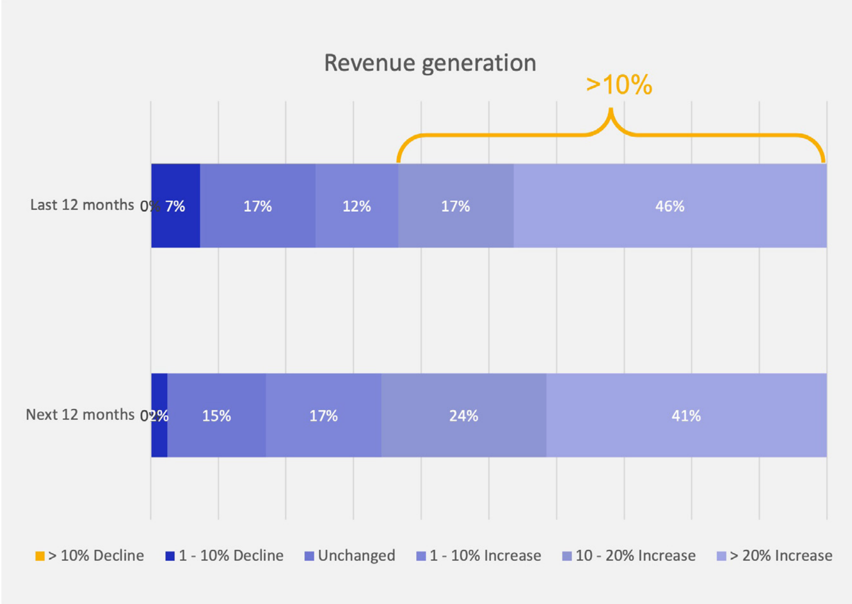
*** Shell/Omidyar, 2019*

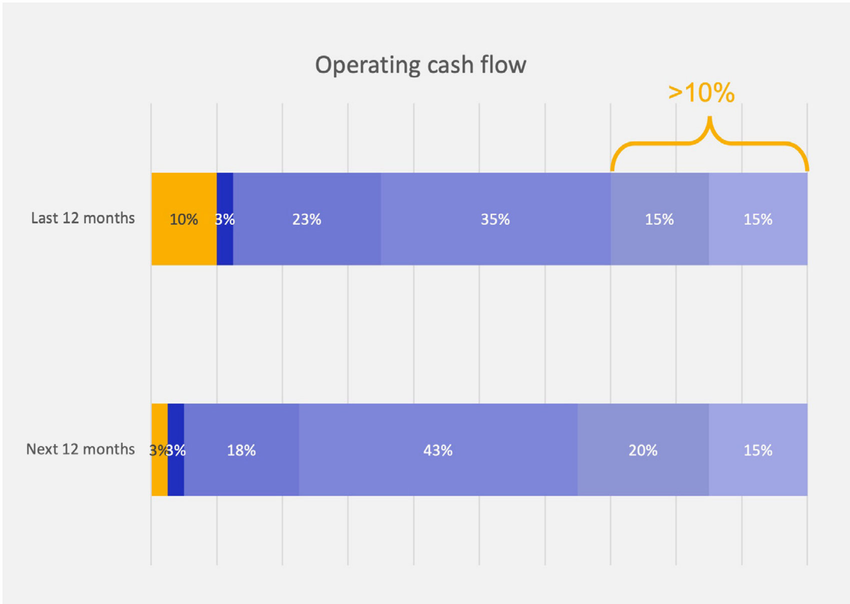




In difficult business environment, portfolios have had positive performance

- Two thirds of fund managers have experienced >10% growth in revenues over the past 12 months and expect a further >10% increase in revenues over the coming 12 months
- Almost a third of fund managers have experienced >10% growth in operating cashflow over the past 12 months and expect that to continue over the coming 12 months
- Women-led funds have averaged 18.9% revenue growth in the last year whereas male-led funds have generated 15.5%
- Women-led funds project 15.5% growth in coming year compared to male-led funds who project 17.1% growth





2. What do these fund managers invest in?

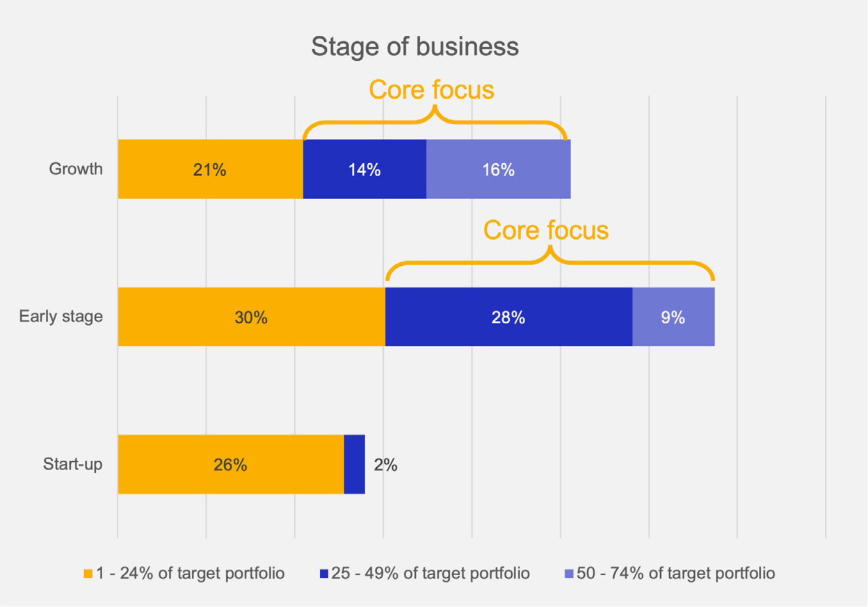
Common investment thesis – local enterprises at the early stages of growth, the "missing middle"

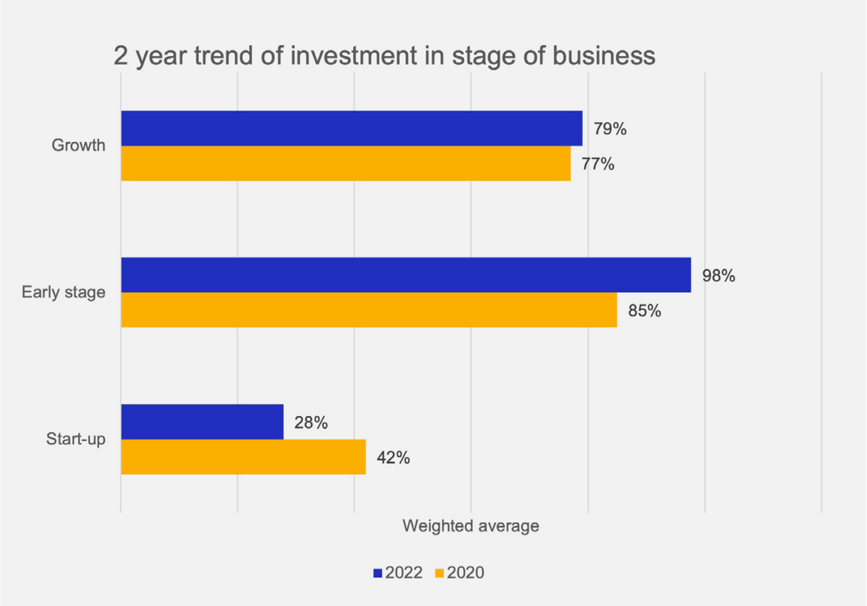
Over 95% of funding is being invested in early and growth stage businesses rather than high risk start ups

- ~60% invest >50% of capital in early stage enterprises
- ~40% invest >50% of capital in growth stage enterprises
- 100% of funds do some level of early stage investment
- Allocation to start ups has decreased by 33% over the last 2 years

Definitions

- *Start-up (pre-revenue, concept and business plan development)*
- *Early stage (early revenue, product/ service development, funds needed to expand business model)*
- *Growth (established business in need of funds for expansion, assets, working capital etc)*

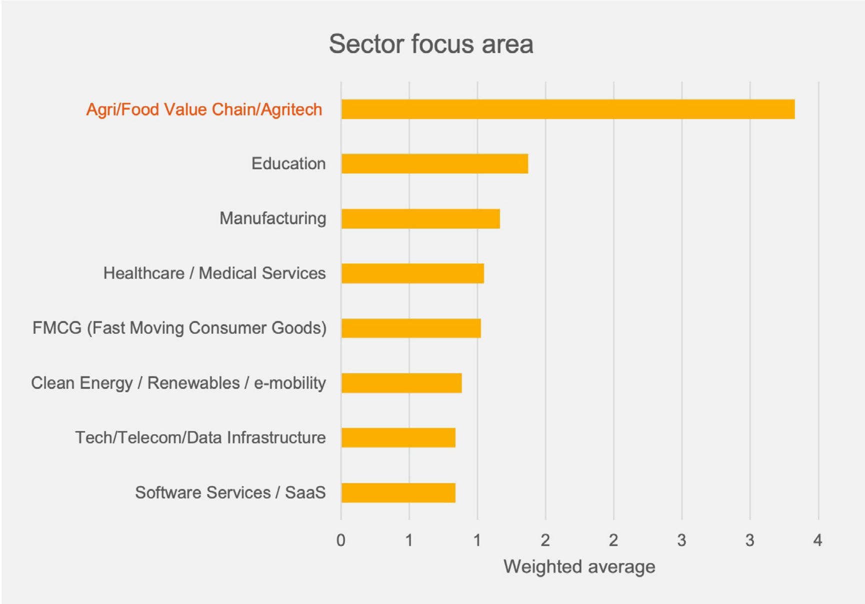




Focus on "real economy" business investment opportunities

Fund managers are investing in sectors that form the backbone of economy

- Agriculture (not farming) attracts more than double the investment of the next most attractive sector and is the primary focus for ~60% of fund managers
- Tech and tech associated business models are targeted to attract ~15% of AUM

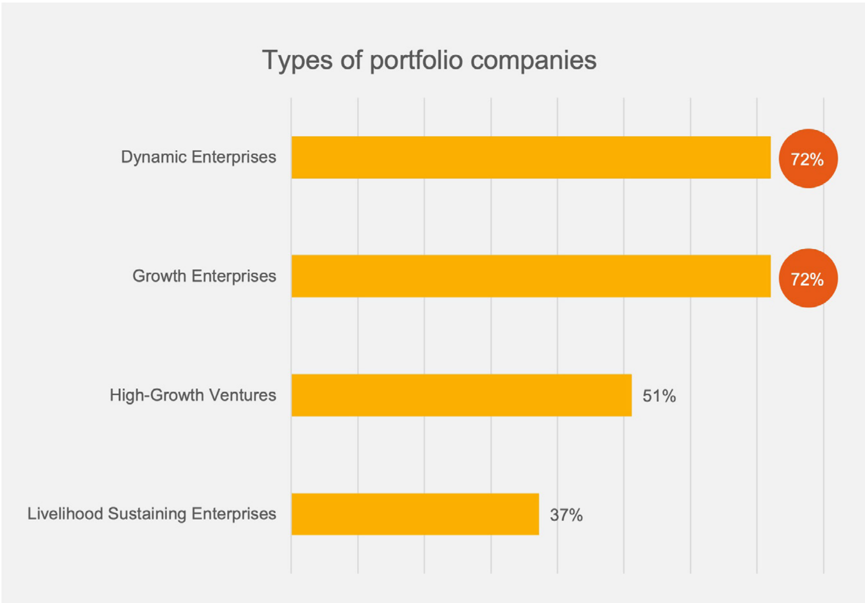


Prioritize tech-enabled growth business

Less focus on disruptive, tech based business models

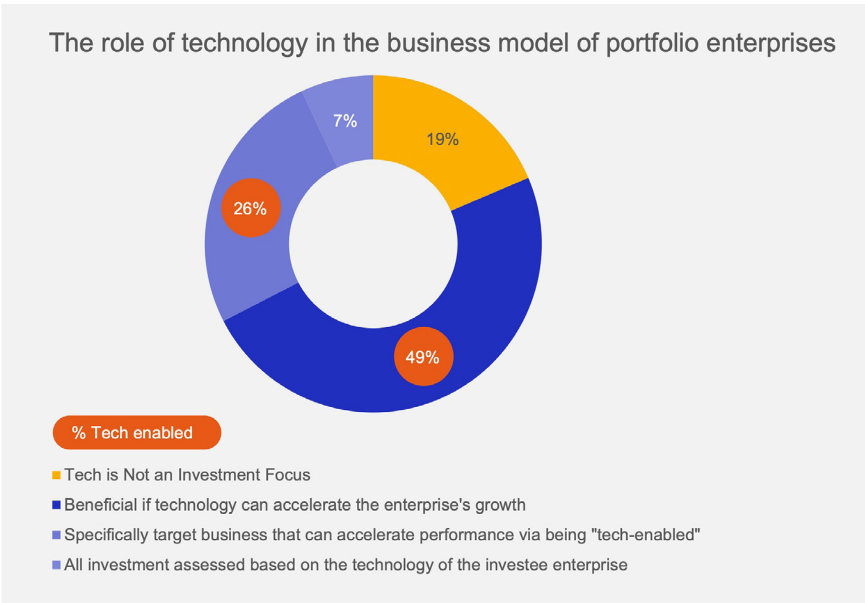
Definitions

- *Dynamic Enterprises (e.g. proven business model applying tech-enabling to accelerate growth)*
- *Growth Enterprises (e.g. proven business models in established sectors, seeking market share and market expansion growth opportunities)*
- *High-Growth Ventures (e.g. tech-based and disruptive business models targeting large markets with high growth potential)*
- *Livelihood Sustaining Enterprises (e.g. businesses seeking small, incremental growth, often with family management team)*



Not VC models but rather view technology as a key business enabler for portfolio enterprises

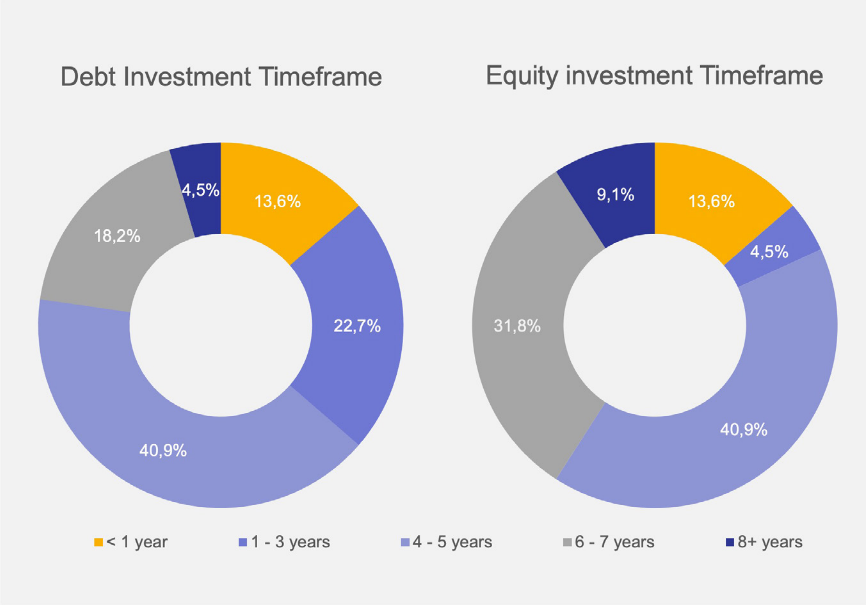
Almost three quarters fund managers see technology as critical to enterprise growth and sustainability



Investment timeframe aligns with growth orientation - applying multi-year tenors

Equity investment timeframes are longer on average

- Average range of investment time for debt is 1-5 years
- Average range of investment time for equity is 4-7 years

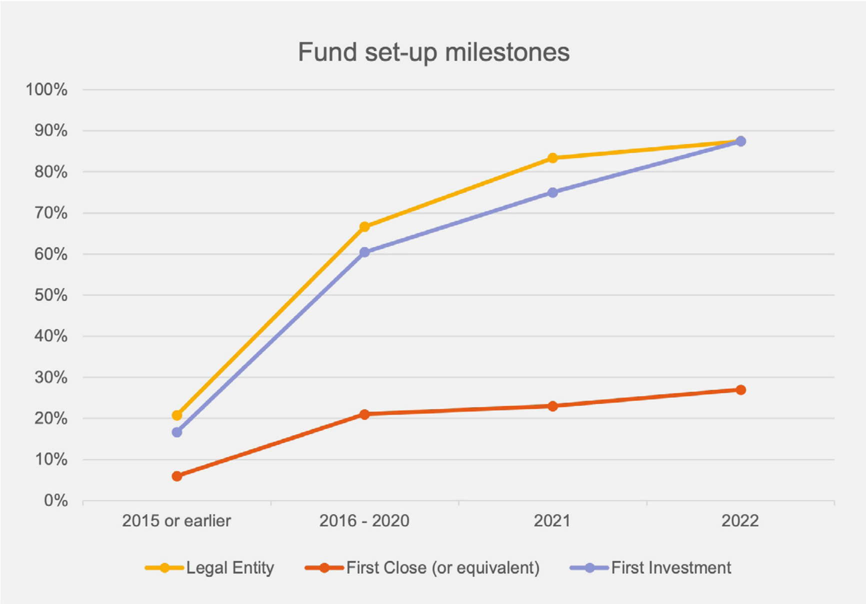


3. Who are these fund managers?

Emerging asset class...

Almost 2/3 fund managers have invested in businesses despite not reaching first close.

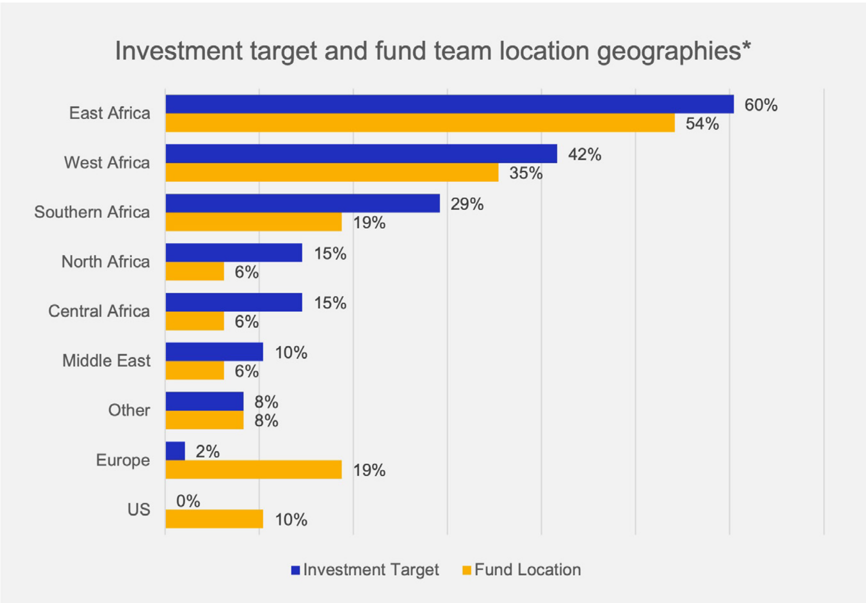
- ~90% set up a legal entity and made their first investment
- But only ~30% have achieved first close
- Over 20% have been in operation for over 6 years



Local, local, local...

- 98% of funds investing in Africa have teams based in Africa although ~30% are still head quartered in the Europe or USA. East and West Africa are dominant markets**
- 90% of funds that operate in East Africa have teams based in East Africa
- 80% of funds that operate in West Africa have teams based in West Africa

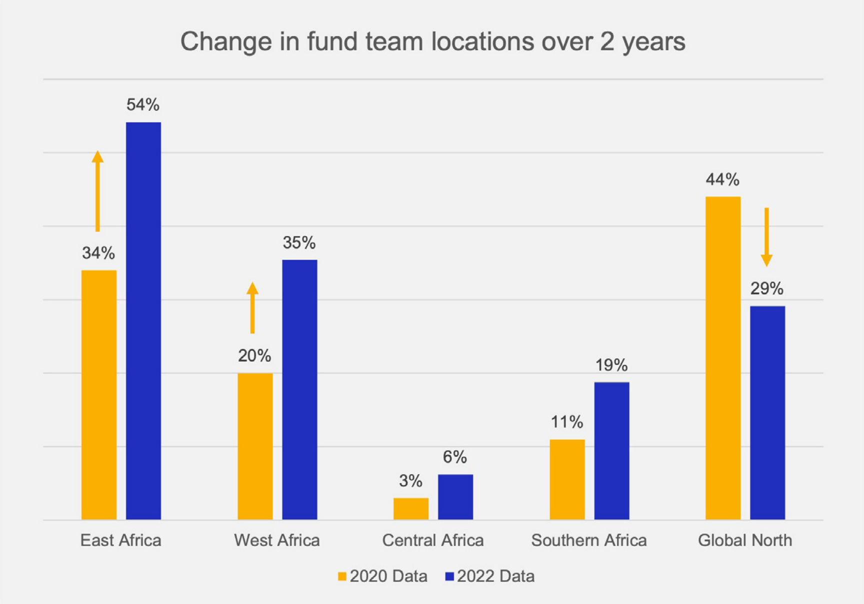
** Respondents had option to select more than one answer*
*** South Africa is not a core part of the survey field.*

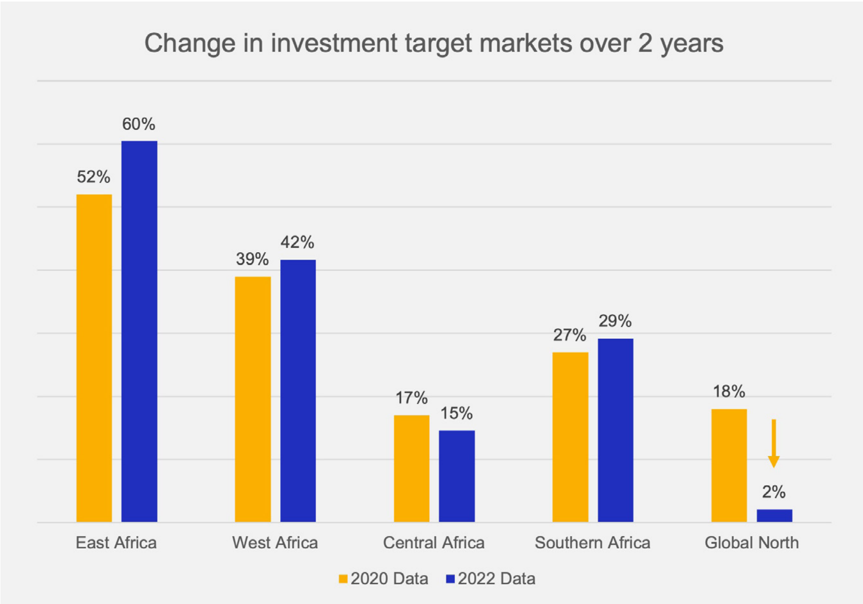


Shift towards local teams with deep local market knowledge

Although target markets have remained similar there has an increase in the number of funds located in each of the African regions.

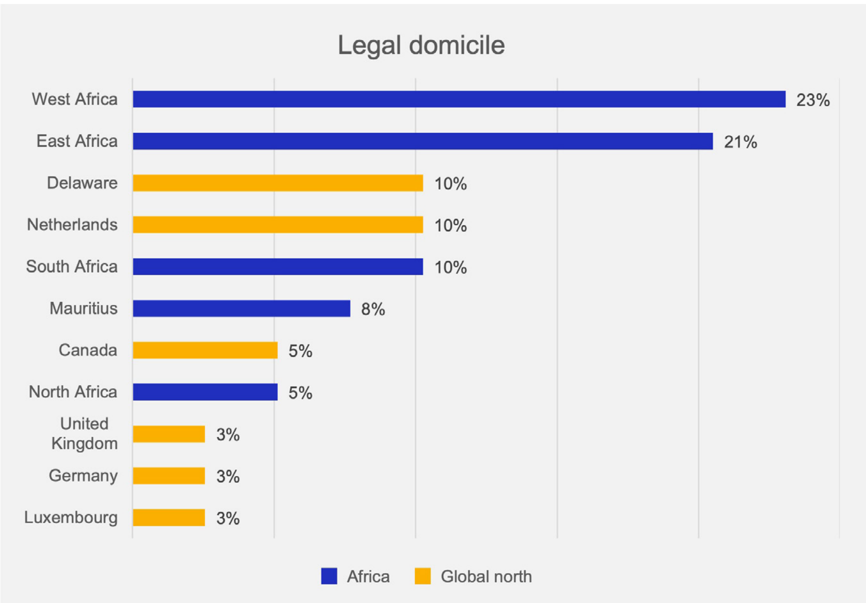
- There has been a ~40% increase in Africa based teams between 2020 and 2021. This is constituted by 45% in West, 43% increase in East, 40% increase in Southern and 50% increase in Central Africa based teams
- There has been a ~40% reduction in fund teams head quartered in global north*





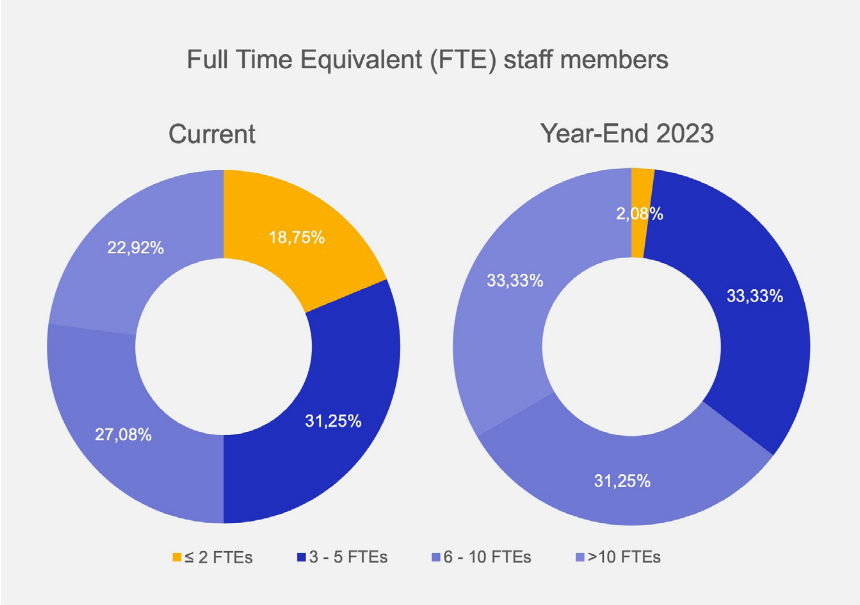
Legal domicile located based on initial investor preferences

- Two thirds of funds are domiciled in Africa
- 60% domiciled in country in which they are investing likely due to increasing number of domestic investors, implementation of favourable regulatory frameworks and an increasing familiarity with those frameworks
- Delaware, Netherlands and Mauritius are favoured offshore domiciles



Small fund management teams

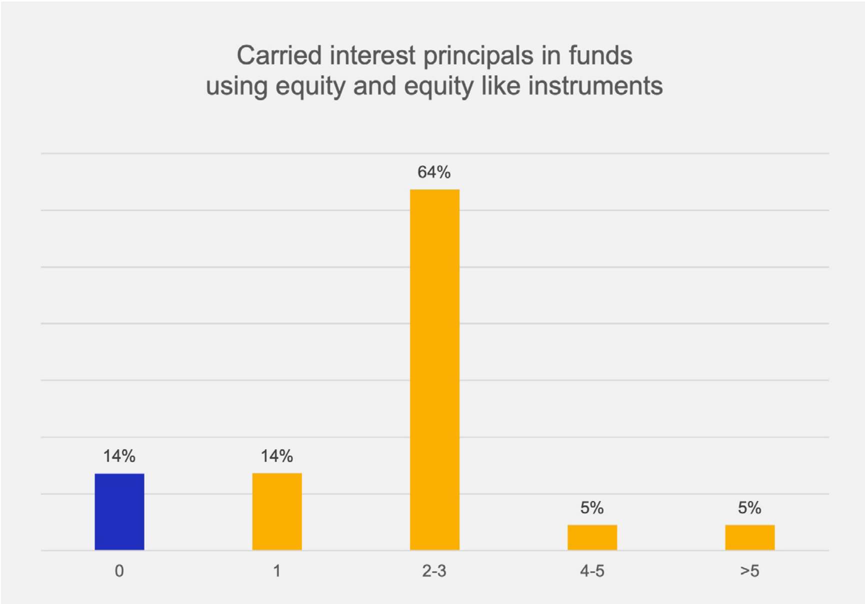
- There are currently ~250 FTEs working in funds with a projected 20% increase forecast by 2023
- This averages out to 5 FTEs per fund currently increasing to 7 FTEs per fund by 2023
- This averages out to ~4 FTEs for funds currently >$10M and ~10 FTEs for funds <$10M

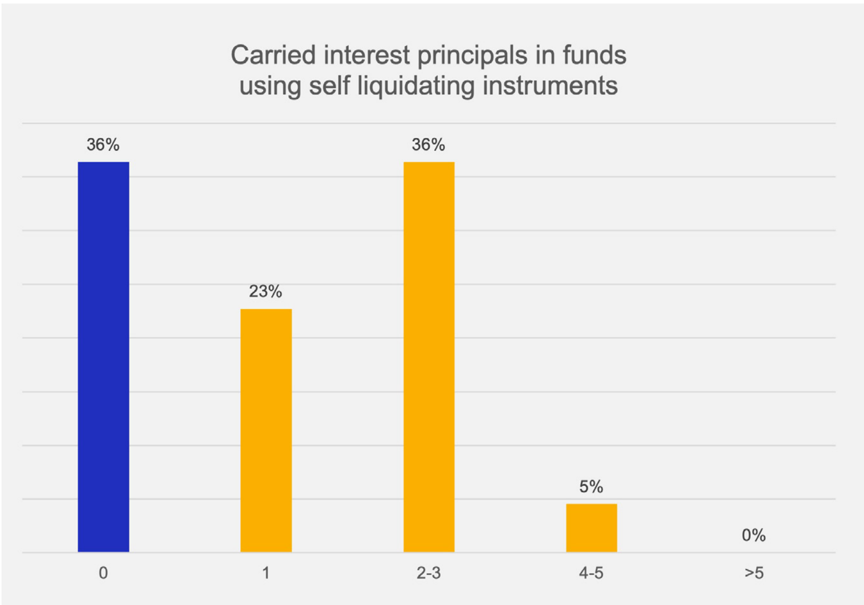


Majority seek to apply traditional fund manager economics

Just over half of fund managers have 2 or more carried interest principals

- Of those that have one or no equity interest principle, 80% are open ended funds.
- ~75% of equity funds have 2 or more equity interest principals
- ~40% of funds using debt and debt-like instruments have no carried interest principals

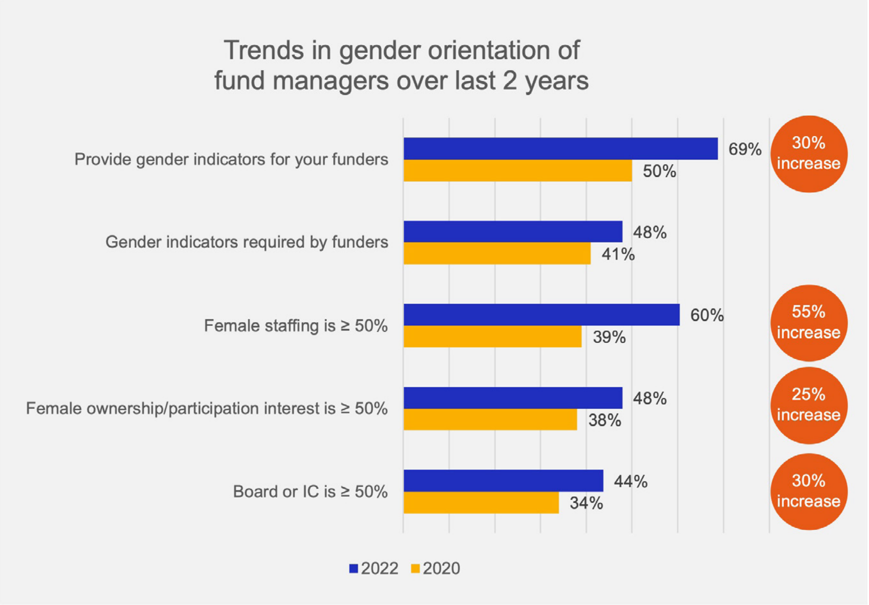




Gender lens investing gaining increased emphasis

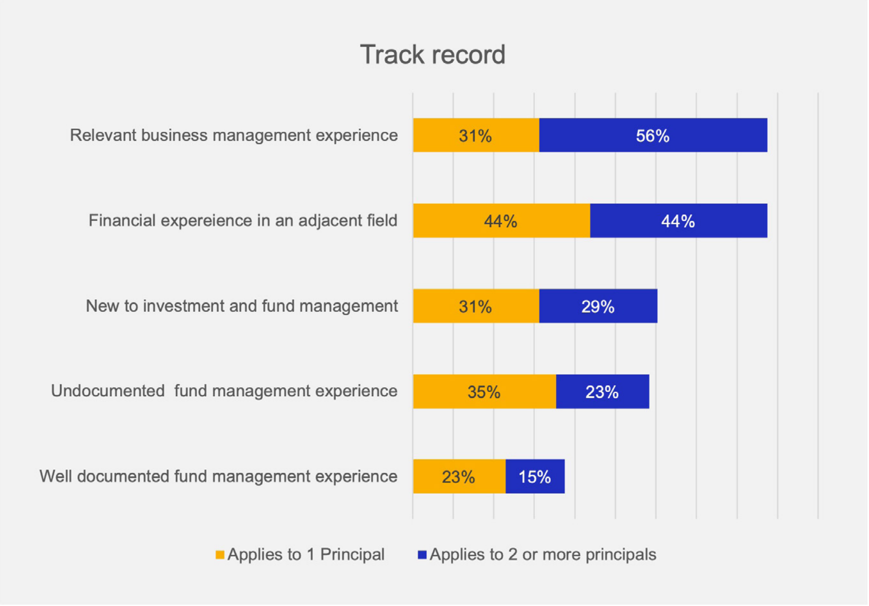
There has been an increase in fund manager interest in GLI reporting between 2020 and 2022. This is not necessarily mirrored by LP requirements.

- Almost 50% of respondents are predominantly female owned funds
- They are targeting ~$500m AUM
- Thus far they have raised $120m with ~60% having reached first close



Managers leverage prior business operational experiences with fund management

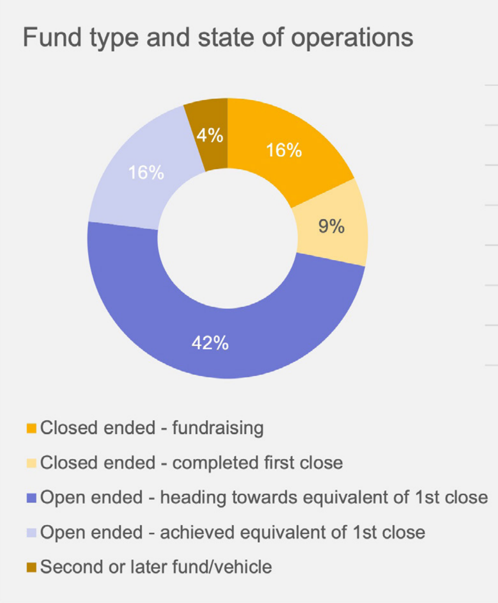
- ~90% fund managers have at least one principal with business management and/or adjacent financial experience. ~80% have both
- ~80% fund managers have made a direct investment although only half of those have documented track record

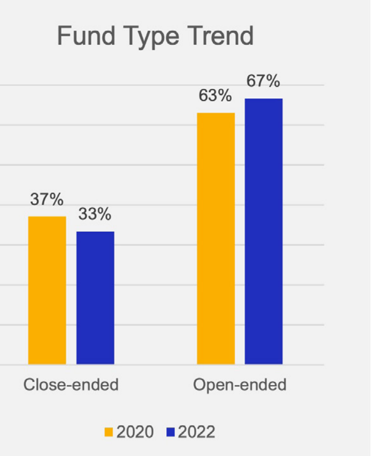


The trend towards open ended vehicles has continued

Open ended funds allow fund managers to start building a track record that will allow them to raise more money.

- There are about twice as many open ended as closed ended funds similar to 2020
- ~80% of open-ended vehicles yet to reach first close have made an investment.
- ~30% of close ended funds yet to reach first close have made an investment.

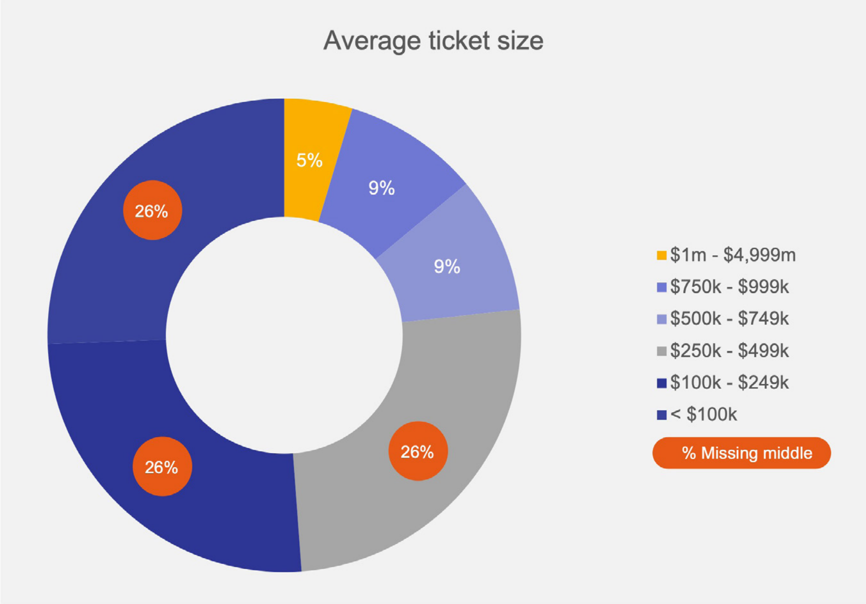




Funds are purposely targeting the “missing middle”

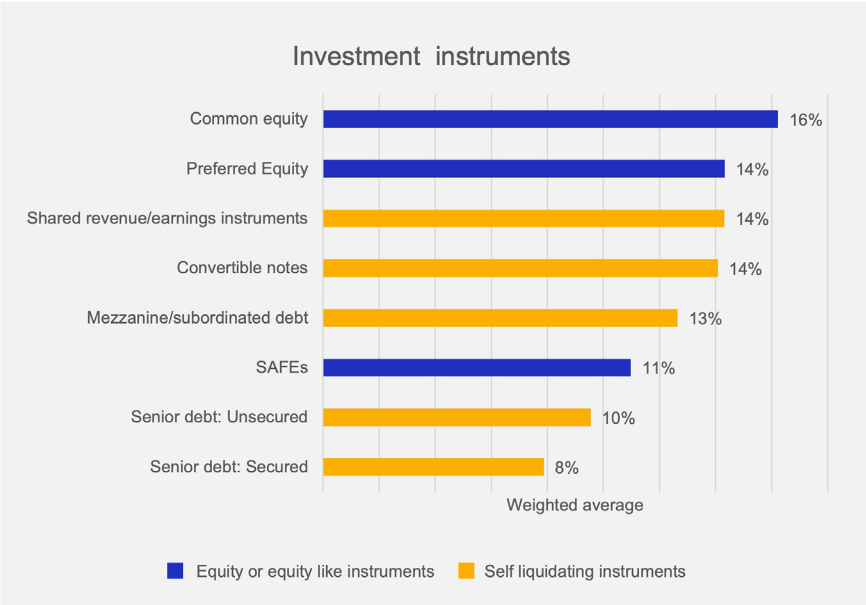
Fund managers are deploying ticket sizes that are synonymous with the missing middle and commensurate with small business financing needs

- Three quarters of fund managers are deploying ticket sizes ≤$500k.
- Median debt ticket size in $100k - $249k range
- Median equity ticket size in $250k - $499k range



Approx. 60% apply self-liquidating, cash flow investment thesis

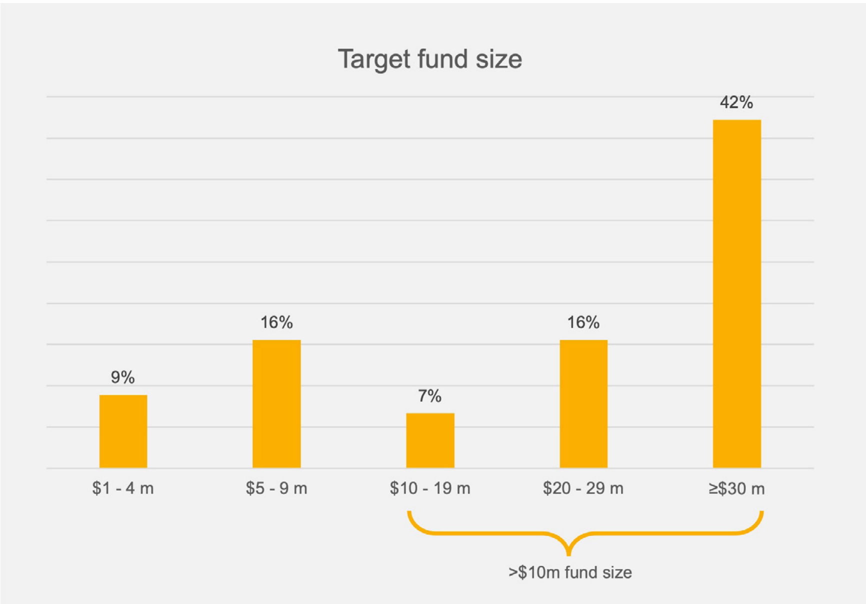
- ~40% AUM to be invested as common or preferred equity and SAFEs. This equates to $423m of equity or equity like investment into SGBs.
- ~60% AUM to be invested as self-liquidating instruments such as senior and mezz debt, shared revenue instruments and convertible notes.
- This split is due to problem with exits in these markets



To prioritize SGB finance, and associated smaller investment amounts, vehicles tend to be smaller

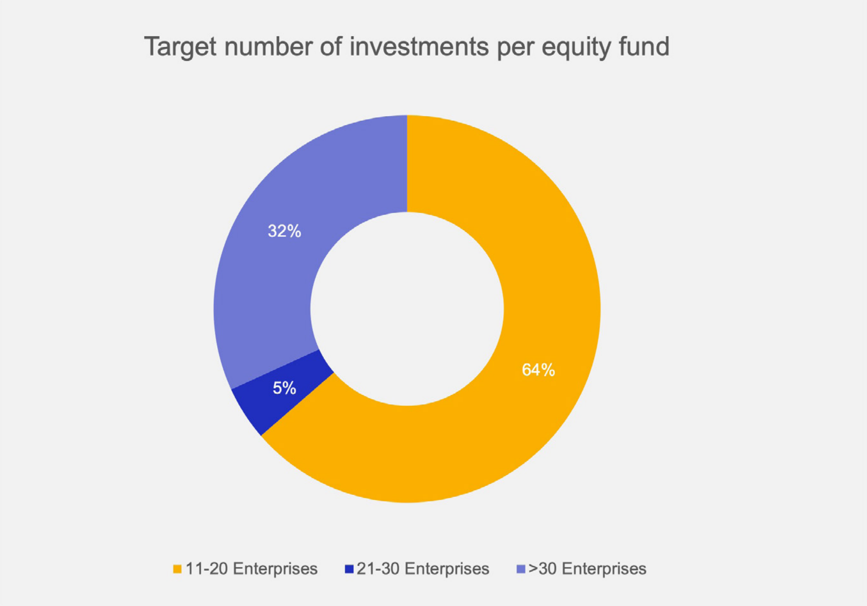
Two thirds of funds are targeting fund size of >$10m

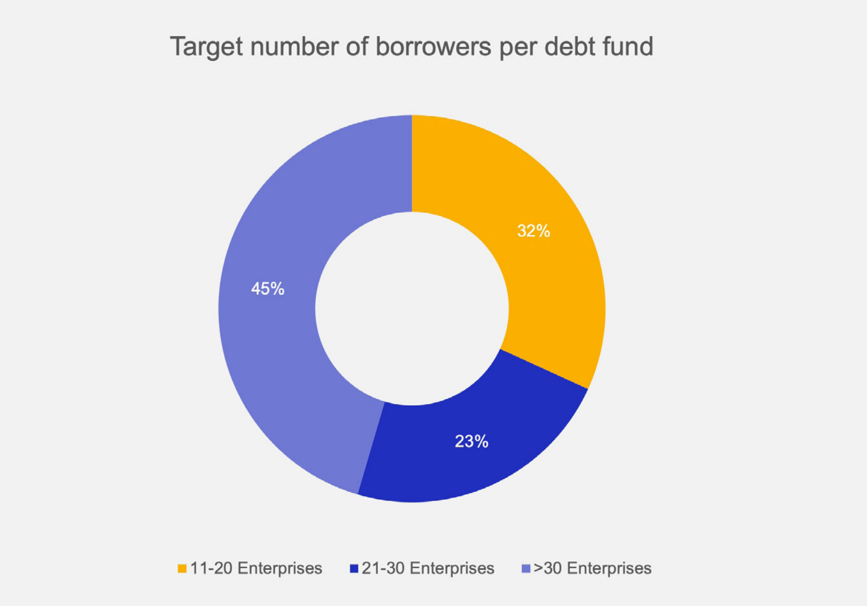
- Over 40% of funds are targeting fund size over $30m



Focus on smaller deals

- Funds deploying equity or equity like instruments are targeting ~20 investments per fund
- Funds deploying self liquidating instruments are targeting ~25 investments per fund





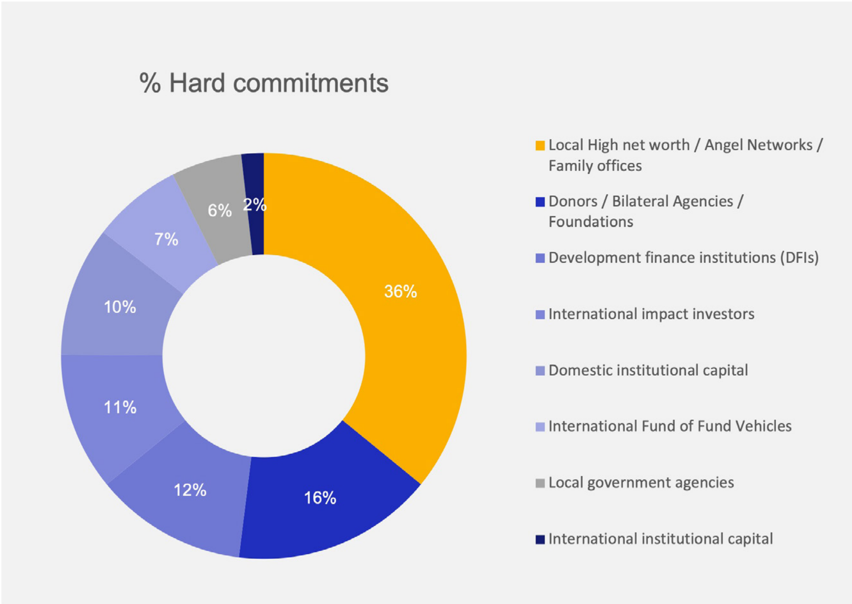

Sewu-Steve (Jaza Rift Ventures)

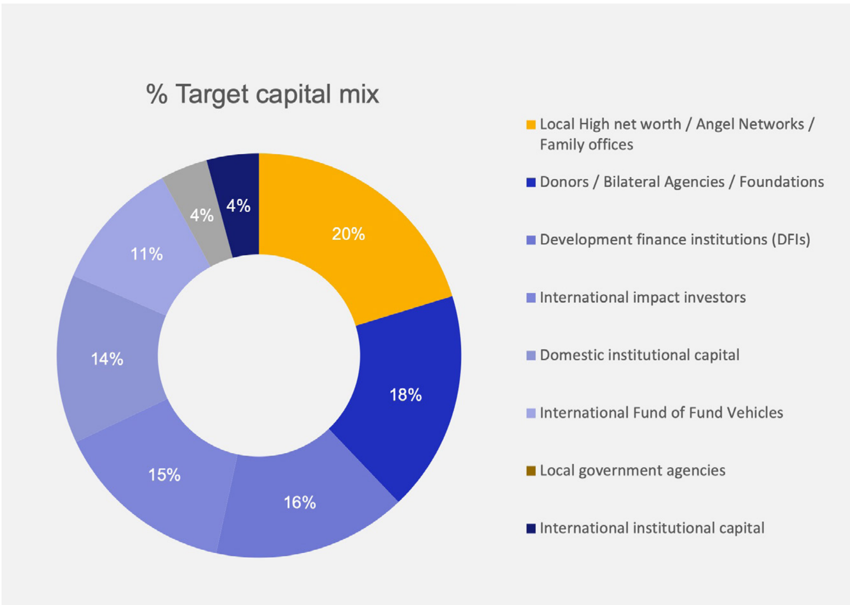
4. Who is investing in these fund managers?

HNWIs and Family Offices are “buy in” is critical initial LP capital

HNWIs are actively investing and expected to continue investing; whereas DFIs are expected to invest 6 times what they have done to date

- Respondents anticipate local HNWIs, donors, DFI’s and impact investors making up almost two thirds of LP investment. Currently they make up just over half.
- Fund managers expect over 10% of capital mix to come from domestic institutional investors and 14% from fund of funds

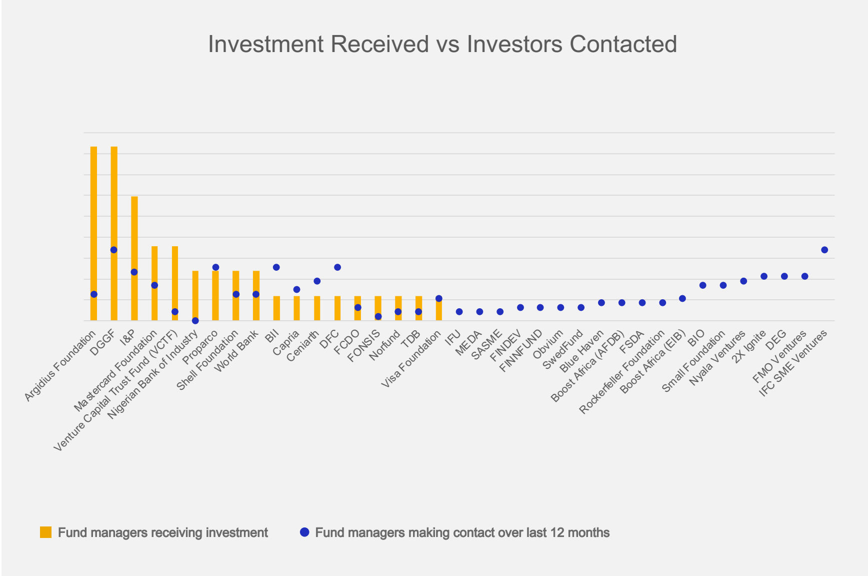




Mismatch in fund manager perception in those investors who will fund and those who won’t

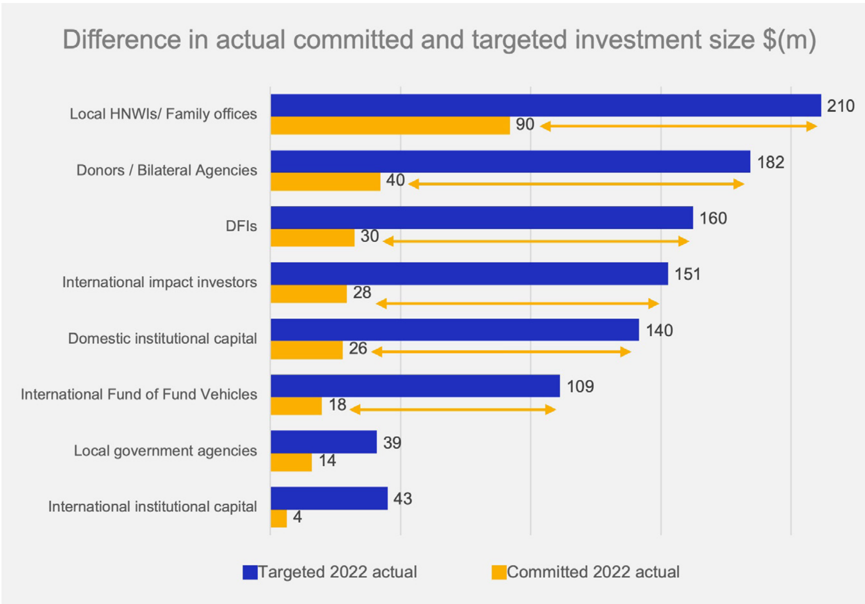
- Although larger DFIs are receiving numerous requests for funding it is Foundations, Family Offices and Fund of Funds that are investing in this segment

Data taken from Social Network Analysis of 45 fund managers at CFF Annual Convening 2022. ~85% overlap with survey cohort.



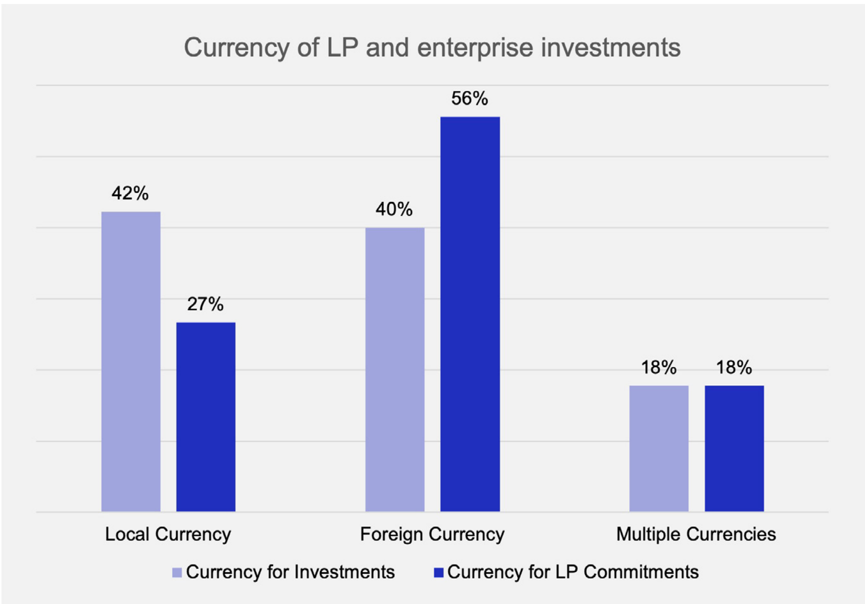
...yet to achieve scale, requires institutional capital of DFIs, bilaterals and international impact investors

- Fund managers have raised almost 50% of capital expected from HNWIs, Family Offices and Foundations
- Fund managers have raised ~20% of capital expected from bilaterals and ~15% of capital expected from DFIs



Will require collective action to address FX risk

- Over half of LP investments are made in hard currency whilst just over quarter portfolio company investments are.

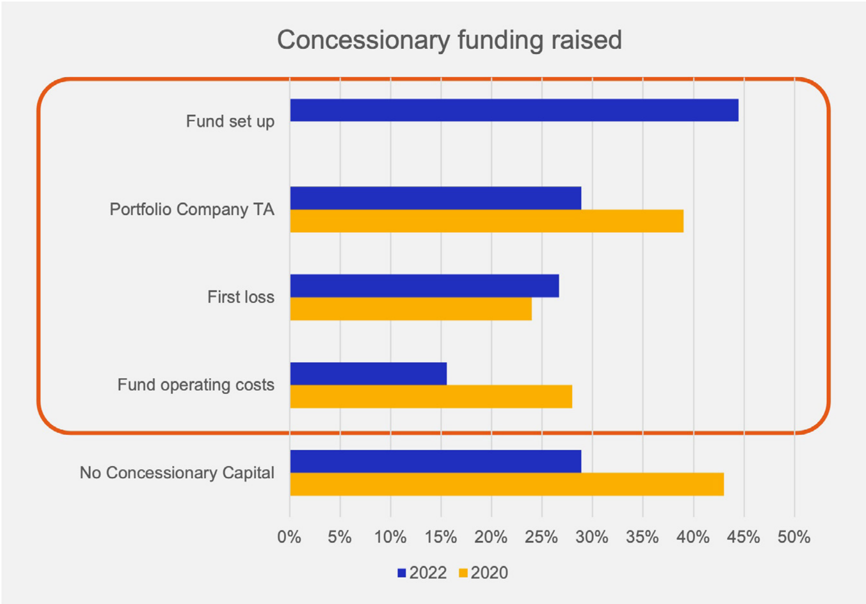


Concessionary funding at vehicle launch highly beneficial

Commercial LPs are significant beneficiaries of this funding along with fund managers

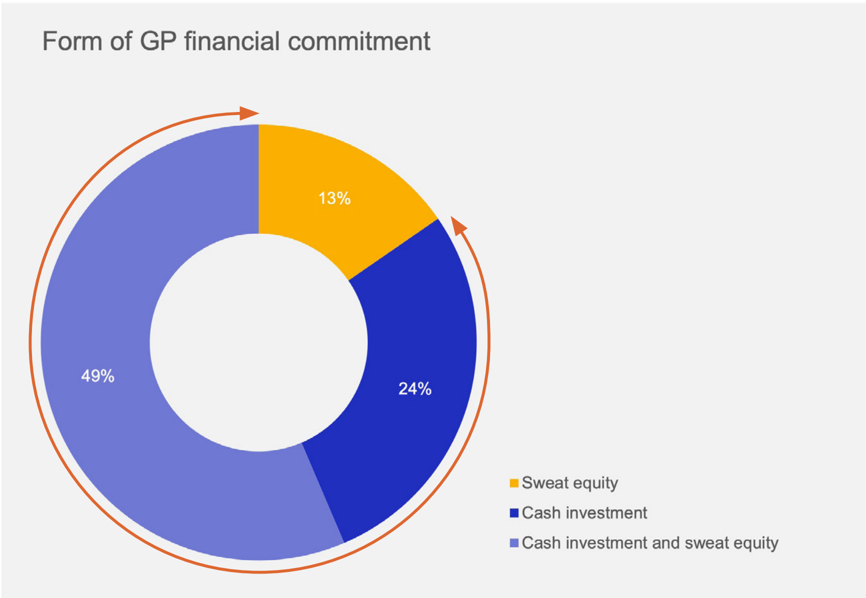
- 70% of funds received concessionary capital over the past year which is a 5% increase from 2020
- Almost half of respondents raised funding to support fund set-up whilst only 15% continue to receive funding for post launch op-ex.

**Respondents had option to select more than one answer*



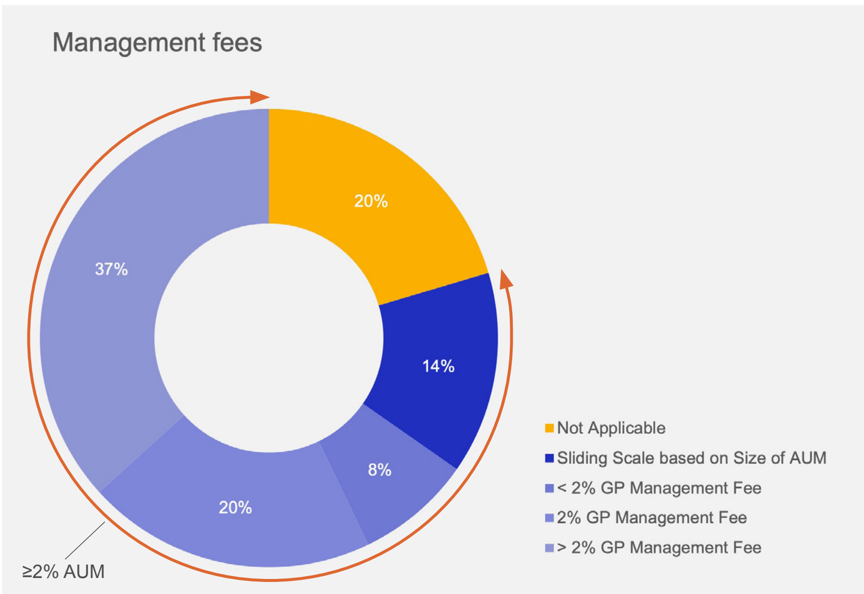
GPs tend to have skin in the game

- 100% of GPs have made a cash and/or sweat equity commitment



Fund managers are balancing LP expectations and on the ground realities

- Almost one third of fund managers charge a management fee of 2% or below in line with PE industry standard
- Three quarters funds charging in excess of 2% are targeting a fund size of >$10m.
- Those to whom the question did not apply are mainly debt funds

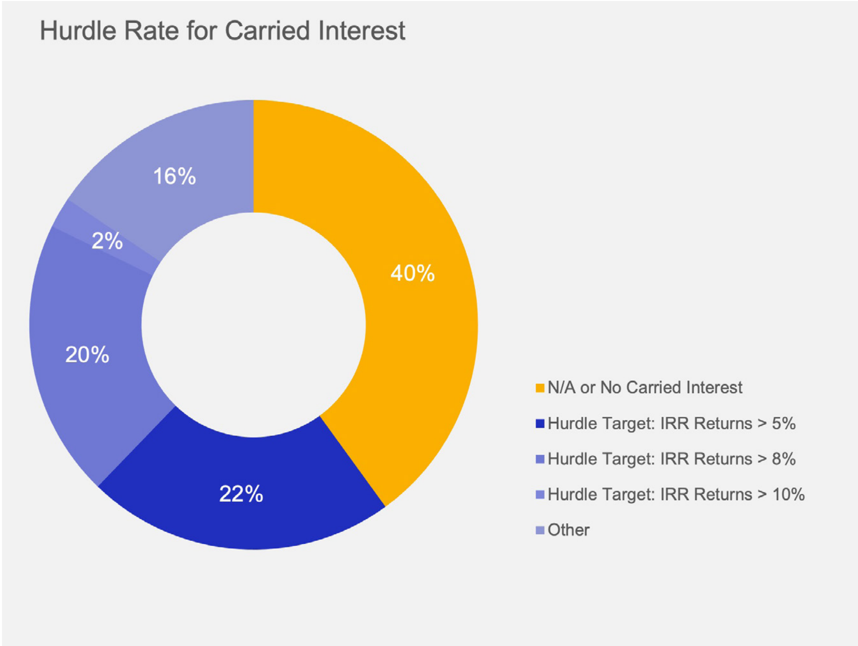


Equity fund managers tend to have performance incentives

At least half of fund managers can participate in the upside.

- 40% of funds do not have carried interest, two thirds of which are open ended funds*
- ~80% of equity funds have a hurdle rate
- ~30% of debt funds have a hurdle rate

Carry is calculated in various ways in addition to traditional models including % net capital gain; exit and relative gross dividend; % pre-tax income; and share in HoldCo.



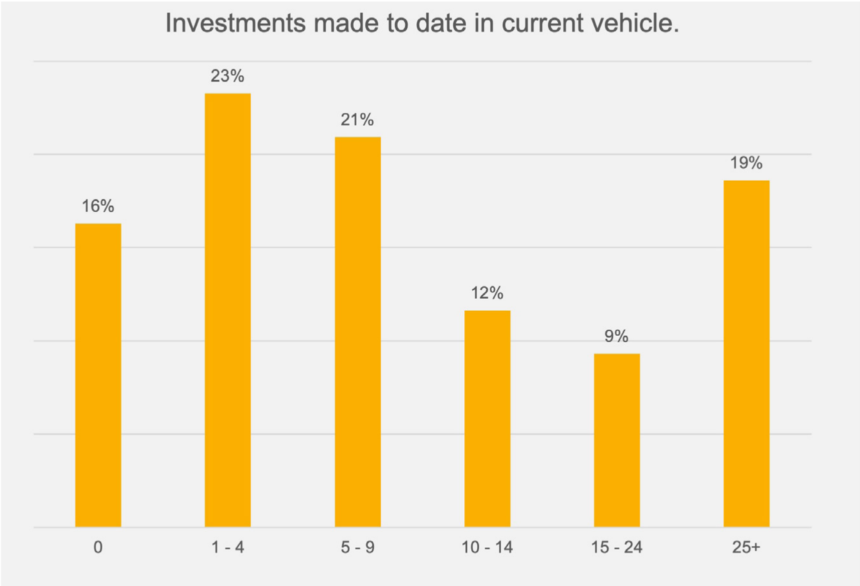
Shiluba Mawela (Tshiamo Impact Partners)

5. How do these fund managers create value?

Despite COVID, have been expanding their portfolios

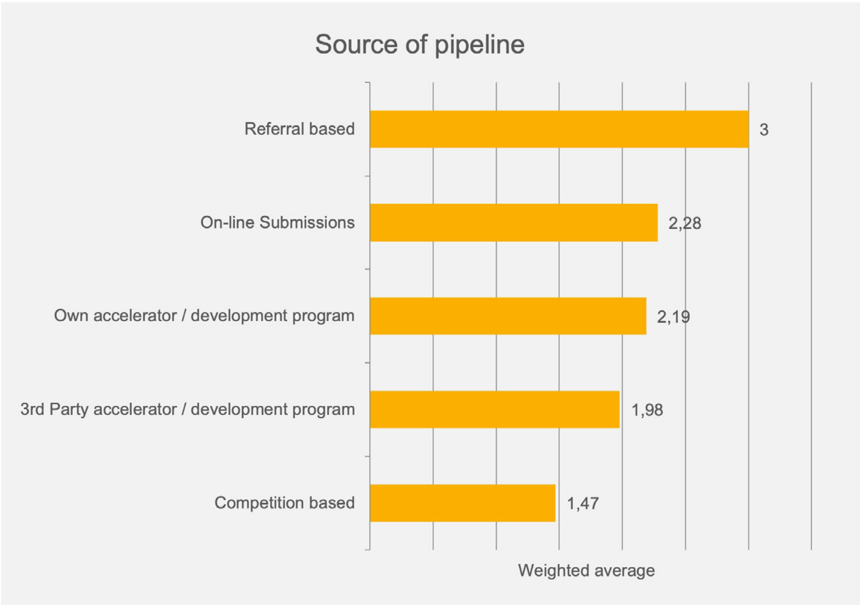
Fund managers have collectively made between ~350 and ~550 investments in current vehicles

- At least 40% of fund managers have 10 or more investments in their current vehicle



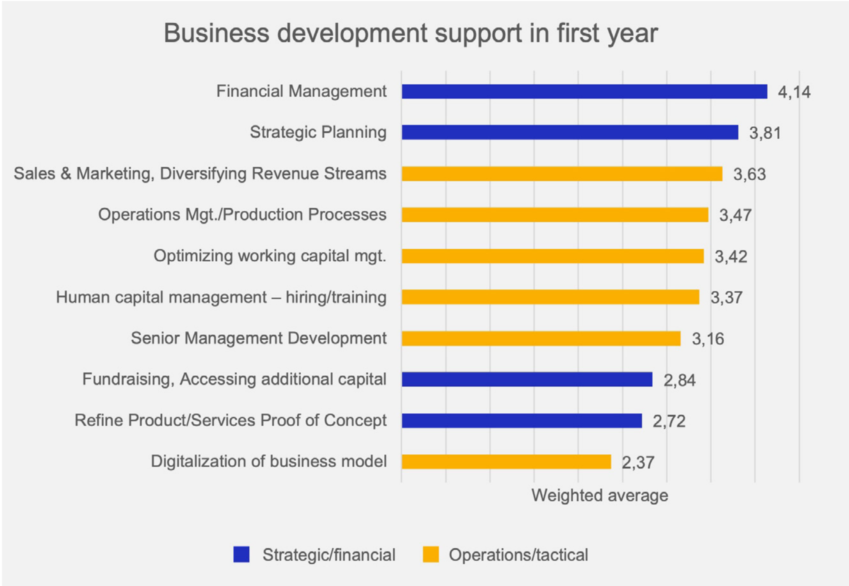
Each fund approaches pipeline opportunities as core part of their investment thesis

With established local market presence, investment opportunities often evolve from their own networks and relationships.
Others use cost efficient models to leverage development programs, and technology based platforms.



While strategy and financial management of portfolio enterprises is a key preoccupation, material focus on strengthening core operations

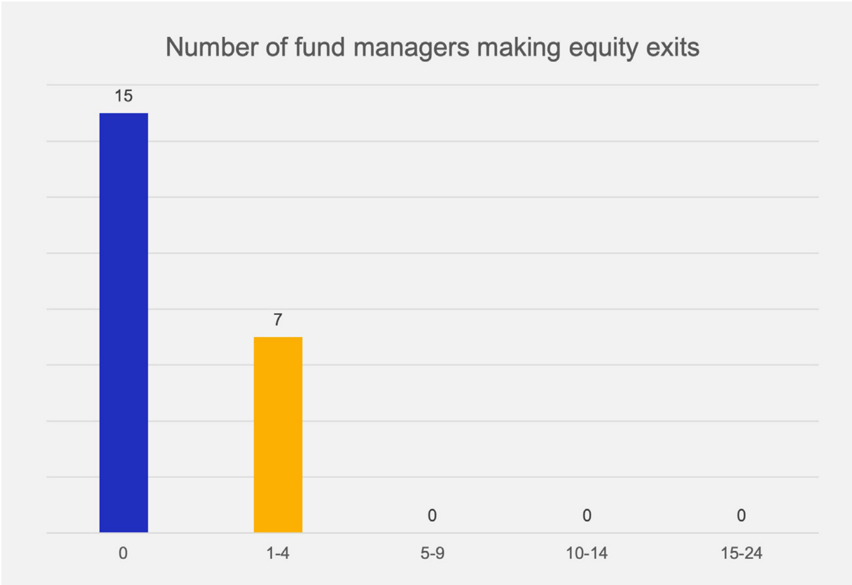
- Almost half of funds consider financial management the biggest need in portfolio companies
- Sales/marketing and operational management drive growth in short term whilst strategic planning drives growth in the medium term



Self-liquidating models have demonstrated greater capacity to achieve cash returns over the recent past

Fund managers are finding exit opportunities in historically low exit environments through deliberate investment strategies and instrument choices.

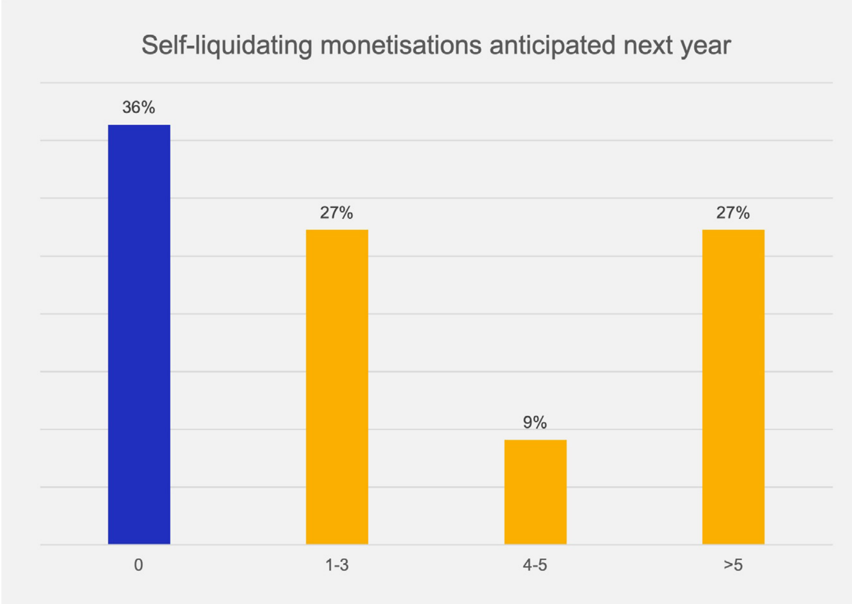
- A minimum of 7 exits reported (up to maximum of 28 considering range)
- An average of 2.5 exits for equity funds reporting at least on exit
- ~10% of funds have been in operation for more than five years
- A minimum of 100 debt repayments (up to maximum of 174 considering range)
- An average of 7.5 repayments for debt funds reporting at least 1 repayment

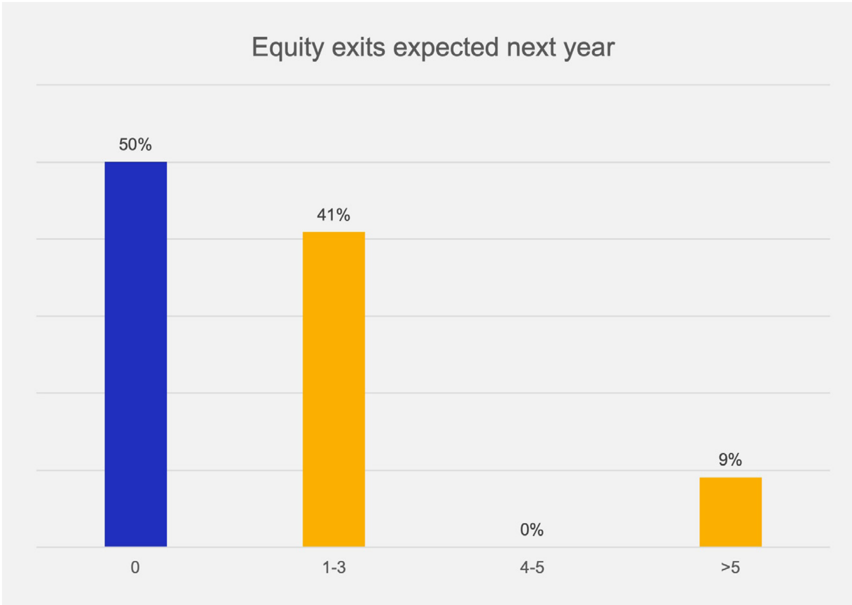


Funds are cautious on near-term exit opportunities

Considering previous exit data, fund managers are optimistic regarding potential for monetisation in the next 12 months

- At least 20 exits and 45 monetisations are expected in the coming year the majority of which are from debt investments
- ~40 of fund managers do not expect to monetise an investment in the coming year

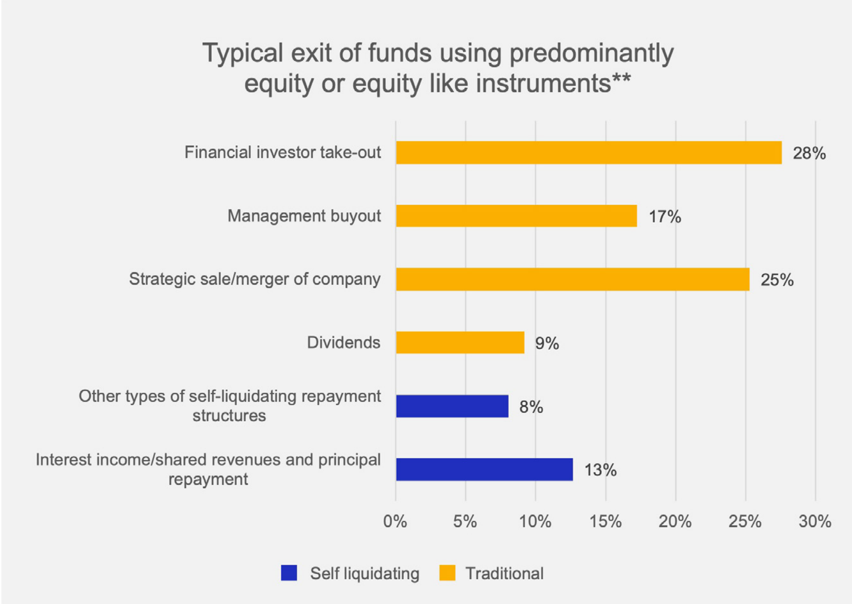


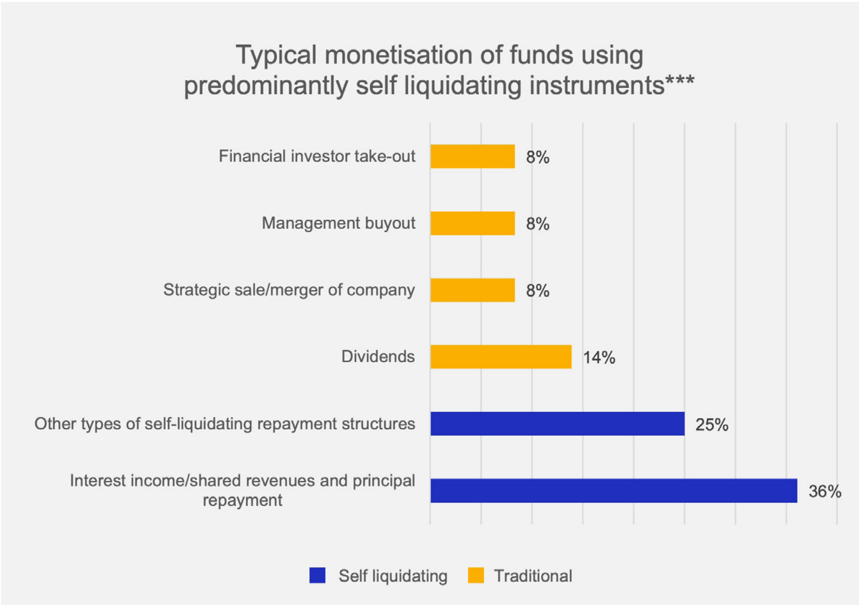


Fund managers are using a mix of exit strategies

- Two thirds of fund managers are structuring at least one exit option for either founders or management teams to buy out.
- Some fund managers report bank refinancing to support management buy-outs.

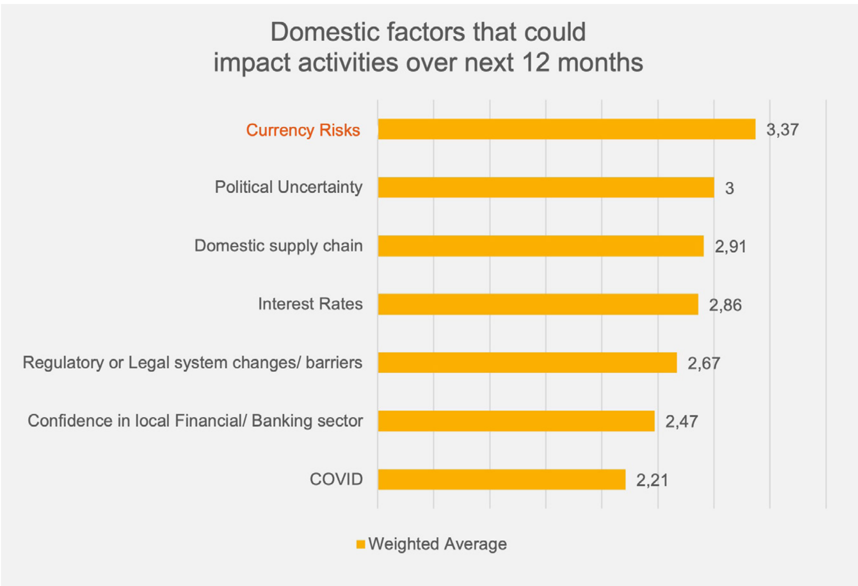
**Respondents had option to select more than one answer*
***Includes convertible debt*
****Excludes convertible debt*





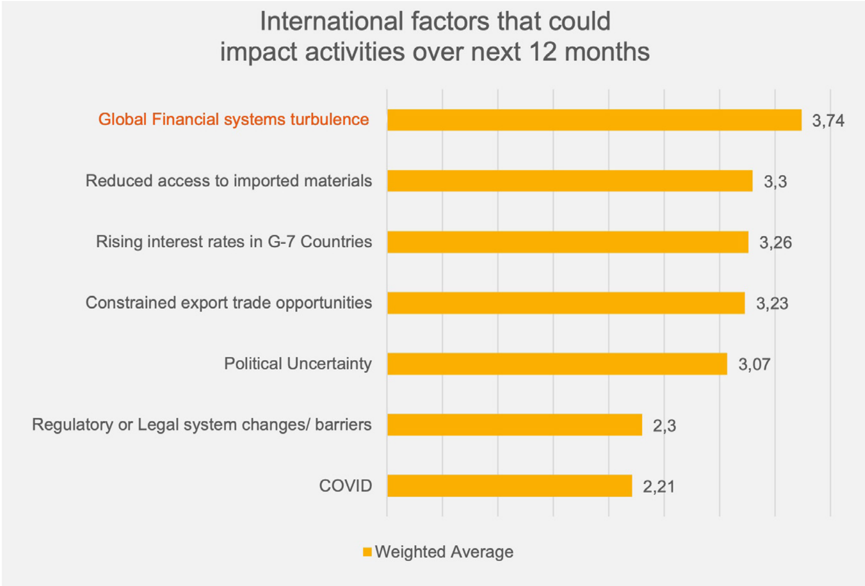
Domestic and international major concerns are interlinked

- 50% of fund managers consider currency risk of most concerning over the next 12 months
- COVID no longer considered a concern



Hedging against currency risk is of particular importance

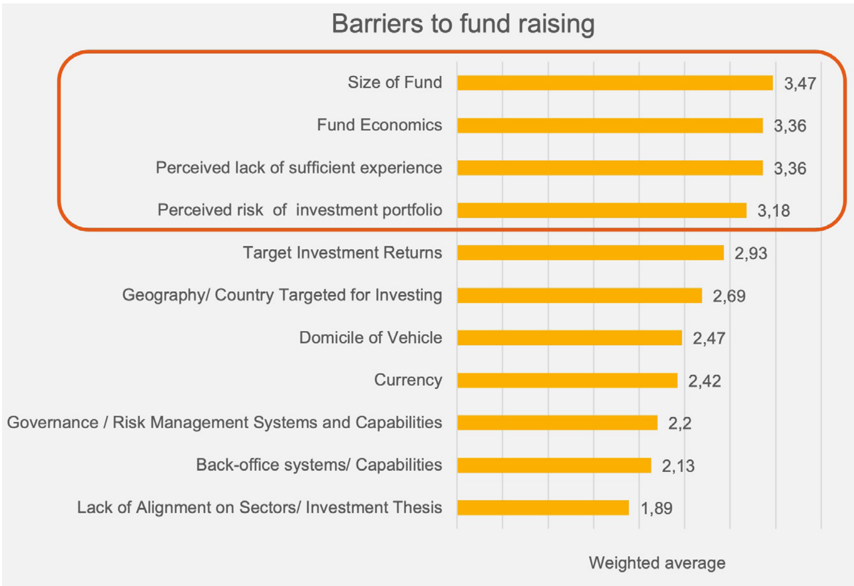
- Over 50% fund managers consider global financial system turbulence of the most concerning over next 12 months



As an emerging asset class, there is a learning curve for LP investors on the investment models of locally based early-stage capital vehicles

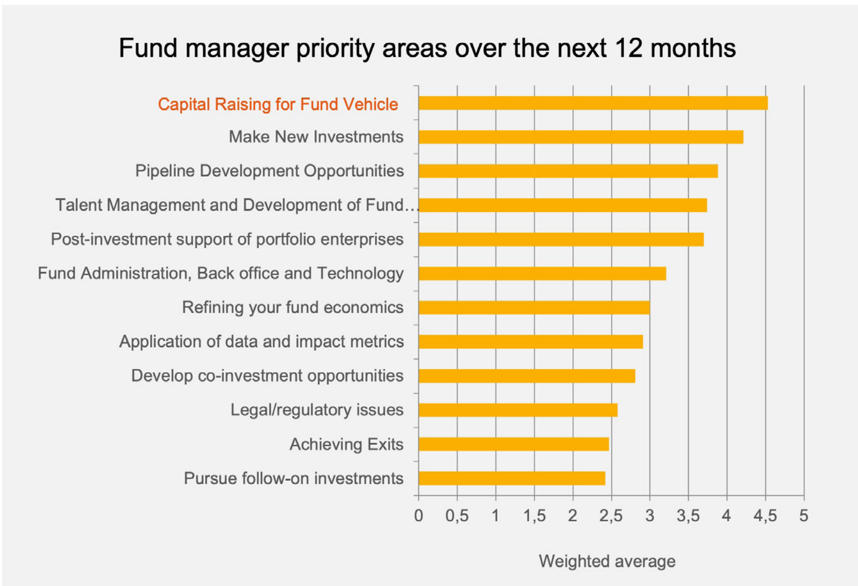
Top four barriers are vital in demonstrating fund manager investment capabilities.

- Over 50% of funds listed fund size, fund economics and perceived track record as the most highly consequential constraints to fund raising



Capital raise is critical for these funds

- Three quarters of fund managers indicated that capital raising is their area of highest priority over the next 12 months



Annex : Questions

Joshua Bicknell (Balloon Ventures)

1. Name
2. Role
3. Email
4. Name of organisation

Organizational Background and Team

5. Timeline. When did your current fund/investment vehicle achieve each of the following? (Please provide a date for each of three points in your fund's evolution)
6. In what geographic markets do you operate? (select as many as applicable)
7. Where is your Team based? (select as many as applicable)
8. Number of current and forecasted Full Time Equivalent staff members (FTEs) including principals
9. Number of carried-interest/equity-interest principals currently in your Fund management team
10. Within the GP leadership team / fund principals, what is their prior work experience as it relates to fund management?
11. Gender orientation. Do any of the following apply to your fund? (select as many as applicable)
12. Team Experience: Please specify cumulative number of investment/financing transactions completed by your principal(s) prior to this current fund/vehicle?

Vehicle Construct

13. Where is your legal domicile?
14. Currency Management. What currency do you make investments? What currency is your fund LP vehicle? (Please answer for both as appropriate)
15. What is the type (closed vs. open ended) and current status of your fund vehicle's operations? (Please select appropriate response)
16. What are the current hard commitments raised, current amount invested/outstanding portfolio and target size of your fund vehicle? (USD Equivalent) (Please provide one answer for each column)
17. What is target number of investments / borrowers for your fund?
18. Does your LP agreement/governance permit "follow-on" investments?
19. What is the target IRR for non-concessionary investors when investing in your capital vehicle (USD equivalent)?
20. Has your fund/vehicle received concessionary capital for any of the following needs? (select as many as appropriate)
21. Sources of LP capital. Please rank by percentage how much each of these categories represent within the existing and your intended make-up of your LP capital providers.
22. In determining the capital contribution by the fund management team into the vehicle, what is the form of GP financial commitment?
23. What is the GP Management Fee?
24. Does your carried interest have a hurdle target?
25. In raising funds for your vehicle, what are the factors that you perceive as the most consequential barriers/constraints in raising funds from potential investors?

Investment Thesis

26. Stage of the businesses that you finance / invest in.
27. Type of enterprises you finance / invest in? (Please select as many as applicable)
28. Describe the Key Financing Needs of your Portfolio Enterprises at the time of initial investment/funding.
29. Current and Target Investment Activities by Sector. Based on your targets, please rank the top sectors by priority focus for your fund, current and target percentages of your portfolio.
30. Financial Instruments applied in making financing/investments.
31. Please list the top 3 Sustainable Development Goals that you target (or as many as apply)
32. Gender Lens Investing. Are any of the following either considerations or requirements when making investment/ financing considerations?
33. How does the role of technology in the business model of your target portfolio enterprises play into your investment thesis?

Pipeline Sourcing and Portfolio Construction

34. How do you source your pipeline?
35. What is the average size of investments/financing per portfolio company?

Portfolio Value Creation and Exits

36. In the first 12 months after closing on an investment, what are the key areas that you prioritize with regards to your portfolio enterprises?
37. Typical investment timeframe?
38. What is the typical form of investment monetization/exit? (select as many as applicable)
39. For equity investments, how many exits/monetizations have been achieved? For debt financings, how many repaid in full?

Performance to Date and Current Outlook

40. Please list the number of investments made to date by your current vehicle.
41. Optional supplement to question above: If no direct investments made to date made from your fund vehicle, please specify if you have made any other type of investment with funds raised such as warehoused investments, facilitated 3rd party investments etc.
42. How many exits/monetization events do you anticipate in the next 12 months?
43. Please provide, across your portfolio, both the historical and expected average change in revenues and operating cash flow of your portfolio.
44. What is the total impact on employment/jobs associated with your portfolio? What has been the average impact since date of investments and what is the expected impact over the next 12 months on direct and indirect labor?
45. What will be your fund's areas of priority over the next 12 months?
46. Over the next 12 months, what domestic factors are you most concerned that could impact your activities?
47. Over the next 12 months, what international factors are you most concerned that could impact your activities?
48. If you are interested in receiving the results of this survey, please check the box below.

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FOR FRONTIER FINANCE

Kendi Kamwambia (Heva Fund) and Olivier Furdelle (Teranga Capital)