Closing the Gaps: Finance Pathways for Serving the Missing Middles

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TABLE OF CONTENTS

Livelihood-sustaining Enterprise: Camaleon Barber Shop

CASE STUDY

CAMALEON BARBER SHOP
LIMA, PERU
2016-PRESENT

CAMALEON IS A BARBER SHOP IN THE MIRAFLORES NEIGHBORHOOD IN LIMA, PERU

LIVELIHOOD-SUSTAINING ENTERPRISE

Camaleon barber shop is a profitable three-chair barber shop in Lima that provides traditional and creative men's haircuts, beard trims, and shaves

MARKET NEED

The Miraflores neighborhood in Lima has demand for basic and creative men's haircuts, beard trimming, and shaving.

CURRENT SCALE

Each month Camaleon serves over 300 local customers and generates approximately US$3,500 in revenues and US$1,000 in profits.

MODEL

Camaleon hires local barbers to provide haircuts, shaves, and beard trims at its space, and charges roughly US$10.50 for a haircut, from which barbers receive 35% of the revenues and tips.

FOUNDERS

The original founder Ana Penilla founded the barber shop using personal funds and a bank loan and later sold the business to a friend before moving to a new city.

Source: Camaleon Barber Shop, internal documents and interview, 2019; Dalberg analysis.

CASE STUDY

LIVELIHOOD-SUSTAINING ENTERPRISE

THE ORIGINAL FOUNDER STARTED THE BUSINESS USING PERSONAL FUNDS FOR WORKING CAPITAL AND A BANK LOAN TO FINANCE ASSET PURCHASES

ENTERPRISE NEEDS

At the outset, the original founder, Ana, needed capital to purchase furniture, such as mirrors, barber chairs, and televisions. She also needed to finance initial operating expenses, including rent, marketing, and staff payroll.

FINANCING PREFERENCES

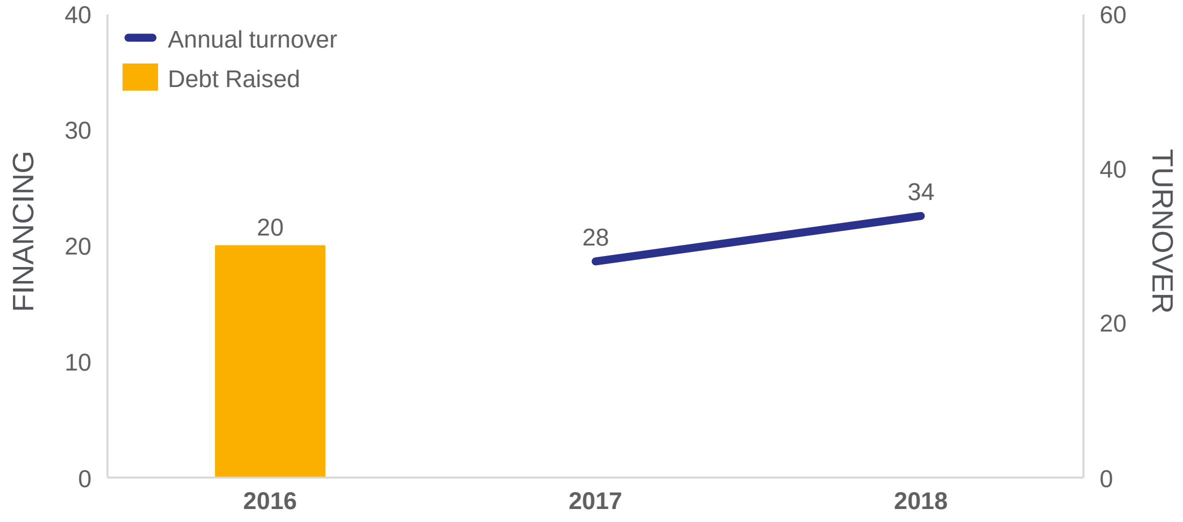
To fund initial activities, Ana looked for cheap and relatively patient capital that would be manageable from both a cost and cadence of payments perspective over the first few months of unpredictable growth.

FINANCING OUTCOME

Ana had recently left her job after accepting a small buyout and used the funds for her early working capital needs. However, to finance bigger ticket items, such as furniture, she secured a US$20,000 loan from a local bank to be paid over three years at a 12% interest rate. In the first year the business had small losses, but by the second year it began turning a profit, doing well enough that the founder paid the loan off a year early.

CAMALEON REVENUES AND FINANCING, 2016 TO 2018

US$, THOUSANDS



FINANCING TERMS

To finance certain start-up costs, such as barber chairs and televisions, the original founder secured a US$20,000 loan from a local bank, to be repaid over three years at a 12% interest rate. As the business grew and revenues increased, she was able to pay the loan off earlier than anticipated. Personal funds were used for early working capital.

COLLABORATIVE FOR FRONTIER FINANCE

Source: Camaleon Barber Shop, internal documents and interview, 2019; OFX, Yearly Average Forex Rates, accessed 2019; Dalberg analysis. Revenue information for 2016 not available.

THE CURRENT OWNERS BOUGHT THE BUSINESS USING SAVINGS AND A SEVERANCE PAYMENT AND ARE GROWING THE BUSINESS USING CASH FLOW

ENTERPRISE NEEDS

For personal reasons, the original founder, Ana, needed to move to another city, and she looked to friends Javier Farfan and Melissa Ciquero to purchase the barber shop. Javier and Melissa had always thought about owning and operating their own business, but they never had the savings to do so. By chance, Melissa had recently decided to accept a small buyout from her job at a company that was downsizing, and so they bought the business for US$12,000 in early 2019 (a lower amount than the original start-up costs due mostly to the depreciation of the assets).

FINANCING PREFERENCES

Javier and Melissa did not know of any options for risk capital for small traditional businesses and did want to take on any debt, so their preference was to fund growth through cash flow.

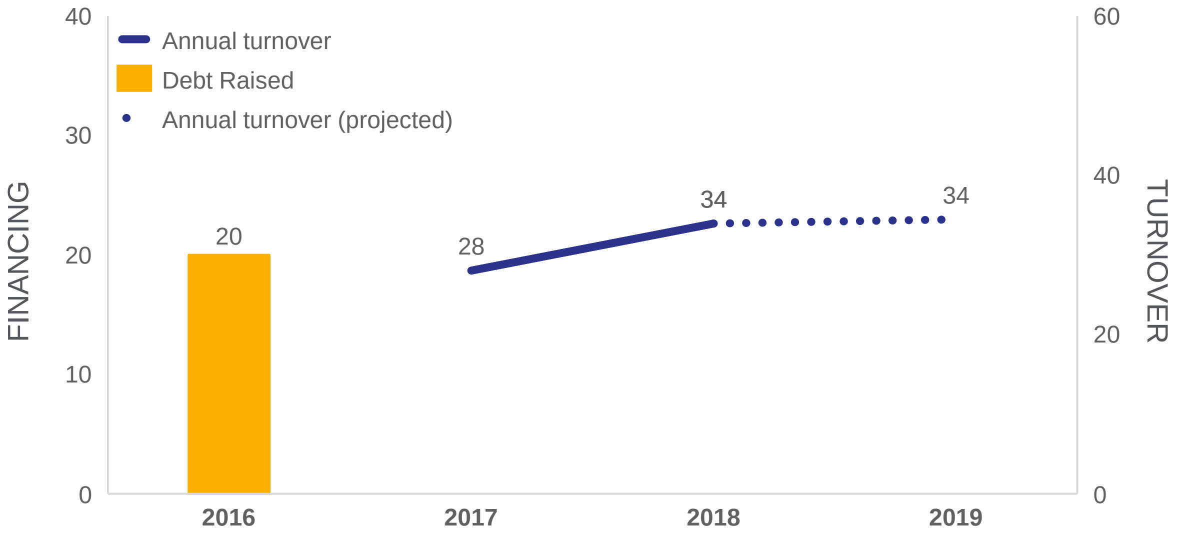
FINANCING OUTCOME

Faced with uncertainty over financing options, Javier and Melissa decided to use the profits over several months to finance a small renovation so they could charge a higher amount for haircuts and other services. They are considering opening a second location in a few years and are prepared to go to a bank for those financing needs.

> "Owning a business wasn't an option before the buyout, but we're making more money using it for the business than keeping it in the bank." – Javier Farfan

CAMALEON REVENUES AND FINANCING, 2016 TO 2019

US$, THOUSANDS



FINANCING TERMS

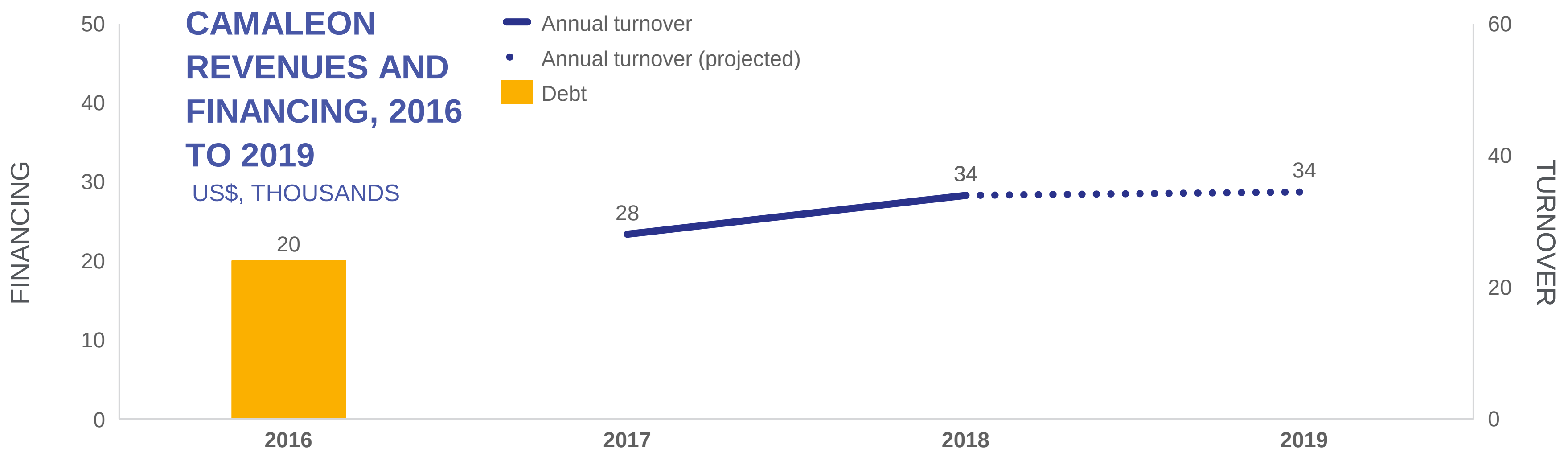
In 2019, Javier and Melissa bought the business for US$12,000 and took over operations. Since then they have reinvested the profits in renovations instead of getting a loan from a local bank.

Note: (1) Annual revenues were estimated using a monthly average of the first nine months.
Source: Camaleon Barber Shop, internal documents and interview, 2019; OFX, Yearly Average Forex Rates, accessed 2019; Dalberg analysis.

CASE STUDY

LIVELIHOOD-SUSTAINING ENTERPRISE

CAMALEON HAS GROWN INCREMENTALLY TO REACH NEARLY US$40,000 IN ANNUAL REVENUES AND 300 CUSTOMERS



FINANCING NEEDS & CONSIDERATIONS

- The original founder received a small payout after leaving her job and set out to start a small barber shop in Lima.
- She was able to secure a US$20,000 loan from the bank to purchase assets, such as barber chairs, tables, mirrors, and televisions.
- After several years, the founder had to move, and she turned to friends to take over the operation.

- Partners Javier and Melissa had been thinking for a long time about starting a small business, but they never had enough savings or the right opportunity to get started until Melissa was presented with the opportunity to take a buyout from her company.
- They bought the barber shop from their friend Ana for US$12,000 (less than start-up costs due to depreciation of assets) and have since invested profits to remodel the space.
- They are also considering trying to get a US$20,000 loan to open a second location.

ROUND	Seed	Early Stage
PROVIDERS	Self-finance; Bank	Self-finance
CAPITAL NEED	Working Capital; Fixed Assets	Fixed Assets

FINANCING CHALLENGES

INTERNAL

- Limited savings to finance early activities
- Growth constrained by gradual accumulation of cash flows

EXTERNAL

- High local interest rates
- Limited capital available from banks without collateral
- Limited funding available for the early stages of small businesses

COLLABORATIVE FOR FRONTIER FINANCE

Source: Camaleon Barber Shop, internal documents and interview, 2019; OFX, Yearly Average Forex Rates, accessed 2019; Dalberg analysis.

CASE STUDY

LIVELIHOOD-SUSTAINING ENTERPRISE

THE HIGH COST OF CAPITAL AND LIMITED INTEREST FROM ENTREPRENEURS FOR LOANS HAS LIMITED CAMALEON'S GROWTH

COMPANY SUCCESS FACTORS

Market

✓ Demand for hair cutting and grooming services

Product & Business Model

✓ Unique service elements (such as beer provided or creative cuts) help to cultivate loyal customer base

✓ Marketing attracts more clientele

Team

✓ Knowledgeable staff

✓ Buyout from previous job provided start-up capital to finance the initial investment

✓ Relationship between friends meant access to unusual exit opportunity

FINANCING CHALLENGES

SEED

- Risk capital for small-scale traditional ventures such as barber shops is not available

EARLY STAGE

- Debt capital not always available at affordable rates, inhibiting growth of traditional businesses by forcing slower capital expenditures
- Exit opportunities are unlikely and network-based – without friends able and willing to take over the barber shop, the original founder might have simply closed or managed from afar
- Limited interest from the entrepreneur to take out a bank loan

FINANCING OPPORTUNITIES

- A **Systematize** provider that focuses on specific businesses like personal care services can provide capital more quickly and at a more affordable rate than local banks by using in-depth knowledge of the sector to do due diligence quickly as well as to select the most appropriate financial product

- **Digitize** models can provide working capital at interest rates that improve over time if they partner with small businesses, such as barbershops, that are growing

Source: Camaleon Barber Shop, internal documents and interview, 2019; Dalberg analysis.

Dynamic Enterprise: Horn Products

CASE STUDY

HORN PRODUCTS
KAMPALA, UGANDA
2004 - PRESENT

HORN PRODUCTS SELLS BOTH PROCESSED AND UNREFINED COW HORN TO LOCAL AND REGIONAL BUYERS

DYNAMIC ENTERPRISE

Horn Products purchases raw cow horn from local abattoirs and sells both processed and unrefined cow horn to local and regional buyers

MARKET NEED

Cow horns are a by-product of regional cattle raising, and Horn Products meets market demand for connecting raw horns with global buyers as well as selling value-added products to global and local distributors.

CURRENT SCALE

Horn Products is on track to conduct US$500,000 sales in 2019, has raised US$140,000 in mezzanine financing, employs 36 individuals (half of whom are younger than 35), and sells roughly 100 tons of horns annually.

MODEL

Horn Products sources raw cow horn from a deep network of abattoirs regionally. High quality horns are crafted into products that include buttons, plates, and jewelry and are sold at a high mark-up to local and global distributors. The remaining horns are resold at a smaller mark-up to Chinese firms.

FOUNDERS

Horn Products was founded by two friends, Ggala Charles (a serial entrepreneur who also farms vanilla and coffee beans) and Wamala Isa, who together recognized an opportunity to create value from a raw material that previously was often discarded and to deliver additional income to abattoirs in the region.

Source: Horn Products, internal documents and interview, 2019; iungo capital, portfolio data and interview, September 2019; Dalberg analysis.

CASE STUDY

DYNAMIC ENTERPRISE

FACING LIMITED FUNDING OPTIONS, HORN PRODUCTS USED FOUNDER SAVINGS, LOANS FROM FAMILY AND FRIENDS, CUSTOMER DEPOSITS, AND REINVESTED PROFITS TO GROW

ENTERPRISE NEEDS

Two friends working in the UK returned to Kampala and saw a market opportunity in turning cow horn, a by-product of the cattle industry, into artisan goods and connecting regional cow horn supplies with global buyers. They set out to build a profitable business and grow the incomes of herders and abattoirs locally. However, the team needed capital to finance purchase of raw horn and machines for processing, to build relationships with local horn providers and global distributors (e.g., by attending expos and conferences), to train and pay staff, and to refine their products.

FINANCING PREFERENCES

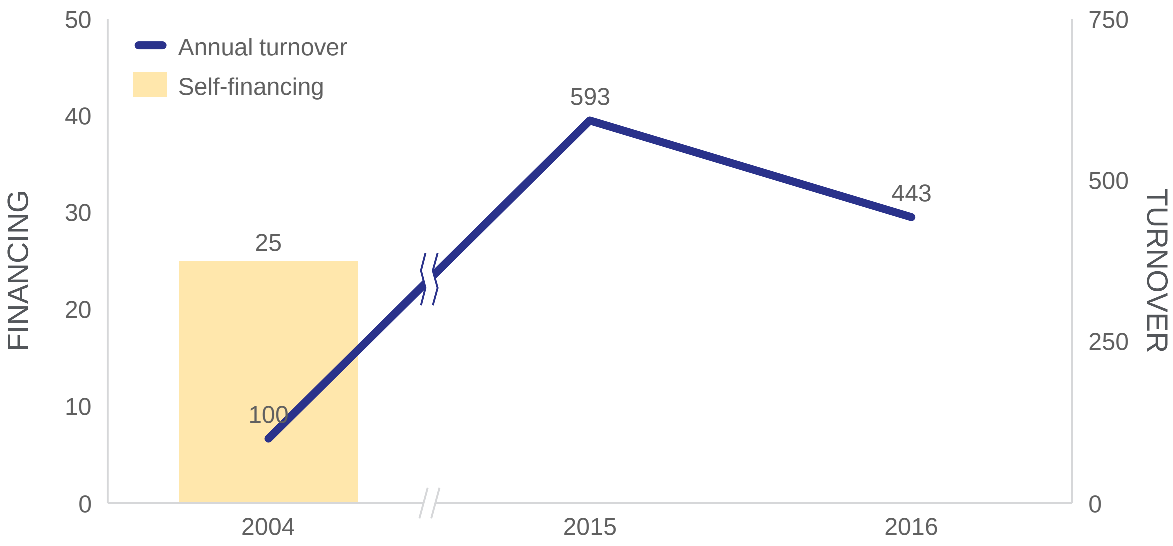
Horn Products primarily needed funds for capital expenditures to build out manufacturing facilities and working capital to pay suppliers (who require significant cash up front) particularly during cyclical price depressions around holidays (when higher amounts of cattle are slaughtered for meat or celebration). They sought out capital from traditional institutions and family and friends.

FINANCING OUTCOME

Ultimately, the founding team began operations using a personal investment of US$25,000, which they had saved while working abroad in the UK. Their main source of working capital came from client goodwill, often receiving deposits of 50 to 100% for upcoming orders. Although the team prudently reinvested revenues, later capital injections (such as for extra working capital around the holidays) were financed through friends and family, who believed in the business and could provide short-term funds to help bridge the gap.

HORN PRODUCTS REVENUES AND FINANCING, 2004 TO 2016

US$, THOUSANDS



FINANCING TERMS

In 2004, the founders invested US$25,000 of their personal savings to begin purchasing raw horn, build up processing facilities, and establish networks with suppliers and distributors.

Typically, the team used client deposits and reinvested revenues to fuel gradual growth, but occasionally they needed to fundraise from friends and family to cover working capital needs during times of peak horn supply.[1]

COLLABORATIVE FOR FRONTIER FINANCE

Note: (1) Funds raised from family and friends omitted from financing journey graph as record keeping on those transactions was sporadic and unreliable.
Source: Horn Products, internal documents and interview, 2019; iungo capital, portfolio data and interview, September 2019; Dalberg analysis.

CASE STUDY

DYNAMIC ENTERPRISE

BY 2017, HORN PRODUCTS SOUGHT TO SCALE AMIDST AN EVOLVING MARKET, BUT IT FOUND THE AVAILABLE CAPITAL FROM BANKS INADEQUATE TO MEET ITS NEEDS

ENTERPRISE NEEDS

Horn Products grew gradually for many years, but foreign entrants in the raw horn market caused costs to skyrocket 20% in two years, and the credit provided by suppliers and advance deposits provided by clients disappeared. To remain relevant, Horn Products needed to purchase and process higher quantities of horn. To do so, Horn Products needed to expand its manufacturing facilities.

FINANCING PREFERENCES

The team sought growth capital to finance new manufacturing facilities and working capital to purchase larger volumes of horn within a cyclical time frame. Although their main priority was capital availability and size, Horn also preferred capital that coincided with peak horn supply, as well as patient repayment terms, due to the long processing lead times, which could be up to 3-4 months, because new horn required a 2-month drying period.

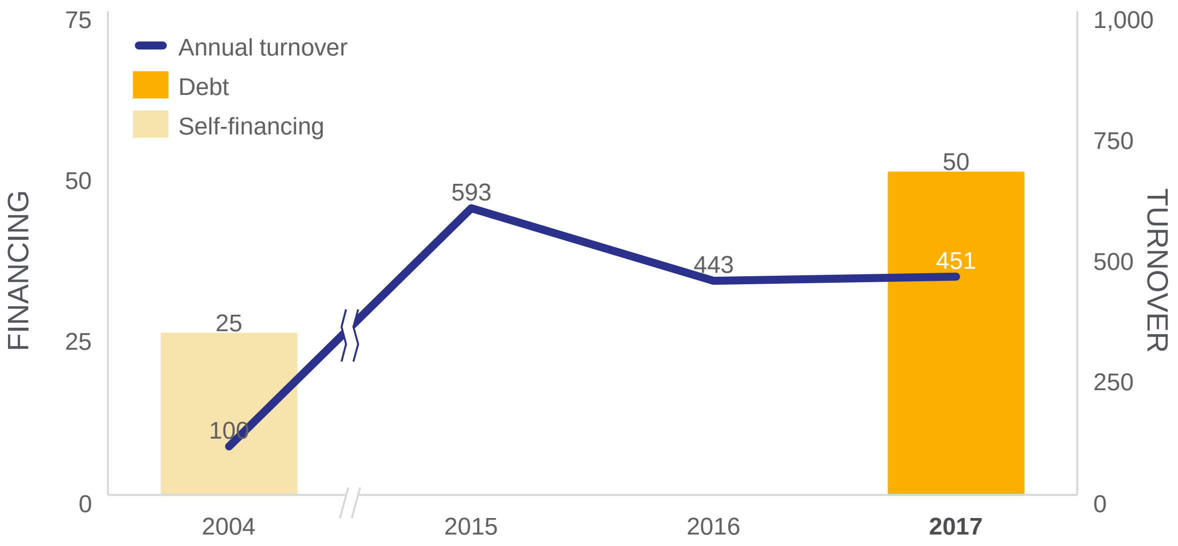
FINANCING OUTCOME

Using family land as collateral, the team secured a US$50,000 loan from a local bank. However, the loan was not attuned to their needs, as it was too small, did not coincide with the cyclical buying season, and required that payments begin immediately. The firm was also offered an overdraft line by the bank for their foreign sales, but they were unable to secure it due to lack of collateral, despite the visibility to the bank of consistent sales. As a last resort to bridge cash flows, the firm occasionally turned to money lenders for US$10-15,000 loans at interest rates of 3-5% per month secured by post-dated checks, which Horn paid off as quickly as possible over 1-2 months.

> “Charles realized that the financing that they could get from the bank was not attuned to their needs, since it was an off-the-shelf structure in a small amount.” – Arnold Byarugaba, Investment Manager, iungo capital

HORN PRODUCTS REVENUES AND FINANCING, 2004 TO 2017

US$, THOUSANDS



FINANCING TERMS

By 2017, Horn Products required more capital to scale, but could only secure a US$50,000 loan from the bank at 24% interest rates (local currency) and US$10-15,000 loans at 3-5% monthly interest rates due to limited collateral.

In October of 2017, Horn Products joined iungo XL, a self-sustaining, non-profit accelerator program providing pre-investment technical assistance, to strengthen their business and gain access to larger amounts of capital at better terms.

Source: Horn Products, internal documents and interview, 2019; iungo capital, portfolio data and interview, September 2019; Dalberg analysis.

AFTER PARTICIPATING IN AN ACCELERATOR PROGRAM, HORN PRODUCTS RECEIVED A TAILORED INVESTMENT FOR ITS WORKING CAPITAL NEEDS

ENTERPRISE NEEDS

In October of 2017, Horn Products joined the iungo XL program as a path to access more (and more appropriate) capital, but it continued to feel pressure to expand and adjust to overcome worsening market dynamics. For example, the supplier market shifted from selling in horn pairs to buying by the kilogram, requiring Horn Products to purchase higher volumes of horn for processing, and trading prices were increasing more slowly than costs. Furthermore, Horn was only operating at about 50% capacity, with limited flexibility in cost reduction.

FINANCING PREFERENCES

When it came to capital, the firm did not have many options to grow. Because they had maxed out the security of their home and didn't have additional collateral options, they couldn't raise more debt from the bank than what they were currently paying off. However, they had joined the iungo XL program in October of 2017, and were improving their strategy and professionalizing.

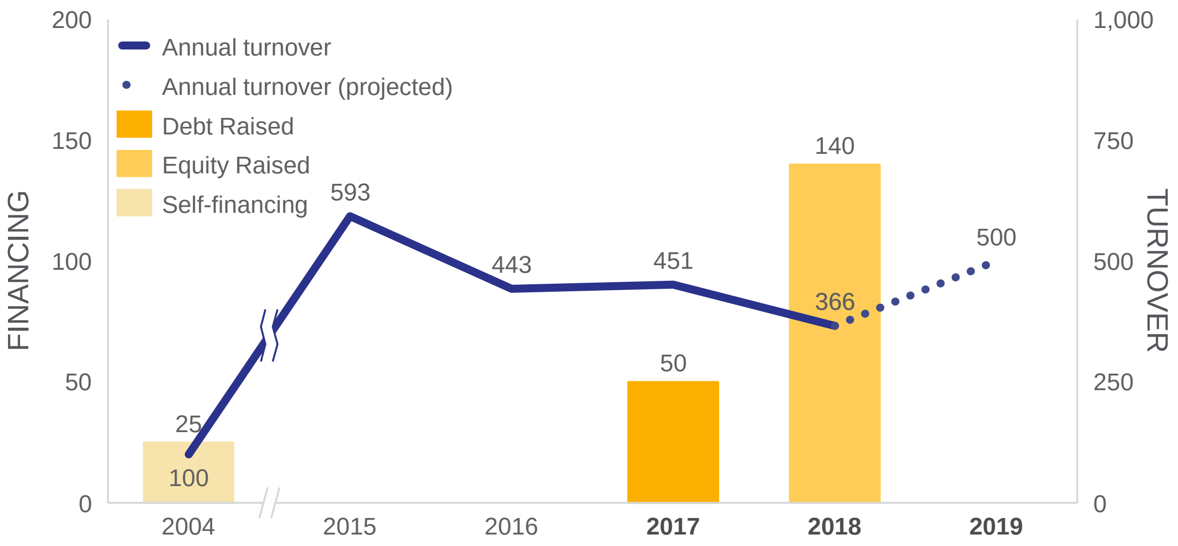
FINANCING OUTCOME

Towards the end of the accelerator, Horn raised US$140,000 – tailored to its needs – from iungo capital and a local angel. The capital was disbursed in two tranches; the first coinciding with the peak in horn supply, and the second dependent on traction from peak supply season. In addition to the capital injection, the team benefitted from finance and reporting systems it put in place that allowed them to be more strategic in their approach and financial decision-making.

> “Horn Products didn't have many options since unfortunately they had maxed out the security of their home and were stuck.” – Arnold Byarugaba, Investment Manager, iungo capital

HORN PRODUCTS REVENUES AND FINANCING, 2004 TO 2019

US$, THOUSANDS



FINANCING TERMS

Horn Products received a US$140,000 investment from iungo capital tailored to its needs and market realities, specifically for working capital. Repayment is set to span over three years, with a four-month grace period (critical due to the raw horn processing lag) and a target return multiple of 1.45x the total investment.

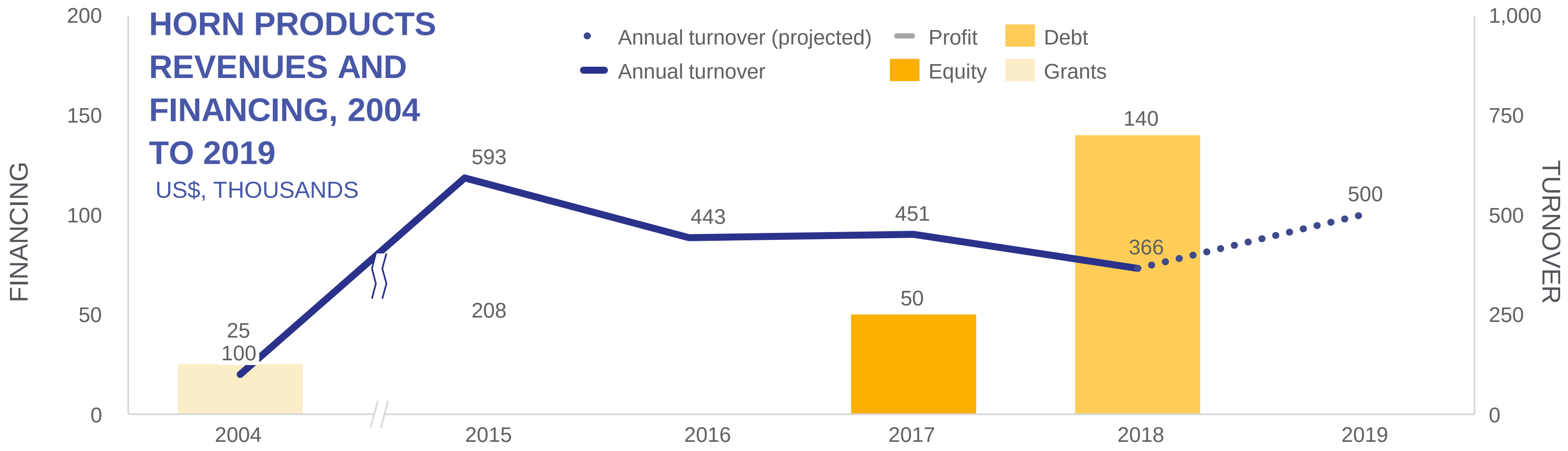
CASE STUDY

DYNAMIC ENTERPRISE

FOUNDER SAVINGS AND FUNDS FROM FRIENDS FUELED GRADUAL GROWTH, BUT WHEN SEEKING TO SCALE, HORN STRUGGLED TO SECURE ADEQUATE CAPITAL

HORN PRODUCTS REVENUES AND FINANCING, 2004 TO 2019

US$, THOUSANDS



FINANCING NEEDS & CONSIDERATIONS

2004	2015–2017	2018–2019
• The founders needed start-up capital to purchase horn, build out processing capacity, hire and train staff, and build networks with suppliers and distributors. • They invested US$25,000 of personal savings for initial inputs and machinery, but relied on deposits from clients and funds from friends and family for working capital.	• In 2016, foreign entrants drove up the price of raw horn with re-sale prices trailing. • To compete, Horn Products needed growth and working capital to expand processing facilities and increase purchasing power, but it could only secure a US$50,000 bank loan and US$10-15,000 monthly loans.	• At the end of 2017, Horn Products joined iungo XL with the hopes of securing investment capital. • At the end of the program, Horn secured a US$140,000 investment from iungo capital, which included payments that were timed with the cyclical horn supply as well as financial accounting support.

ROUND	Seed	Early Stage	Early Growth
PROVIDERS	Self-finance; Impact orgs	Foundations; Angel investors	Impact funds; Traditional lenders
CAPITAL NEED	Capex	Working capital; Capex	Working capital; Growth

FINANCING CHALLENGES

INTERNAL

- Limited collateral relative to size of loan needed
- Long processing lead times to dry the horn in order to process and distribute
- Limited financial controls and operational inefficiencies

EXTERNAL

- Foreign entrants in the raw horn market caused the cost of inputs to increase and customer deposits to decrease
- Banks require credit to be fully collateralized
- Peaks in horn supply create time-sensitive capital needs to capture low prices, but the lending processes are not aligned to that reality
- The primary semi-secured lending available comes at high interest rates from money lenders

Source: Horn Products, internal documents and interview, 2019; iungo capital, portfolio data and interview, September 2019; Dalberg analysis.

CASE STUDY

DYNAMIC ENTERPRISE

HORN PRODUCTS' STRUGGLES TO SECURE FINANCE HIGHLIGHT BOTH CHALLENGES FOR SGBS AND OPPORTUNITIES FOR SGB FINANCE PROVIDERS

COMPANY SUCCESS FACTORS

Market

✓ Demand for local and/or artisanal goods

✓ Broad dispersion of cattle herders and abattoirs makes relationship building and logistics challenging for new entrants

Product & Business Model

✓ Mix of unique, hand-crafted products with wholesale horns

✓ Both local and global distribution channels

Team

✓ Extensive business and horn processing expertise among leadership

✓ Strong relationships with local suppliers means that Horn Products typically has right of first refusal

✓ Deep processing know-how among staff, who (among the core team) have been with the firm 8-10 years on average

FINANCING CHALLENGES

SEED

- Working capital is particularly difficult to raise at reasonable terms, a situation exacerbated by cyclical seasons and long processing lead times
- Although the team gained traction using their own money and funds from friends and family, it was not enough to cover business needs

EARLY STAGE

- Without personal collateral, Horn Products would not have been able to secure a loan large enough to compete with new entrants, an option unavailable to many entrepreneurs
- The loans Horn did receive were not appropriate for its needs, due to the timing of the terms, the interest rates, and timing of disbursements
- Borrowing from money lenders at high interest rates stunted the growth of the business

EARLY GROWTH

- Without further collateral, Horn was stuck and would not be able to raise any more capital

FINANCING OPPORTUNITIES

- **Adapt** approaches, as demonstrated by iungo capital, can be tailored so that investors achieve market rate returns while SGBs receive the specific support they need, which can include technical assistance and partnerships with local finance providers (i.e., Angel investors)
- **Systematize** approaches can provide unmet financial needs by providing products such as unsecured loans, fast working capital loans, and self-liquidating debt products

Source: Horn Products, internal documents and interview, 2019; iungo capital, portfolio data and interview, September 2019; Dalberg analysis.

Dynamic Enterprise: Lysa & Co.

CASE STUDY

LYSA & CO.
KEUR NDIAYE LO, SENEGAL
1982-PRESENT

LYSA & CO. CREATES AND SELLS GOURMET GROUNDNUT PRODUCTS IN SENEGAL AND GLOBALLY

DYNAMIC ENTERPRISE

Lysa & Co. has grown a traditional groundnut processing business through incremental expansion of production and distribution channels

MARKET NEED

There is demand both in Senegal and around the world for gourmet peanut and cashew products.

CURRENT SCALE

Lysa & Co. had sales of nearly US$400,000 in 2018. As of today, the company has raised US$300,000 to date in equity and debt and employs 34 people (primarily women).

MODEL

Lysa & Co. purchases high-quality raw groundnuts from local farmers, turns them into specialty items, and sells them to supermarkets, duty-free shops, hotels, and consumers.

FOUNDERS

The original founder, Lydia Sagbo, started selling groundnuts as a home business in 1982 and grew sales slowly but steadily for decades. Her daughter Sylvie took over the business in 2015 and took a more active role in expanding sales and production through external financing.

Source: Lysa & Co, internal documents and interview, 2019; I&P, IPDEV portfolio data, September 2019; Dalberg analysis.

CASE STUDY

DYNAMIC ENTERPRISE

THE ORIGINAL FOUNDER GREW THE BUSINESS GRADUALLY AND ONLY USED EXTERNAL FUNDING FOR SMALL WORKING CAPITAL AND FIXED ASSET NEEDS

ENTERPRISE NEEDS

The initial business model was purchasing groundnuts (peanuts and cashews) from local farmers, processing and combining them with other inputs (e.g., sugar, salt) to create specialty foods, and then selling them through a range of distribution outlets. Lysa & Co. was a home-based business for the first 30 years, and so its needs centered on working capital and occasional fixed asset purchases, such as a delivery truck or bagger.

FINANCING PREFERENCES

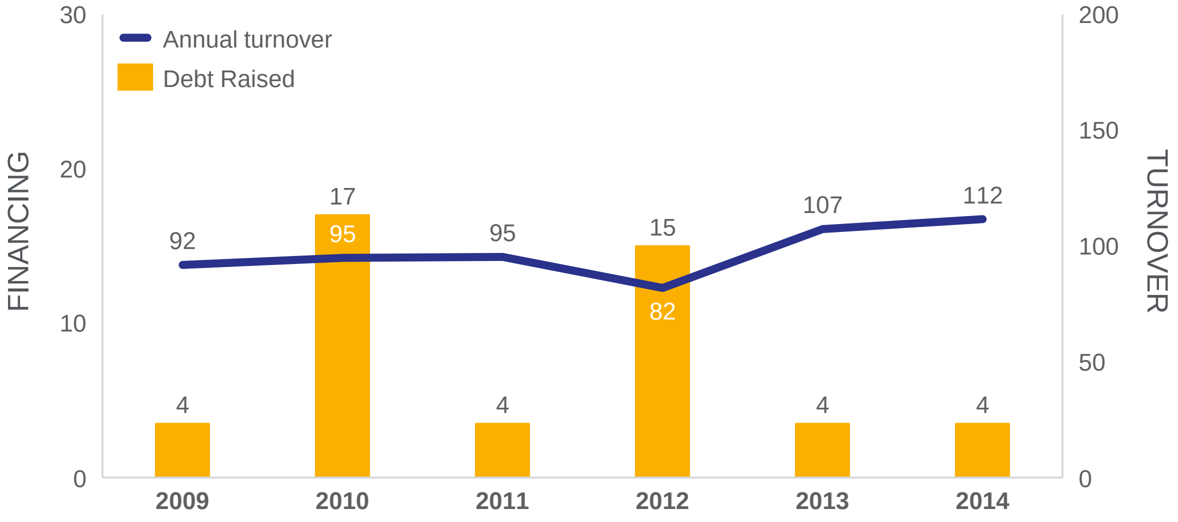
The original founder, Lydia, was risk averse and hence preferred to minimize the need for external financing. However, outside capital became unavoidable when profits alone were insufficient to fund the larger expenditures necessary to grow the business. When larger financing needs arose, such as the purchase of a delivery truck ($15,000) or bagger ($27,000), Lydia did not have strong financing preferences and did not know of any viable options besides a bank where she hoped to secure a low-interest loan. To bridge gaps between working capital purchases and sales, she sought a line of credit linked to her bank account.

FINANCING OUTCOME

Personal savings were used to purchase the initial inputs, and sales were reinvested in the business to enable incremental growth. A US$3,400 bank overdraft line was secured to smooth purchases in harvest seasons, but interest rates were high. Revenues were initially sufficient to cover most other financing needs, but to finance the purchase of a bagger in 2010 and a delivery truck in 2012, Lydia secured loans from the bank – US$17,000 and US$15,000 respectively – for which she had to use her house as collateral.

LYSA & CO. REVENUES AND FINANCING, 2009 TO 2014

US$, THOUSANDS



FINANCING TERMS

For the first 30 years, Lysa & Co.'s main financing needs were small asset finance and working capital, the latter being especially important due to the seasonality of cashew production. In 2010, Lysa & Co. secured a US$17,000 loan at 12% interest rates to finance a bagger purchase.

In 2012 Lysa & Co. secured a five-year loan at a 7.5% interest rate from a local bank to purchase a delivery truck, using her house as collateral. The truck was too expensive to self-finance or cover with the firm's overdraft line.

CASE STUDY

DYNAMIC ENTERPRISE

THE FOUNDER'S DAUGHTER TOOK OVER IN 2015 AND LOOKED FOR MORE EXTERNAL FINANCE TO FUEL GROWTH, BUT SHE FACED CHALLENGES WITH TRADITIONAL LENDERS

ENTERPRISE NEEDS

With the transition of leadership from Lydia to her daughter the growth ambitions and risk tolerance of Lysa & Co. also shifted. Sylvie was eager to grow the firm and brand by purchasing more cashews during the next harvest, moving to larger production facilities, and strengthening distribution channels. Securing capital was the critical constraint to expansion, and the company initially sought up to US$50,000 of working capital to procure a larger supply of cashews (the largest immediate financial need).

FINANCING PREFERENCES

Sylvie prioritized external finance that could be quickly secured, since lengthy application processes would mean that the harvest window would be missed, and Sylvie would need to wait another year to expand. From 2015 to 2017, Sylvie tried multiple avenues for securing capital, with limited success, from traditional banks.

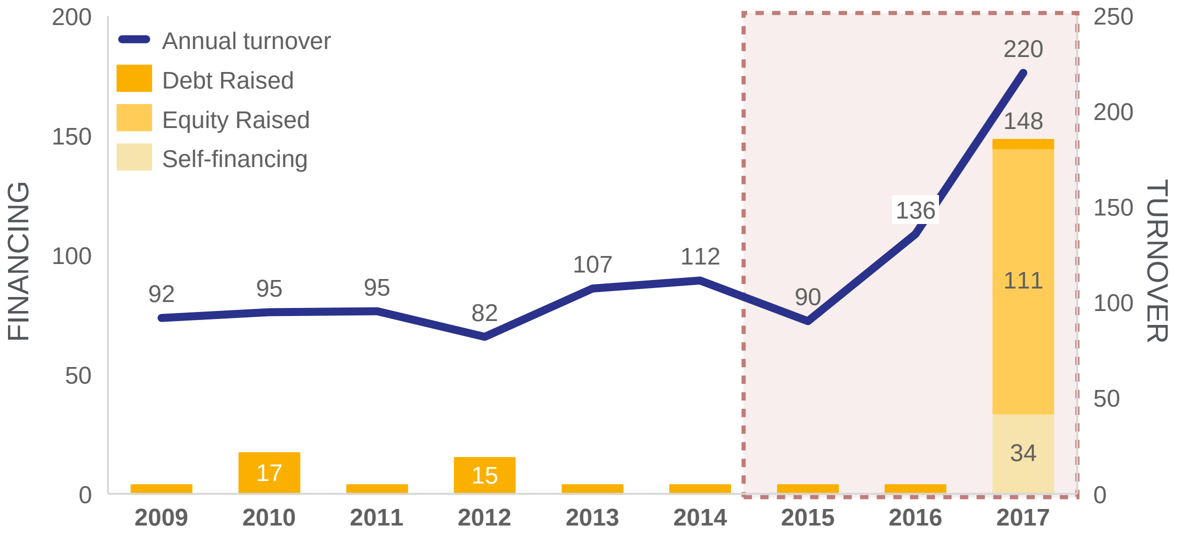
FINANCING OUTCOME

After several challenges, including a bank rejecting her loan application due to a misuse of funds by other SGB firms (and offering an insufficient credit line increase at a very high interest rate), Sylvie opted to raise funds from family for the 2017 cashew harvest, returning those funds as soon as external finance was secured. Later that year, Teranga Capital became interested in Lysa & Co. and negotiated an investment of ~US$214,000.

> "I think banks are not yet ready to lend money to SGBs because they don't understand us." – Sylvie Sagbo

LYSA & CO. REVENUES AND FINANCING, 2009 TO 2017

US$, THOUSANDS



FINANCING TERMS

In 2016 Lysa & Co. was offered an overdraft line of US$27,000, but Sylvie turned it down due to the high interest rates. She opted to raise capital from family instead as a short term solution, with the loans to be repaid as soon as capital was secured.

Teranga Capital provided US$215,000 in investment, US$100,000 in loans to be repaid over five years, and US$115,000 in equity for a 39% ownership. The first tranche of financing was provided in 2017 and the second in 2019.

Source: Lysa & Co, internal documents and interview, 2019; I&P, IPDEV portfolio data, September 2019; Dalberg analysis.

CASE STUDY

DYNAMIC ENTERPRISE

SINCE RECEIVING INVESTMENT FROM TERANGA CAPITAL, LYSA & CO. HAS BEEN ABLE TO SECURE ADDITIONAL CAPITAL FROM LOCAL BANKS MORE EASILY

ENTERPRISE NEEDS

Now fully-transitioned into expansion mode, the firm needs more inputs to scale up production, move operations to a new factory space, strengthen its brand, expand sales in Europe, and build a direct-to-consumer sales channel.

FINANCING PREFERENCES

Although investment from Teranga Capital jump-started their growth, Lysa & Co. sought to supplement the equity investment with additional credit from the bank, first US$92,000 and then US$168,000. Sylvie still prioritized the ease of securing capital alongside a reasonable interest rate and looked for debt funding since she hopes to avoid further equity dilution.

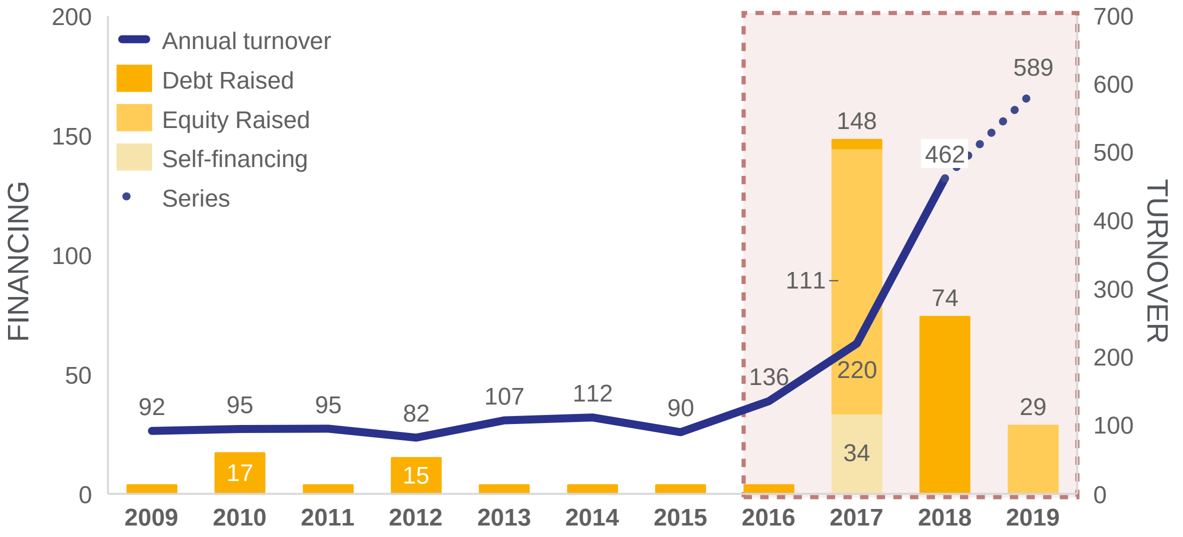
FINANCING OUTCOME

Previously, accepting capital from Teranga was the easier option, but now that Lysa & Co. has established backing and credibility due to their investment, Sylvie can access credit from banks at reasonable interest rates with relative ease, without diluting equity further. She was approved in 2018 for a US$92,000 loan at a 10% interest rate (paid off in October 2019) and is awaiting approval for a larger loan of US$168,000.

“The fact that we received investment from Teranga opened up new financing options. I access credit more easily now because financial institutions know I am not alone and have more confidence.” – Sylvie Sagbo

LYSA & CO. REVENUES AND FINANCING, 2009 TO 2019

US$, THOUSANDS



FINANCING TERMS

Lysa & Co. was approved for a U$92,000 loan at a 10% interest rate (market rates), which was paid off between 2018 and October of 2019.

Lysa & Co. applied for a US$168,000 loan from SGBS, and is awaiting approval.

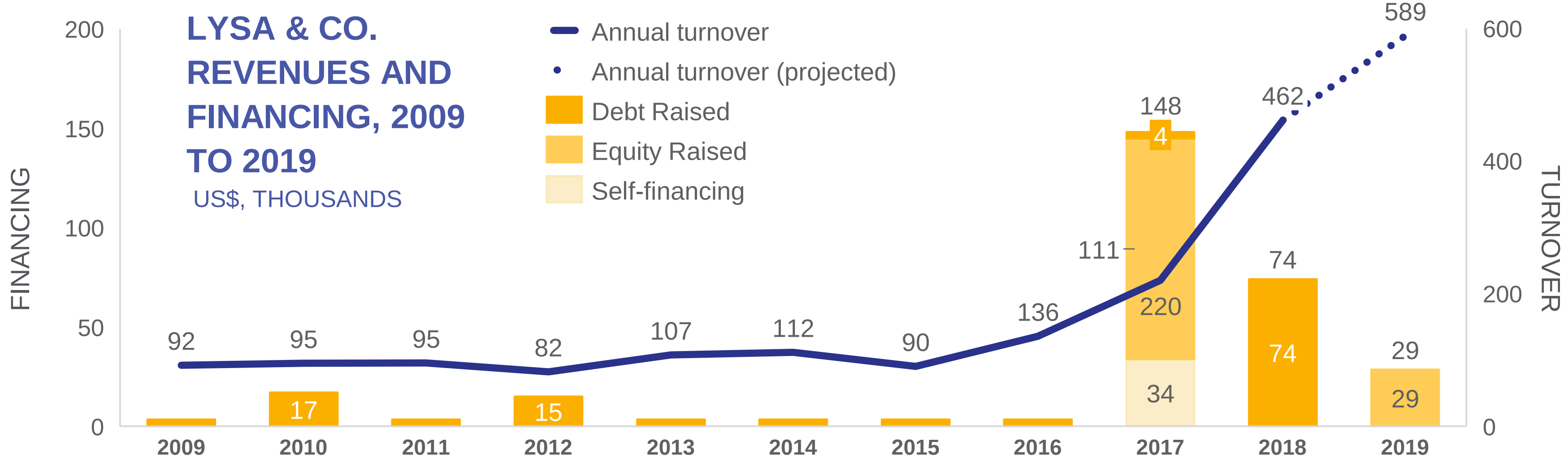
COLLABORATIVE FOR FRONTIER FINANCE

Source: Lysa & Co, internal documents and interview, 2019; I&P, IPDEV portfolio data, September 2019; Dalberg analysis.

CASE STUDY

DYNAMIC ENTERPRISE

LYSA & CO. HAS SCALED TO NEARLY US$400,000 IN ANNUAL REVENUES BUT NOTES THAT INADEQUATE EXTERNAL FINANCE HAS SLOWED GROWTH



FINANCING NEEDS & CONSIDERATIONS

- Founder Lydia initially sought to grow slowly with limited risk, only requiring small loans to purchase a bagger and a delivery car
- Otherwise, founders self-financed product inputs and reinvested profits

- Sylvie, Lydia's daughter, took over in 2015 with larger growth ambitions but needed capital to expand
- Sylvie was presented with either rejection or unattractive offerings from banks, so raised funds from family in early 2017
- Later in 2017, Teranga Capital made a large investment of both equity and debt

- The first investment tranche from Teranga came in 2017 and the second in 2019
- Since Teranga's investment, Lysa & Co has been able to obtain loans at reasonable rates from banks because of its financial partners and track record

ROUND	Seed	Early Stage	Early Growth
PROVIDERS	Self-finance; Bank	Self, Adapt approaches	PE Fund
CAPITAL NEED	Working capital; Fixed assets	Working capital; Fixed assets	Working; Growth

FINANCING CHALLENGES

INTERNAL

- Limited collateral
- Low historic sales relative to growth ambitions
- Relatively risk-averse founder prior to 2015

EXTERNAL

- High local interest due to perceived risks and local cost of capital
- Banks require credit to be fully collateralized
- Cyclical nature and high price of cashews creates time-sensitive capital needs, but lending and capital raising process can be time intensive and drawn out

COLLABORATIVE FOR FRONTIER FINANCE

Source: Lysa & Co, internal documents and interview, 2019; I&P, IPDEV portfolio data, September 2019; Dalberg analysis.

CASE STUDY

DYNAMIC ENTERPRISE

LYSA & CO.'S STRUGGLES TO SECURE FINANCE HIGHLIGHT BOTH CHALLENGES FOR SGBS AND OPPORTUNITIES FOR SGB FINANCE PROVIDERS

COMPANY SUCCESS FACTORS

Market

- ✓ Demand for specialty local food products
- ✓ Enabling infrastructure

Product & Business Model

- ✓ High-quality, value-add product
- ✓ Multiple sales distribution channels
- ✓ Recognizable and trusted brand

Team

- ✓ Deep knowledge of the product, customers, suppliers, distributors, and market
- ✓ Sufficient savings to self-finance the initial phase as well as critical moments in the growth of the company
- ✓ Growth-focused leader starting in 2015

FINANCING CHALLENGES

PRE-2015

- Taking on debt required significant collateral as well as a solid business history
- Equity investors looked at the profile of the original founder but did not invest due to concerns about age and the level of risk tolerance

2015-2017

- Banks offered debt at high interest rates, even for small credit lines
- Banks were reluctant to invest in SGBs with solid business fundamentals because of bad experiences with previous SGB companies
- The process for securing capital was tedious, lengthy, and unpredictable, which poses unique issues for agro-processing firms, which must capitalize on cyclical harvest periods

2017-PRESENT

- Banks look at who else has invested in the business to determine creditworthiness

FINANCING OPPORTUNITIES

- **Adapt** approaches can provide mezzanine products, such as convertible notes or royalty-based financing, to finance business growth in lieu of bank debt or a straight equity investment
- **Systematize** providers can serve riskier or slower growth SGBs by delivering partially-tailored services at a low cost of due diligence and decision making
- Banks can more incorporate more **Digitize** models such as alternative credit scoring approaches to evaluate loan applications rather then rely heavily on a human-centric investment committee
- Specialized **vehicle leasing companies** can provide loans for delivery trucks more quickly and at a lower rate than standard banks

Source: Lysa & Co, internal documents and interview, 2019; I&P, IPDEV portfolio data, September 2019; Dalberg analysis.

Niche Venture: Tamul Plates

CASE STUDY

TAMUL PLATES
BARPETA, ASSAM, INDIA
2009-PRESENT

TAMUL PLATES TURNS AGRICULTURAL BY-PRODUCTS INTO ECO-FRIENDLY TABLEWARE WHILE GENERATING LOCAL EMPLOYMENT

NICHE VENTURE

Tamul Plates has transformed from a nonprofit enterprise to a social venture that provides high-quality biodegradable alternatives to plasticware

MARKET NEED

Given the detrimental effects of single-use plastics, governments are tightening regulations and consumers are turning to more sustainable alternatives.

CURRENT SCALE

Tamul Plates has reached over US$250,000 in annual revenues (more than a 140% increase since 2017/18 fiscal year), produces 3.6 million plates a year, and provides livelihoods to over 3,000 individuals.

MODEL

Tamul Plates manufactures compostable, eco-friendly tableware from the sheaths of the areca nut tree, a by-product often wasted, through village-level manufacturing clusters and larger processing facilities.

FOUNDERS

Founder Arindam Dasgupta is a socially minded entrepreneur committed to creating jobs in India's North Eastern Region through manufacturing high-quality goods using the rich local resources.

Source: Upaya Social Ventures, Tamul Plates Pitch Deck, 2019; Tamul Plates, audited financials, 2011-2019; Tamul Plates, interview, October 2019; Upaya Social Ventures, portfolio data, September 2019; Dalberg analysis.

CASE STUDY

NICHE VENTURE

AS A SOCIAL ENTERPRISE IN 2005, TAMUL PLATES WAS UNSURE HOW TO ORGANIZE AND RAISE CAPITAL FOR MAXIMUM IMPACT AND SUSTAINABILITY

ENTERPRISE NEEDS

The business started as an idea: an environmentally-friendly product made from the by-products of the areca nut tree, an abundant resource in India's North Eastern Region, which would create much-needed jobs. The team initially required capital to prototype and refine its flagship product and pilot the enterprise model.

FINANCING PREFERENCES

Since both profit and social impact were important goals for the team, they were unsure whether to organize as a for-profit or not-for-profit. The team opted to organize as a non-profit and seek grants to finance initial activities, in part since they were not yet aware of social enterprise structures, and they also believed that loans from banks would be hard to come by, given their non-business backgrounds.

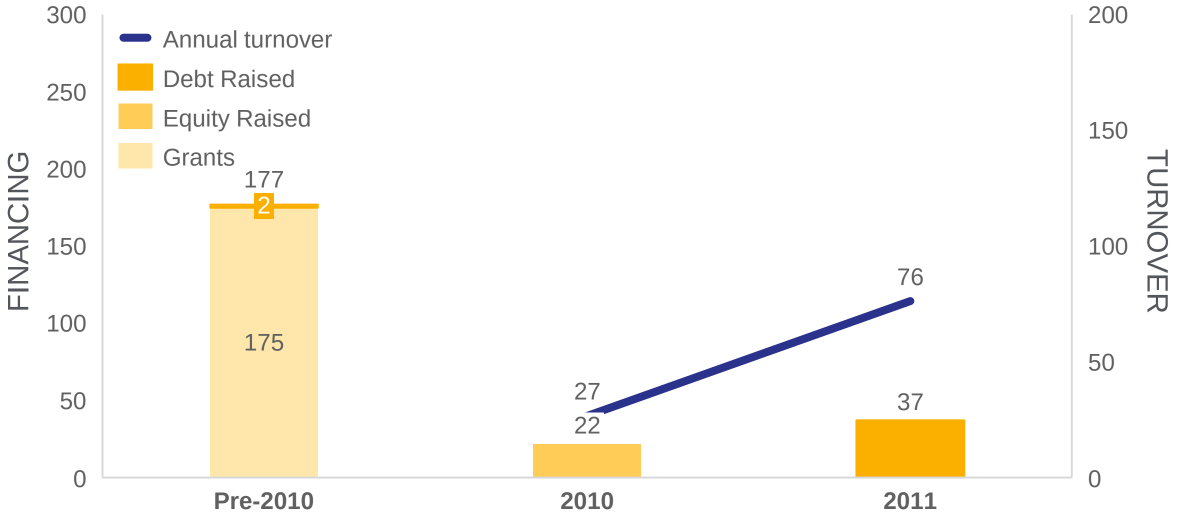
FINANCING OUTCOME

Despite their choice to incorporate as a nonprofit, the team felt stuck: to raise grant financing they needed to demonstrate the impact of their product and approach, but to do so they needed capital. The team began operating using personal savings, and then raised what they could from the limited capital reserves of their families, just over US$2,000. Despite urges from their families to repay the loan without interest, the team opted to pay a 10-11% interest rate back over the next few years. Using that initial capital, they were able to secure various grants over the next five years.

> "We identified that we couldn't access loans and capital, and so we had to start as a nonprofit."
> – Arindam Dasgupta, founder and CEO, Tamul Plates

TAMUL PLATES REVENUES AND FINANCING, 2010 TO 2011

US$, THOUSANDS



FINANCING TERMS

At the outset, the team relied on personal savings and loans raised from their families (US$2,000 at a 10-11% interest rate)

With a viable prototype and model, Tamul Plates was able to raise capital to expand their operations to other villages

COLLABORATIVE FOR FRONTIER FINANCE

Note: INR exchanged for US using historic yearly averages.
Source: Tamul Plates, internal documents and interview, 2019; Upaya Social Ventures, portfolio data, September 2019; OFX, Yearly Average Forex Rates, accessed 2019; Dalberg analysis.

CASE STUDY

NICHE VENTURE

AFTER SEVERAL YEARS AS A NONPROFIT, TAMUL PLATES REORGANIZED INTO A COMMERCIAL VENTURE TO TRY AND SCALE MORE QUICKLY

ENTERPRISE NEEDS

In 2009, the team was at an important juncture: they had a strong product and sustainable model, but they realized that if they wanted to scale faster they would need to commercialize. The founders believed that shifting to a for-profit model would enable them to raise more capital, which they could use for a variety of purposes, such as working capital to finance collection of areca nut leaves or asset finance to purchase manufacturing units for plate processing.

FINANCING PREFERENCES

By 2010, the team had shifted all operations from the nonprofit to Tamul Plates. At this point, the team sought out any funding they could get from traditional financers such as banks, NBFIs, and grant-making institutions, without strong preferences on the type or the terms.

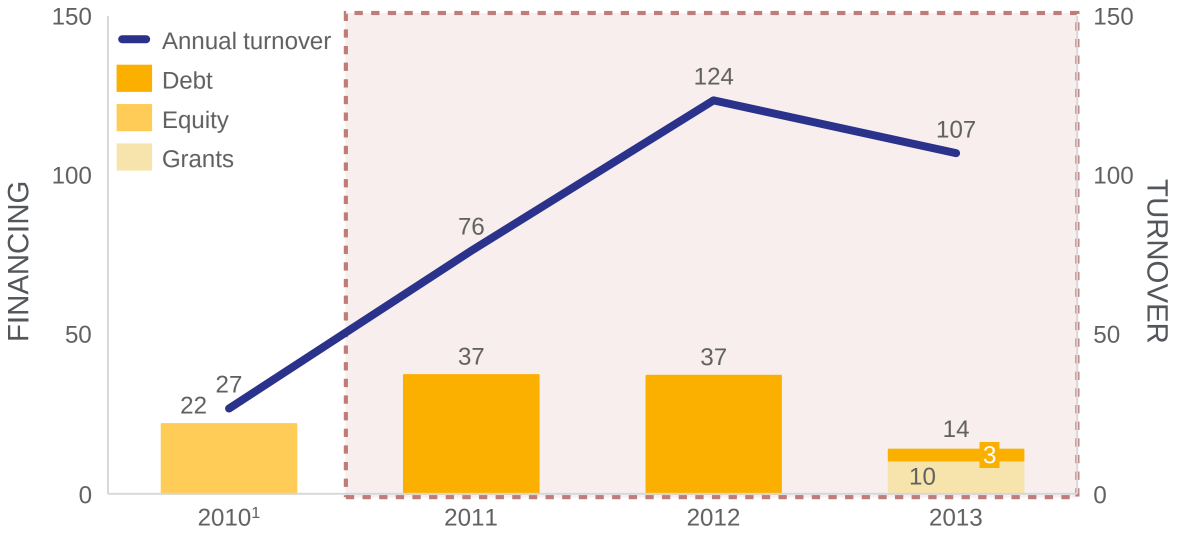
FINANCING OUTCOME

After the transition, the founders put in more of their own money, but they struggled to secure external funding from mainstream finance providers. They once again turned to friends, this time a broader network from college and post-graduate education. Through these channels, Tamul Plates raised nearly US$100,000 in loans at a 12% interest rate.

> “In India at the seed stage the only option for funding is friends and family if you have a non-business background."
> – Arindam Dasgupta, founder and CEO, Tamul Plates

TAMUL PLATES REVENUES AND FINANCING, 2010 TO 2013

US$, THOUSANDS



FINANCING TERMS

Tamul Plates realized that to scale at the pace desired, they would need more than grant capital, and they chose to commercialize so they could raise both equity and debt financing at higher amounts to increase production

Ultimately, Tamul Plates raised nearly US$100,000 in loans over two years at a 12% interest rate from friends and family

Note: (1) Pre-2010 excluded as it is not part of the commercial history of Tamul Plates. INR exchanged for US using historic yearly averages.
Source: Tamul Plates, internal documents and interview, 2019; Upaya Social Ventures, portfolio data, September 2019; OFX, Yearly Average Forex Rates, accessed 2019; Dalberg analysis.

TAMUL PLATES STRUGGLED TO QUALIFY FOR DEBT FROM TRADITIONAL INSTITUTIONS, BUT IT HAD BETTER SUCCESS RAISING CAPITAL THROUGH GRANTS AND IMPACT INVESTMENTS

ENTERPRISE NEEDS

Tamul Plates had started to scale, and it continued to require greater quantities of raw inputs, staff, and machinery to continue its expansion. In particular, it needed capital to finance areca nut leaf collection during the 2014 season and subsequent processing.

FINANCING PREFERENCE

After limited success with traditional lenders, Tamul Plates turned to impact funds and competitions to secure financing, which offered either grants or equity financing.

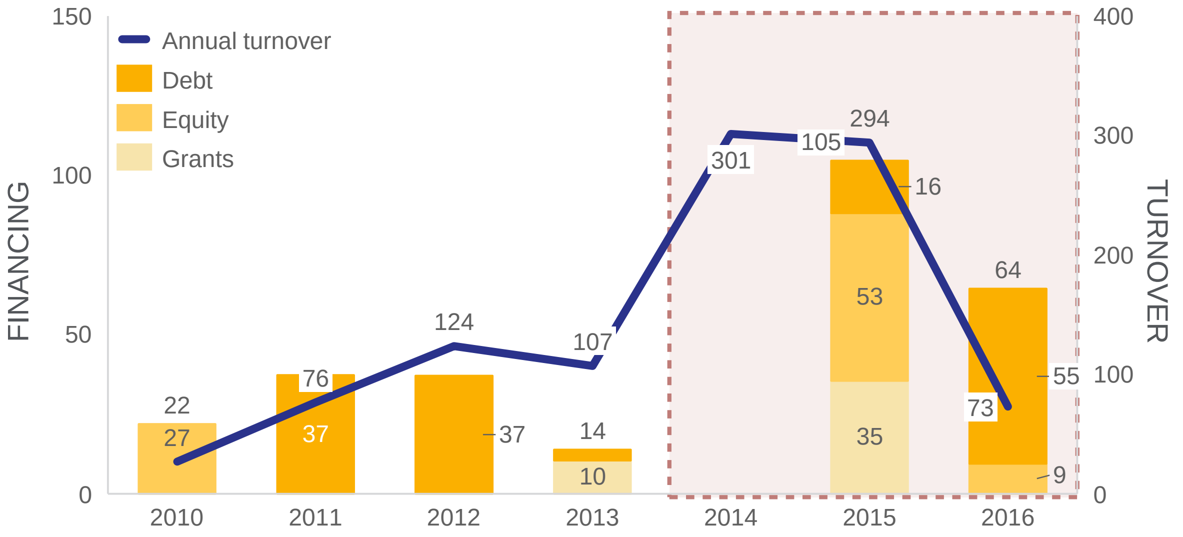
FINANCING OUTCOME

In 2013, Tamul Plates encountered Upaya Social Ventures and won the Artha Venture Challenge, sponsored by Rianta Capital. Through the venture challenges, Tamul Plates won the US$5,000 SEED award, which Upaya Social Ventures and Rianta followed with an equity round of nearly US$70,000. The team expected to receive the injection of capital in 2014, but it took a full year to legally access the funds. Because of this, the team took on loads of raw materials during the 2014 season and found themselves unable to pay for processing it. By 2016, the team had received the full equity investment and received a second injection of the SEED award, providing US$40,000 in grants.

> "We expected the funds to come in 2014, and so we bought lots and lots of raw materials during the harvest season; but the payment was unexpectedly delayed, and so we didn't have money for processing them." – Arindam Dasgupta, founder and CEO, Tamul Plates

TAMUL PLATES REVENUES AND FINANCING, 2010 TO 2016

US$, THOUSANDS



FINANCING TERMS

To accelerate scale, Tamul Plates secured equity from Upaya Social Ventures and Rianta capital of nearly US$70,000. However, this funding arrived too late for them to use it to process the 2014 inputs

By 2015, Tamul Plates raised a further US$35,000 in grants, but it faced Indian demonetization, which negatively affected revenues, although it ultimately survived

Note: INR exchanged for US using historic yearly averages.
Source: Tamul Plates, internal documents and interview, 2019; Upaya Social Ventures, portfolio data, September 2019; OFX, Yearly Average Forex Rates, accessed 2019; Dalberg analysis.

CHALLENGES FACED DURING INDIA'S DEMONETIZATION PERIOD HAVE MADE SUBSEQUENT EQUITY ROUNDS AND AFFORDABLE DEBT FINANCING DIFFICULT TO SECURE

ENTERPRISE NEEDS

From 2016 onward, the team focused on securing working capital and asset financing to grow the enterprise further. In particular, they need capital to purchase raw materials and cluster units in the villages for self-sustainability, hire more people for top management, and set up a new plant with machinery to manufacture a higher number of plates.

FINANCING PREFERENCE

The team sought debt from traditional lenders to cover working capital requirements, and it now seeks to raise an equity round of about US$1.5 million. For their financing, Tamul Plates is not only prioritizing capital that they can afford, it also seeks an amount of capital that will provide them with enough runway to grow while thinking more than one year at a time.

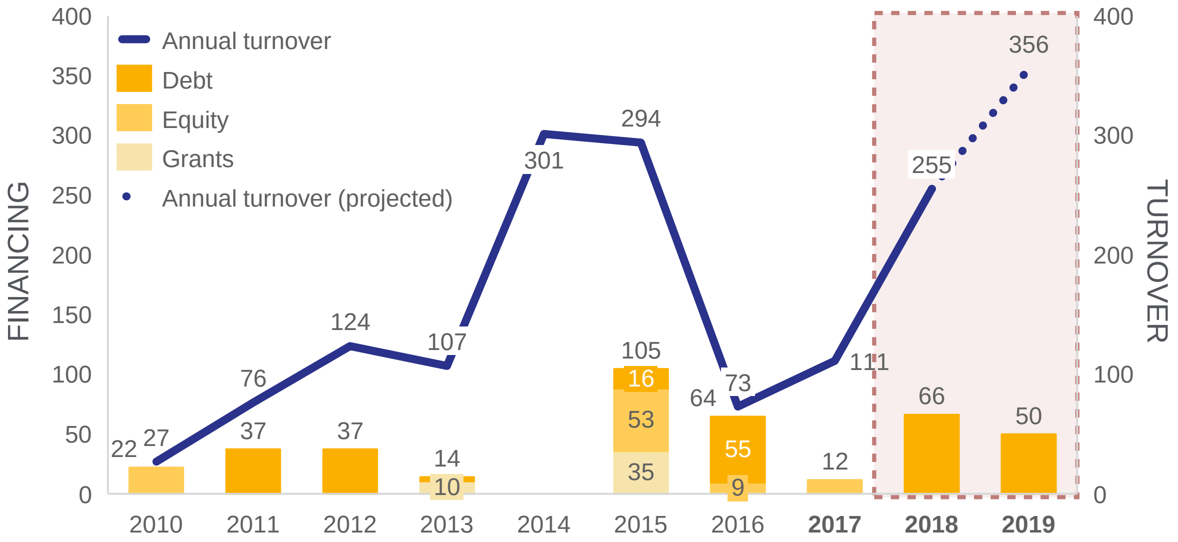
FINANCING OUTCOME

Tamul Plates still could not access loans from the bank, given its limited collateral and earlier losses, and it instead turned to non-banking financial institutions to access finance at high interest rates: between 17.5% and 24%. As of yet, they've had little success raising equity at the magnitude needed to grow, receiving offers of US$300-400,000, which is insufficient given their needs and the opportunity.

> "We need more cushion this time so that we have money for the next two years." – Arindam Dasgupta, founder and CEO, Tamul Plates

TAMUL PLATES REVENUES AND FINANCING, 2010 TO 2018

US$, THOUSANDS



FINANCING TERMS

After demonetization reduced revenues, the team used capital raised in previous rounds and loans from NBFIs to build sales back up

Now, they face challenges raising the level of equity finance that would enable them to plan more than one year in advance

Note: INR exchanged for US using historic yearly averages.
Source: Tamul Plates, internal documents and interview, 2019; Upaya Social Ventures, portfolio data, September 2019; OFX, Yearly Average Forex Rates, accessed 2019; Dalberg analysis.

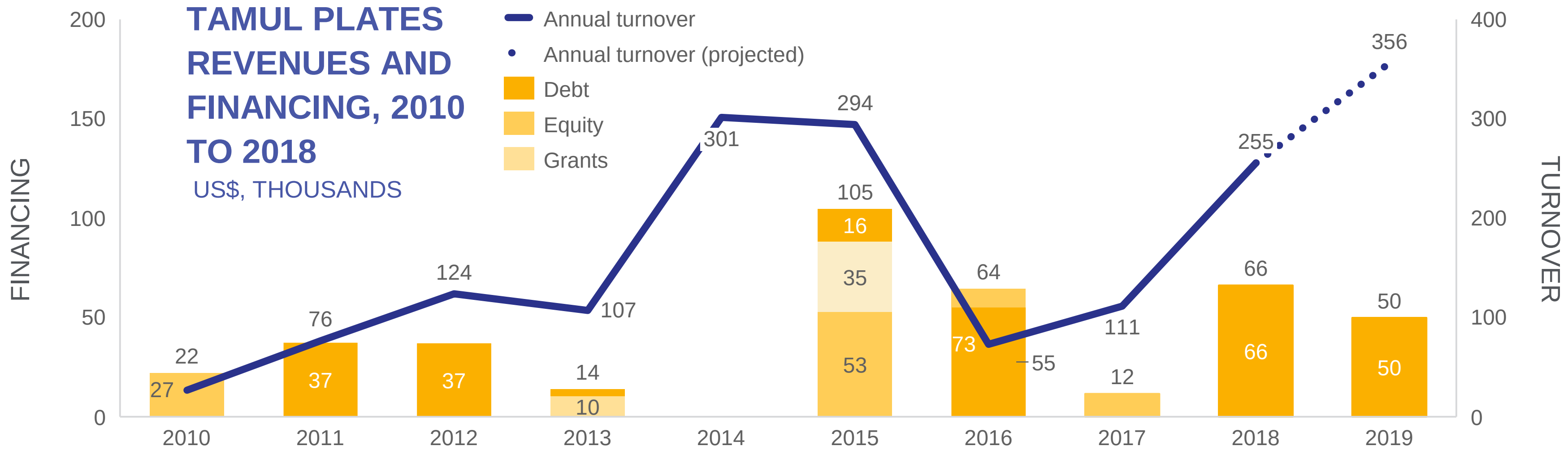
CASE STUDY

NICHE VENTURE

UNDERSERVED BY TRADITIONAL FINANCE PROVIDERS, TAMUL PLATES HAS SCALED THROUGH IMPACT INVESTMENTS, GRANTS, AND NBFIS

TAMUL PLATES REVENUES AND FINANCING, 2010 TO 2018

US$, THOUSANDS



	2010–2011	2012–2013	2014–2015	2016–2019
FINANCING NEEDS & CONSIDERATIONS	• Starting as a nonprofit, the team used personal savings, grants, and funds from family and friends to finance early activities	• Although Tamul Plates shifted to a for-profit venture to better scale, it was still underserved by traditional finance providers, and again looked to family, friends, and philanthropy for funding	• Tamul Plates sought to expand but didn't qualify for more debt financing, given limited collateral and earlier losses • Turning to equity options, they successfully raised funds from impact investors, but delays in disbursement caused growing pains	• In 2016, the firm faced challenges from India's demonetization, which inhibited it from effectively using the equity investments • At this time they also were able to receive debt from NBFIs, albeit at high interest rates
ROUND	Seed	Seed	Early Stage	Early Growth
PROVIDERS	Self; Family; Grants	Self; Family; Grants	Self; Impact fund	NBFIs; Traditional equity
CAPITAL NEED	Pilot	Working capital; Growth	Working; Asset	Working; Asset; Growth

Note: INR exchanged for US using historic yearly averages.
Source: Tamul Plates, internal documents and interview, 2019; Upaya Social Ventures, portfolio data, September 2019; OFX, Yearly Average Forex Rates, accessed 2019; Dalberg analysis.

COLLABORATIVE FOR FRONTIER FINANCE

FINANCING CHALLENGES

INTERNAL

- Limited collateral
- Limited credibility in eyes of traditional financial institutions due to first time venture and non-business background
- Demonetization in 2016 created revenue challenges

EXTERNAL

- Banks mitigate risk through collateral and credibility
- High interest rates from NBFIs, regardless of consistent, on-time payment
- Limited interest from equity investors reduces pool of options and creates fit for purpose mismatch
- Limited options for older start-ups who have aged out of accelerators

DESPITE SUCCESSES, BOTH PROFITS AND IMPACT HAVE BEEN INHIBITED BY INADEQUATE CAPITAL

COMPANY SUCCESS FACTORS

Market

- ✓ Growing market demand for sustainable tableware
- ✓ Abundance of areca nut leaves
- ✓ Regional need for job creation

Product & Business Model

- ✓ Combination of village-level cluster production units and centralized manufacturing facilities
- ✓ High proximity and limited competition in North Eastern Region's areca nut producing area
- ✓ Shift from nonprofit to for-profit model

Team

- ✓ Flexibility in recharting course from different types of organizational structures
- ✓ Strong personal networks from which to raise debt financing
- ✓ Good social motivation

FINANCING CHALLENGES

NONPROFIT

- Seed financing is based on track records and credentials, which first-time entrepreneurs from non-business backgrounds don't have
- Grants require proof of concept and model

SEED

- Grant applications are long, time-intensive, and not the right fit for achieving rapid growth
- Traditional lenders have high requirements for receiving debt, particularly around collateral

EARLY STAGE

- Lack of success with traditional funders means Tamul Plates turned back to grants and equity
- Although they had success raising capital from Upaya and Rianta, the timing was too late to be used to process that season's harvest

EARLY GROWTH

- Even with some collateral, Tamul Plates couldn't access debt financing from banks due to losses on its balance sheet
- Equity investors have proposed investments of less than 1/3 the amount required to scale

FINANCING OPPORTUNITIES

- **Catalyze** approaches use capital from more patient, lower-return seeking LPs to invest in seed-stage, impact-first ventures that may take several years to become established
- **Adapt** approaches can serve the needs of higher risk SGBs with products such as revenue-based loans, which commit a percentage of revenues to repay a loan rather than a fixed amount that can cripple the business in the face of unforeseen circumstance (e.g., demonetization)

Note: INR exchanged for US using historic yearly averages.
Source: Tamul Plates, internal documents and interview, 2019; Upaya Social Ventures, portfolio data, September 2019; Dalberg analysis.

High-growth Venture: Biosense

CASE STUDY

BIOSENSE
THANE, MAHARASHTRA, INDIA
2008-PRESENT

BIOSENSE DEVELOPS AND SELLS LOW COST DIAGNOSTIC HEALTHCARE TOOLS IN INDIA

HIGH-GROWTH VENTURE

Biosense has built and expanded distribution of a suite of innovative point of care diagnostic tools that empower community-based screening

MARKET NEED

Common, easily treatable illnesses (such as anemia and diabetes) go undiagnosed due to high barriers to screening.

CURRENT SCALE

By 2018 Biosense had sales of US$2.4 million, raised over US$4 million, and employed nearly 100 individuals; to date, they have conducted over five million tests using their instruments.

MODEL

Biosense develops innovative instruments to quickly and cost-effectively identify common illnesses at the patient's point of care or community and distributes them to both public and private sector healthcare providers.

FOUNDERS

Biosense was founded in a medical school dorm by a passionate team of innovators (including two who would ultimately become doctors) who recognized an enormous problem they believed technology could solve.

Source: Biosense, internal documents and interview, 2019; Villgro, "How an incubator-investor platform transformed a dorm startup into a successful company: the journey of Biosense," 2018; Menterra website; Dalberg analysis.

TO FINANCE EARLY INVENTIONS, BIOSENSE LOOKED TO TIME-CONSUMING GRANT APPLICATIONS THAT, WHILE EFFECTIVE FOR R&D, WERE NOT FIT FOR GROWTH

ENTERPRISE NEEDS

Setting out to address an enormous need and market opportunity, the team began designing and prototyping products. Biosense needed funding for research and development, materials to build the instruments, testing batches, and salaries for scientists.

FINANCING PREFERENCES

Coming from nonbusiness backgrounds, the team initially sought out grant funding and fellowships to finance their experimental work and initial innovations through patient, non-returns-focused capital.

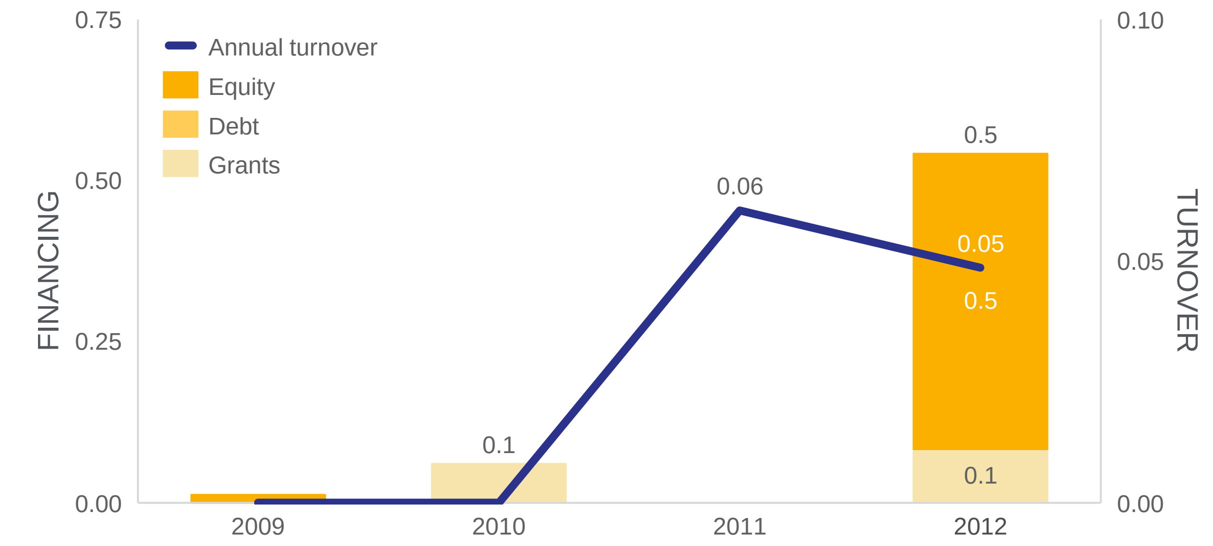
FINANCE OUTCOME

The work was partially bootstrapped, but a small equity and debt investment from the Center of Innovations, Incubation and Entrepreneurship (CIIE), a US$50,000 grant from the Lemelson Foundation, and an Echoing Green fellowship provided critical, early support for the team's efforts and enabled them to create and refine their flagship products.

> "In the first few years we were largely bootstrapped and grant-funded; grants especially allowed us to prototype products and manufacture small batches."
> – Dr. Abhishek Sen

BIOSENSE REVENUES AND FINANCING, 2009 TO 2012

US$, MILLIONS



FINANCING TERMS

Early on, Biosense relied on grants to finance its activities, including a small US$12,000 grant from the Center of Innovations, Incubation and Entrepreneurship (CIIE).

Later, Biosense secured a US$50,000 grant from the Lemelson Foundation, as well as an Echoing Green fellowship, which enabled further product development and market testing.

Source: Biosense, internal documents and interview, 2019; Villgro, "How an incubator-investor platform transformed a dorm startup into a successful company: the journey of Biosense," 2018; Menterra website; Dalberg analysis.

CASE STUDY

HIGH-GROWTH VENTURE

BIOSENSE BEGAN RAISING EQUITY IN 2012 FROM ANGEL INVESTORS AND IMPACT FUNDS, WHICH SUPPORTED ITS TRANSITION TO A SUSTAINABLE BUSINESS MODEL

ENTERPRISE NEEDS

With several viable products for addressing health challenges such as diabetes, anemia, and malnutrition, Biosense shifted from a focus on innovation to a focus on bringing the products to market and building a commercial strategy and business model. Biosense needed capital to build manufacturing capacity and distribution networks, as well as to diversify by cultivating a broader suite of tools focused on the point of care space.

FINANCING PREFERENCES

At this point, Biosense sought to supplement grants for research and development with equity to use towards growth needs, in the range of US$4-5 million dollars.

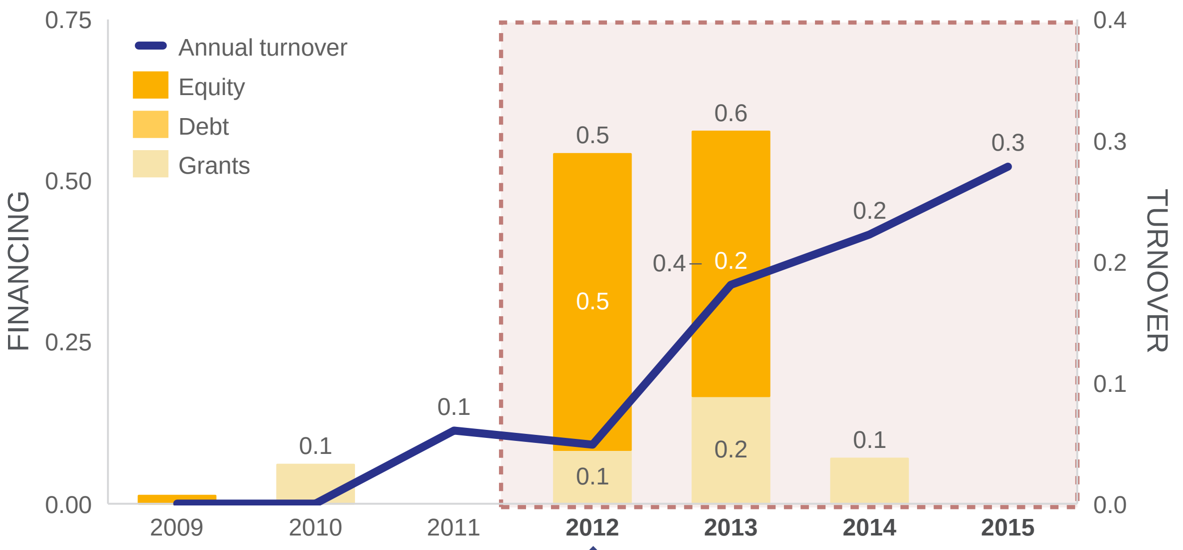
FINANCING OUTCOME

From 2012 to 2014, Biosense had success securing grants to support research and product innovation. In 2012, they secured their first equity investment of over US$450,000 from a group of angel investors, and in 2013, they received a US$410,000 quasi-equity follow-on investment from the Insitor Impact Fund, which was converted to an equity stake in 2016.

> "We definitely tried getting the large capital – it was fairly clear to us with the background the investors had we were not as experienced as the other guys out there."
> – Dr. Abhishek Sen

BIOSENSE REVENUES AND FINANCING, 2009 TO 2015

US$, MILLIONS



FINANCING TERMS

In 2012, Biosense secured an equity investment of over US$450,000 from a group of angel investors.

In 2013, the firm received a follow-on investment of US$410,000 from the Insitor Impact Fund, in the form of convertible debt, as Insitor did not want to conduct a valuation of Biosense at that time.

Source: Biosense, internal documents and interview, 2019; Villgro, "How an incubator-investor platform transformed a dorm startup into a successful company: the journey of Biosense," 2018; Menterra website; Dalberg analysis.

CASE STUDY

HIGH-GROWTH VENTURE

HAVING ESTABLISHED A SUITE OF RAPID, COST-EFFECTIVE DIAGNOSTIC TOOLS AND A PROMISING BUSINESS MODEL, BIOSENSE REQUIRED WORKING CAPITAL TO SCALE

ENTERPRISE NEEDS

By 2016, Biosense had developed a promising suite of point of care diagnostic solutions and designed a viable business model and path to scale. Now it needed financing to execute on its vision by building manufacturing capacity and expanding relationships with distributors, such as pharmaceutical companies, NGOs, and public healthcare providers.

FINANCING PREFERENCES

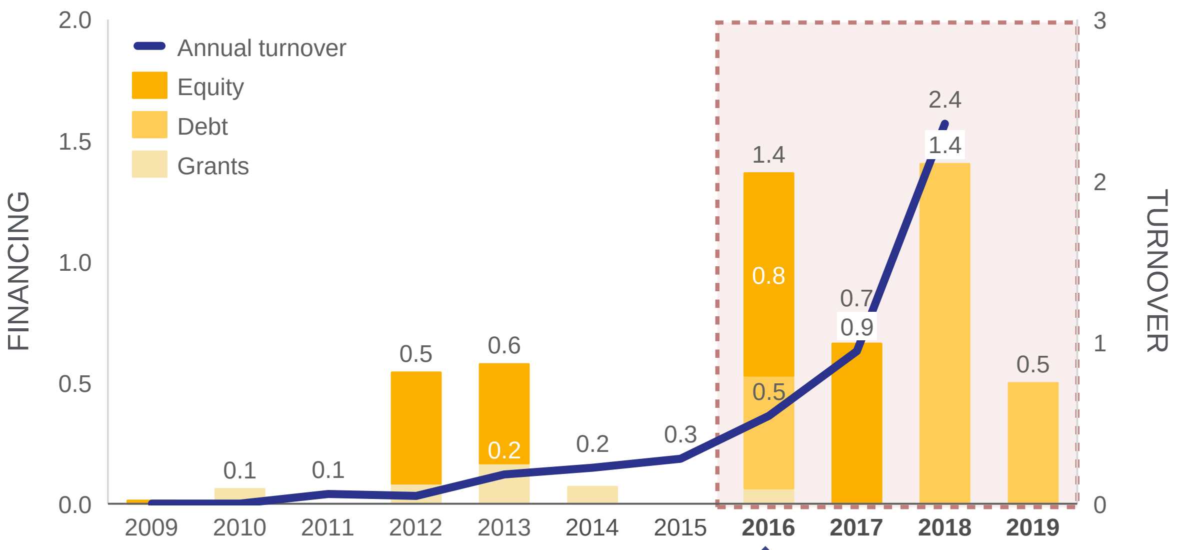
Biosense needed working capital to expand and cover cashflow gaps between payments for tools and the production of tools for upcoming orders. The team sought out capital in the form of loans from traditional financial institutions and solicited additional equity investments. At this point, Biosense was turning away from grant applications due to the time-intensive process to procure them.

FINANCING OUTCOME

In 2016, Biosense raised over US$800,000 in equity from the Menterra Social Impact Fund and Insitor Impact Fund, which ultimately was a turning point in Biosense's growth, in part due to the deep, hands-on support provided by Menterra to push Biosense commercially. The same year, Biosense secured a US$350,000 Canadian loan at a low 7% interest rate (later waived) and a US$300,000 Masala Bond from the Lemelson Foundation at a very low 5% interest rate. From 2017 to 2019, Biosense raised a US$650,000 equity investment from Artha Ventures and a US$1.9 million revolving bank limit at between 10-18% interest rates, thanks to a guarantee provided by the Lemelson Foundation.

BIOSENSE REVENUES AND FINANCING, 2009 TO 2019

US$, MILLIONS



FINANCING TERMS

By 2016, Biosense gained traction raising equity investments, having raised two additional investments totaling over US$1.5 million from Artha Ventures, Menterra Social Impact Fund, and Insitor Impact Fund.

In 2018-2019, Biosense raised US$300,000 in debt at an 8-9% interest rate and secured a credit line at higher rates (10-18%).

> "We were fortunate to have access to working capital from foundations at 10% interest rates, but if we had a stronger equity cushion we could've had access to more debt at a lower price." – Dr. Abhishek Sen

COLLABORATIVE FOR FRONTIER FINANCE

Source: Biosense, internal documents and interview, 2019; Villgro, "How an incubator-investor platform transformed a dorm startup into a successful company: the journey of Biosense," 2018; Menterra website; Dalberg analysis.

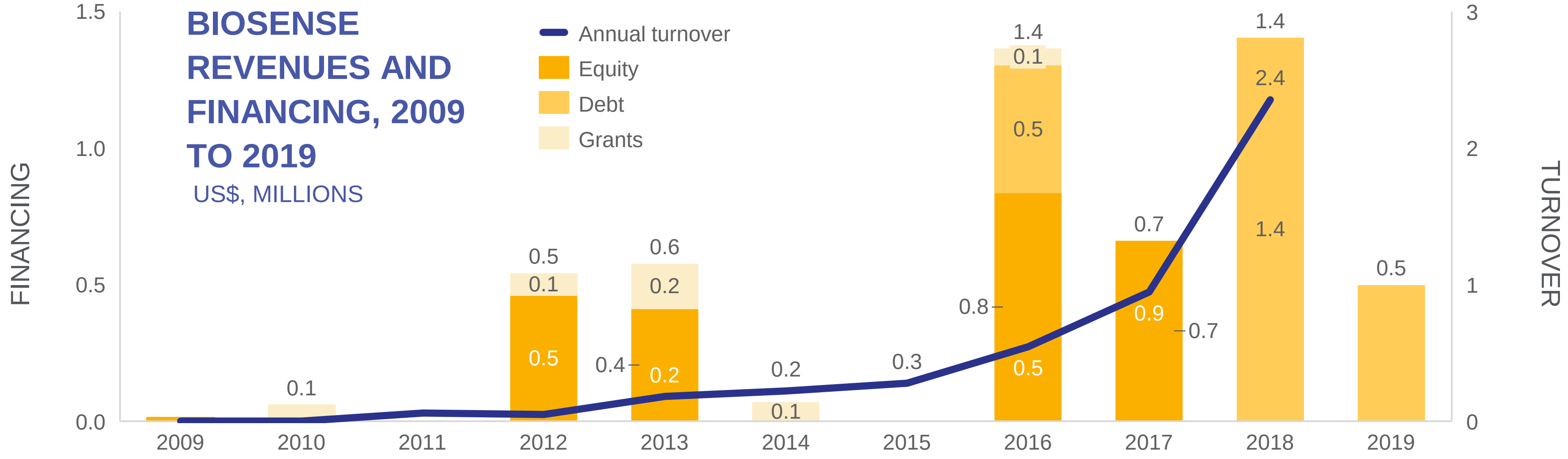
CASE STUDY

HIGH-GROWTH VENTURE

OVER THE PAST SEVEN YEARS, BIOSENSE HAS INCREASED REVENUES NEARLY 40X, AIDED BY SUPPORT FROM FOUNDATIONS, ANGEL INVESTORS, AND IMPACT FUNDS

BIOSENSE REVENUES AND FINANCING, 2009 TO 2019

US$, MILLIONS



FINANCING NEEDS & CONSIDERATIONS

- Beginning as a med school project, Biosense developed diagnostic tools to aid health screening
- Initially, bootstrapping, university and foundation grants, and an Echoing Green fellowship supported salaries, research, and prototyping

- Having developed a promising solution, the team shifted focus to establishing a sustainable strategy and distribution channels
- They sought to raise equity and were able to secure an initial investment from a syndicate of angel investors

- By 2016, the company set its sights on scale and required significant working capital
- Biosense raised equity from impact catalyzers and low-interest loans from foundations and foreign lenders
- However, without support from the Lemelson Foundation, Biosense would not have been able to raise debt from traditional domestic lenders due to the soured lending climate

ROUND	Seed	Early Stage	Early Growth
PROVIDERS	Self-finance; Impact orgs	Foundations; Angel investors	Impact funds; Traditional lenders
CAPITAL NEED	Capex	Working capital; Capex	Working capital; Growth

FINANCING CHALLENGES

INTERNAL

- Strong skill set in product innovation, but needed to build business skillset to create a sustainable model and establish distribution channels
- Lack of experience compared to competitors increased difficulty of raising capital

EXTERNAL

- Challenging lending climate in India, as witnessed by banks shutting down and entrepreneurs defaulting
- Time intensity of grant applications
- Non-existent or unaffordable options from traditional banks due to lack of collateral
- Insufficient working capital finance
- Finance often not fit for purpose: too large or too small

Source: Biosense, internal documents and interview, 2019; Villgro, “How an incubator-investor platform transformed a dorm startup into a successful company: the journey of Biosense,” 2018; Menterra website; Dalberg analysis.

CASE STUDY

HIGH-GROWTH VENTURE

BIOSENSE'S UNDERCAPITALIZATION IS A COMMON CHALLENGE FOR HIGH-GROWTH VENTURES, BUT INNOVATIVE PROVIDER MODELS CAN OVERCOME THE CAUSES

COMPANY SUCCESS FACTORS

Market

- ✓ Enormous and growing market for cost-effective, rapid diagnostic tools (16.5% CAGR for the Indian healthcare sector)
- ✓ Previously unaddressed market population

Product & Business Model

- ✓ Innovative, technical product that enables cost-effective healthcare delivery for BOP populations
- ✓ Strong ecosystem of healthcare providers (including NGOs, pharmaceutical companies, and state health providers) to deliver service using the instruments
- ✓ Support for Made in India initiative and SDGs

Team

- ✓ Strong innovation skillset in medical innovation and engineering
- ✓ Sufficient savings to bootstrap research and development in the firm's early years

FINANCING CHALLENGES

SEED

- Time intensity of grant application process means innovative solutions find difficulty scaling without access to alternative, more fit for purpose capital

EARLY STAGE

- To finance growth, equity investments are more difficult to come by for entrepreneurs from nonbusiness backgrounds
- The issue of limited equity finance is compounded, as it inhibits access to debt to fund working capital due to a weak balance sheet

EARLY GROWTH

- Without a guarantee from the Lemelson Foundation, Biosense would not have been able to secure a line of credit from Citibank, due to its negative balance sheet
- Biosense had strong innovation skills, but it required support and advising to push its growth from a commercial perspective – value-added services from Menterra helped empower Biosense's expansion to capture an increasingly crowded market

FINANCING OPPORTUNITIES

- **Enhance** approaches can provide value-add services that accelerate the growth of an investee, whether due to understanding of the social components of a firm's business model or through access to capital from alternative providers
- **Adapt** approaches can provide mezzanine products, such as convertible notes or royalty-based financing, to finance companies that have promising growth and positive revenues, but don't qualify for most debt financing
- **Catalyze** approaches can provide patient capital to innovative businesses, both to help finance working capital needs and to strengthen their balance sheet to empower access to funding from other providers
- **Commercial banks** can identify alternative ways to secure lines of credit through government or social sector partnerships

Source: Biosense, internal documents and interview, 2019; Villgro, "How an incubator-investor platform transformed a dorm startup into a successful company: the journey of Biosense," 2018; Menterra website; Dalberg analysis.

SGB Finance Provider Portfolio Visualizations

Upaya Social Ventures

UPAYA SERVES DIFFICULT TO REACH AND HIGHER RISK SGBS BY DEPLOYING CATALYTIC CAPITAL FROM NON-PROFIT ORGANIZATIONS, WHICH ENABLES A PATIENT APPROACH

APPROACH: **CATALYZE**

Upaya Social Ventures uses a patient, blended-finance fund structure and hands-on approach to deliver small-ticket equity finance to Indian SGBs to facilitate job creation and revenue growth

INVESTMENT STRATEGY

Investment Thesis	Upaya is an impact-first investor focused on job creation in difficult to serve markets in India
Region(s)	India
Sector(s)	Labor-intensive
Stage(s)	Early stage to early growth
Investment Size	US$10,000 to US$100,000
Investment Duration	3-5 years
Donor-Investor(s)	Foundations and individuals (e.g., the Delta Fund, Open Road Alliance)

PRODUCTS OFFERED

COMMON & PREFERRED SHARES
Upaya takes minority equity stakes in portfolio companies driven by regulatory constraints as a foreign investor

CONVERTIBLE NOTES
Upaya offers convertible notes to investees, which operate like debt for the first two years and then like equity, primarily due to regulatory constraints

KEY PERFORMANCE DRIVERS

- Patient capital from LPs enables maximization of exits for both impact and return potential
- Low cost of funds in the form of recoverable grants reduces pressure to prioritize rapid growth at the expense of impact
- Hands-on technical assistance strengthens financial and impact tracking to improve management decision-making
- Interest from other investors or promoters, taking them out of their equity stake

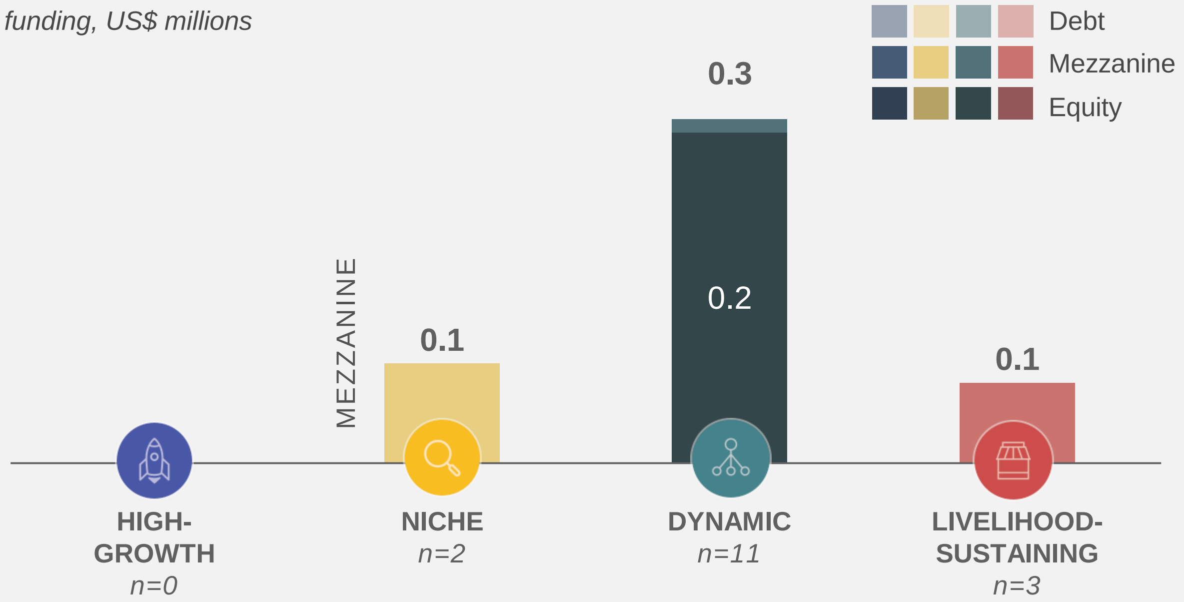
Source: Company websites, accessed September 2019; Upaya website; Upaya interview.

CATALYZE
UPAYA

UPAYA USES DEBT AND EQUITY INVESTMENTS IN ITS PORTFOLIO, DETERMINING THE INSTRUMENT BASED ON THE NEEDS, AMBITIONS, AND RISK PROFILE OF THE SGB

FUNDING TO ENTERPRISES BY FINANCING TYPE AND SGB FAMILY

Sum of funding, US$ millions



Example Investees

TAMUL PLATES
Tamul Plates manufactures eco-friendly tableware from Indian areca nut leaves

KARMANTIK
Karmantik provides handcrafted, traditional Indian footwear

JUSTROGAR
Justrogar provides employment services to slum-dwellers in Delhi

IMPACT SPOTLIGHT[1]

OVERALL IMPACT
- **42%** of employees previously unemployed
- **13,400** cumulative annual jobs[2]

WOMEN
- **50%** of active portfolio entrepreneurs are women
- **58%** of portfolio-company employees are women

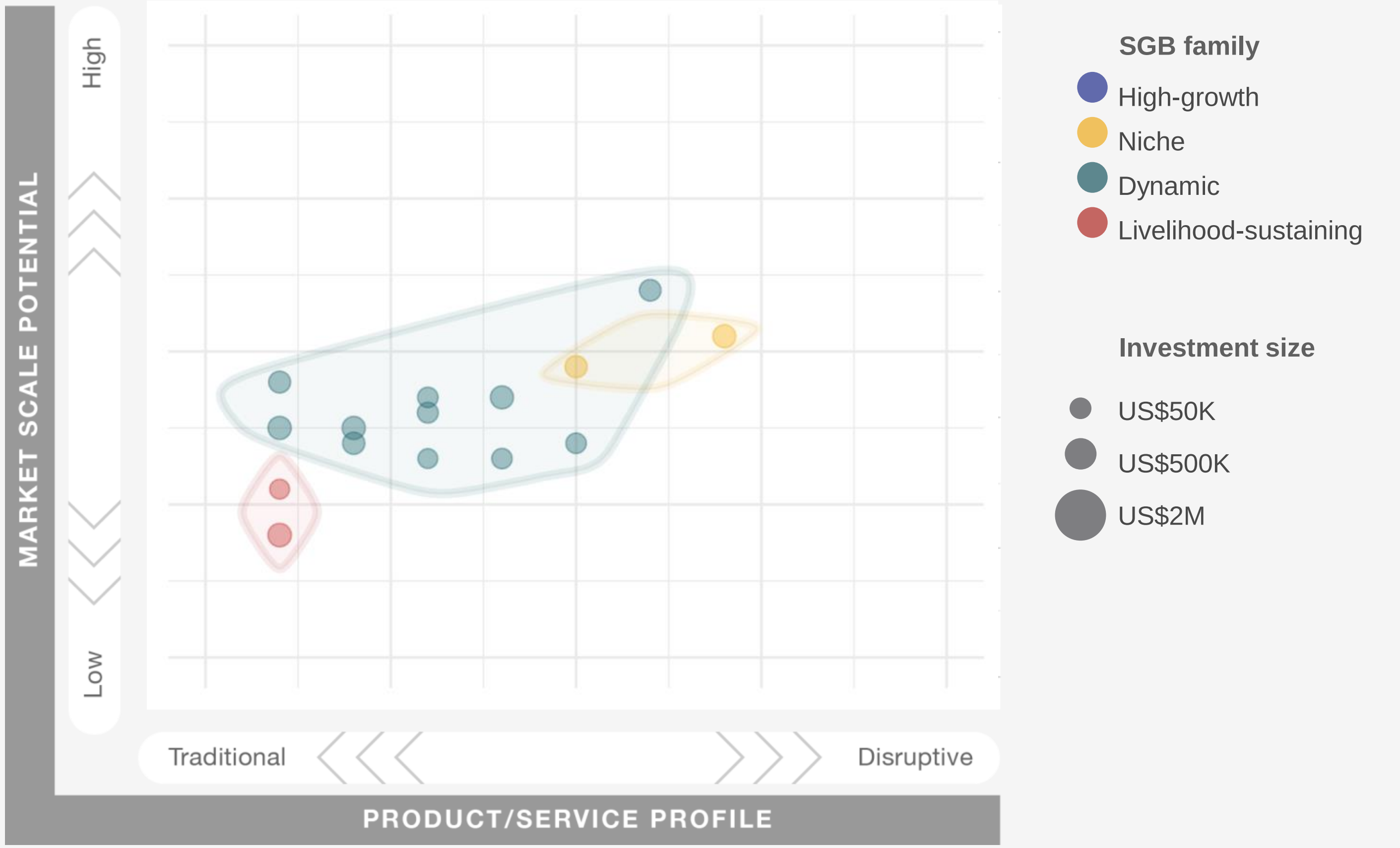
INCOME
- **93%** average increase in daily household income

Note: (1) All numbers self-reported and based on survey results from responding population. (2) Cumulative annual jobs includes full-time, part-time, and supplier jobs.
Source: Upaya, portfolio data, September 2019; Upaya website, accessed October 2019; Upaya interview; company websites.

UPAYA'S PORTFOLIO OF MOSTLY TRADITIONAL, MEDIUM-SCALE-POTENTIAL FIRMS RECEIVE RELATIVELY SMALL EQUITY INVESTMENTS TO FUND EXPANSION AIMED AT JOB GROWTH

LENS 1: INVESTEES BY SCALE POTENTIAL, INNOVATION, SGB FAMILY, AND DEAL SIZE

Scale of 1-10, self-reported



KEY INSIGHTS

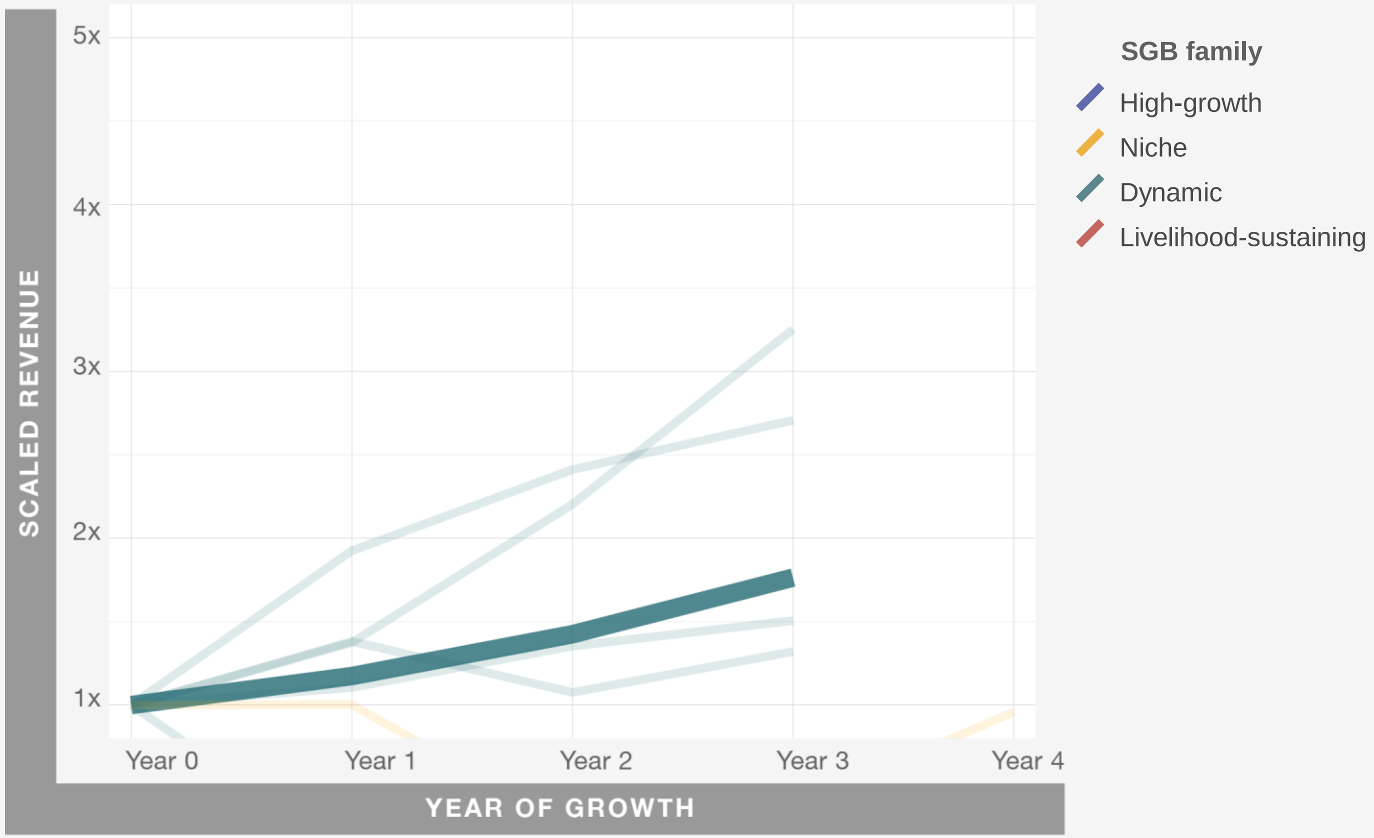
- Upaya invests small amounts in traditional business models with potential to drive social impact through job creation
- Given Upaya's focus on job creation, capital from its small ticket sizes is typically aimed at business expansion that includes growth in employment
- Upaya serves a low volume of riskier SGBs through:
  (1) Use of low-cost, patient capital in the form of recoverable grants and donations
  (2) Technical assistance to strengthen company performance and enhance growth

Note: (1) Market Scale Potential calculated as (Total Addressable Market*.5) + (Competition*.25)+ (Growth and Scale Ambition*.25). (2) Innovation profile rated on a scale from most traditional (low) to most disruptive (high).
Source: Company websites, accessed September 2019; Upaya, portfolio data, September 2019; company interviews.

UPAYA'S USE OF PATIENT, LOW-COST CAPITAL ENABLES IT TO SERVE ENTERPRISES WITH RELATIVELY LOW GROWTH IN AN IMPACT-FIRST WAY

LENS 2: SCALED GROWTH CURVES OF PORTFOLIO COMPANIES

Scaled revenue, as a multiple of the first year of revenue provided



KEY INSIGHTS

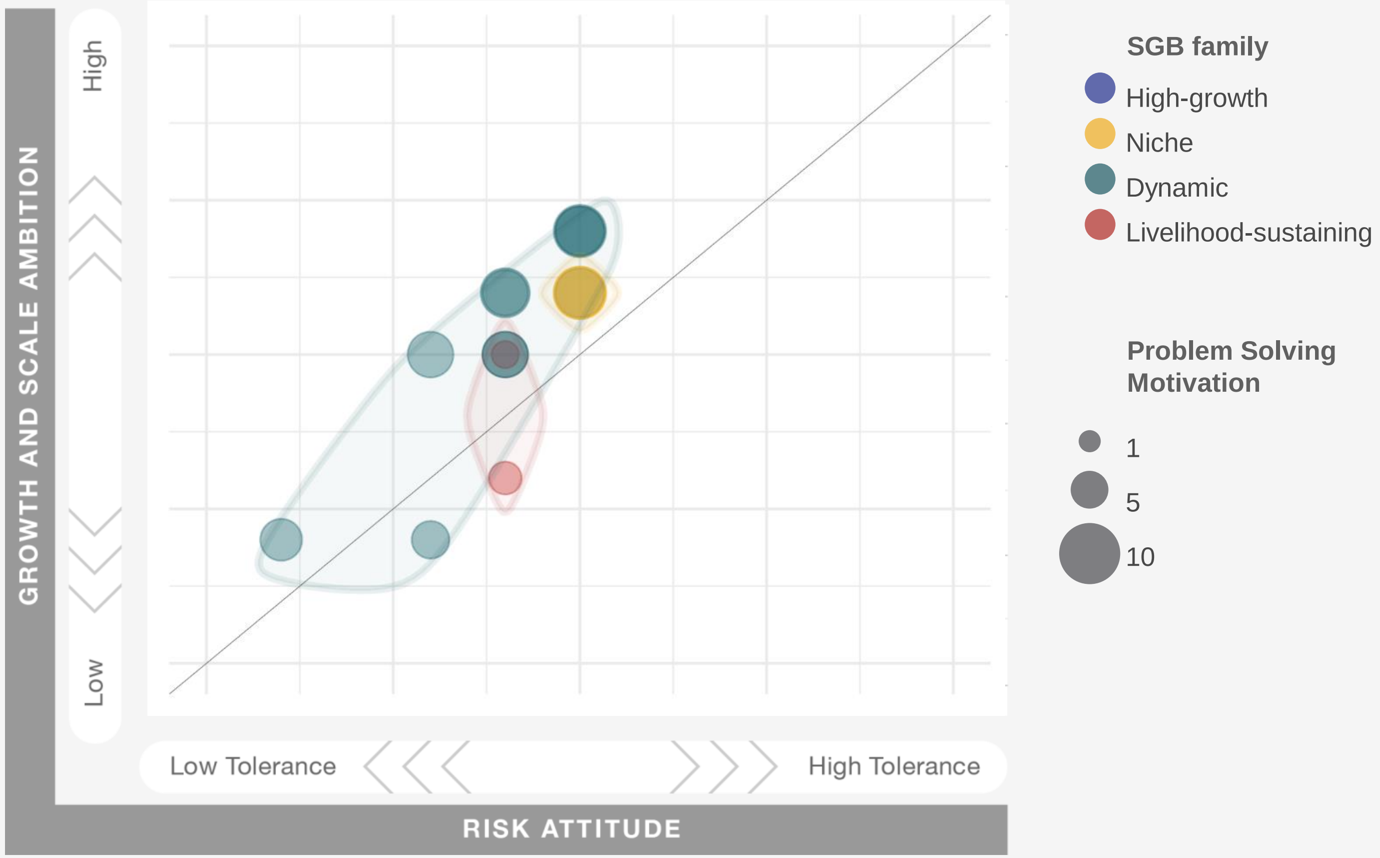
- On average, Upaya's Dynamic investees achieved nearly two times revenue growth over three years
- Upaya would prefer to use revenue-based instruments to capitalize on even performance from companies across the portfolio, but it is constrained by the Indian regulatory environment
- Upaya prioritizes impact but stills seeks to grow revenues and achieve target returns (sub-market)
- Though Upaya's portfolio companies may not have typical exit opportunities, it has a flexible timeframe for exiting given its patient, low-pressure LPs

Note: Methodology: First, revenues were scaled by the first year of available revenue data per company. Second, revenues were aligned to Year 0 based on the first year of revenue available.
Source: Company websites, accessed September 2019; Upaya, portfolio data, September 2019; company interviews.

MANY OF UPAYA'S ENTREPRENEURS SEEK TO SCALE, BUT LIKELY AT A LINEAR PACE GIVEN LOWER RISK TOLERANCES

LENS 3: INVESTEES BY LEADERSHIP BEHAVIORS AND SGB FAMILY

Scale of 1-10, self-reported



KEY INSIGHTS

- Upaya's investees display relatively low risk tolerances and low-to-medium growth ambitions
- However, Upaya's investees display relatively high problem-solving motivations for Dynamic and Livelihood-sustaining Enterprises, likely due to the impact focus of both Upaya and the entrepreneurs themselves

Note: (1) Risk tolerance is defined as the entrepreneur's willingness to accept the potential for negative consequences and proceed with a venture despite high likelihood and consequence of failure.
Source: Company websites, accessed September 2019; Upaya, portfolio data, September 2019; company interviews.

I&P: IPAE

IPAE TAILORS EQUITY-LIKE INSTRUMENTS AND ADDED SUPPORT TO THE UNIQUE NEEDS OF INVESTEES TO ENHANCE BOTH GROWTH AND IMPACT

APPROACH: **ENHANCE**

IPAE makes equity and quasi-equity investments at small ticket sizes to high potential SGBs across Sub-Saharan Africa, taking a hands-on approach in addition to providing investor or grant-funded technical assistance

INVESTMENT STRATEGY	
Investment Thesis	IPAE seeks to meet the needs of more mature SGBs who have a large, positive impact on their local stakeholders by providing growth capital and hands-on support to expand impact and business
Region(s)	Sub-Saharan Africa
Sector(s)	Agnostic
Stage(s)	Early Stage to Early Growth
Investment Size	US$300,000 to US$3 million
Investment Duration	5-7 years
LP(s)	Individuals and private and institutional investors (e.g., AfDB, IFC, Bank of Africa, Société Générale)

PRODUCTS OFFERED

MINORITY STAKE EQUITY INVESTMENTS
IPAE makes relatively small scale, minority-stake equity investments, which often include board seats, hands-on support, and technical assistance for targeted skills-building

QUASI-EQUITY LOANS
IPAE also makes quasi-equity investments, for which it still typically behaves as an equity investor

KEY PERFORMANCE DRIVERS

- Hands-on support from investment team
- Tailored investment instruments that mitigate risk by structuring exits at the outset
- Aligned incentives – investment manager’s carried interest is tied to both impact and financial targets, and LPs have impact interests
- Technical assistance, provided through funds raised by investors or grants

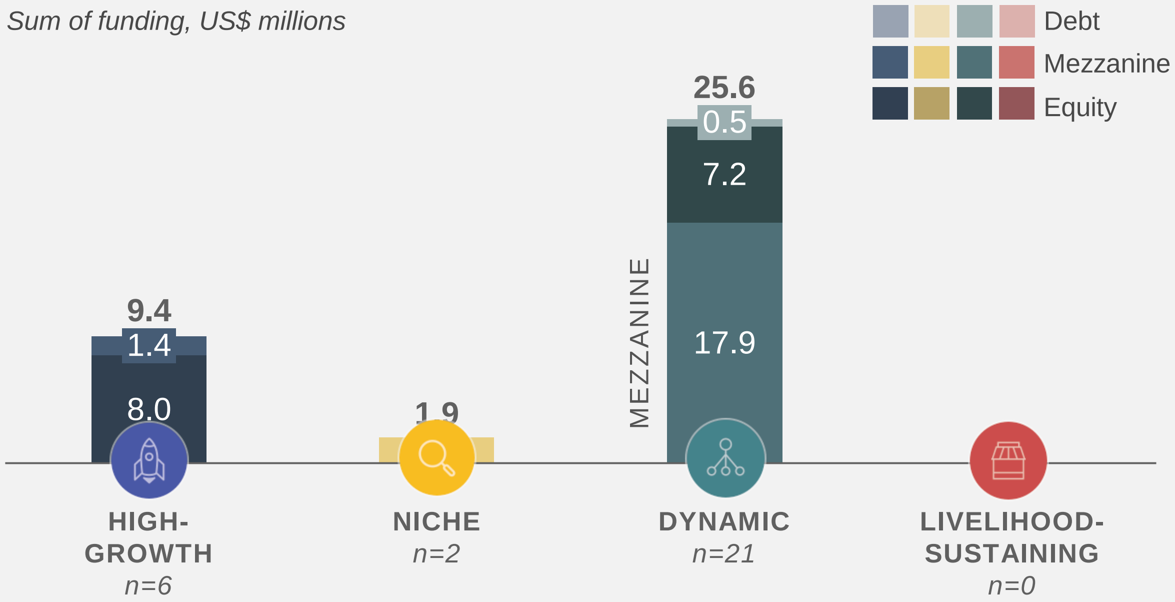
Source: Company websites, accessed September 2019; I&P, portfolio data, September 2019; I&P and EMPEA, “Fund Alignment with the U.N.’s Sustainable Development Goals: A Case Study,” 2018.

ENHANCE

IPAE

IPAE FINANCES HIGH-GROWTH FIRMS USING MOSTLY EQUITY AND DYNAMIC FIRMS USING MOSTLY QUASI-EQUITY, CONSIDERING THE NEEDS AND MARKET REALITIES OF EACH

FUNDING TO ENTERPRISES BY FINANCING TYPE AND SGB FAMILY



Example Investees

COINAFRIQUE

CoinAfrique is a mobile-based community platform for buying and selling

ENKO

Enko is building a network of private schools with new education tools

BARAJII

Barajii produces and distributes water and local juices in biodegradable bags and PET bottles

IMPACT SPOTLIGHT[1]

OVERALL IMPACT

41% direct employment growth since IPAE involvement

53% of portfolio company employees are mid-skilled

WOMEN

19% of companies are owned or led by women

40% of portfolio company employees are women

YOUTH

320 portfolio company employees under 25

Note: (1) Numbers are for IPAE I and all self-reported.
Source: Company websites, accessed September 2019; I&P, portfolio data, September 2019; I&P, “I&P Afrique Entrepreneurs I, Annual ESG and Impact Report,” 2018.

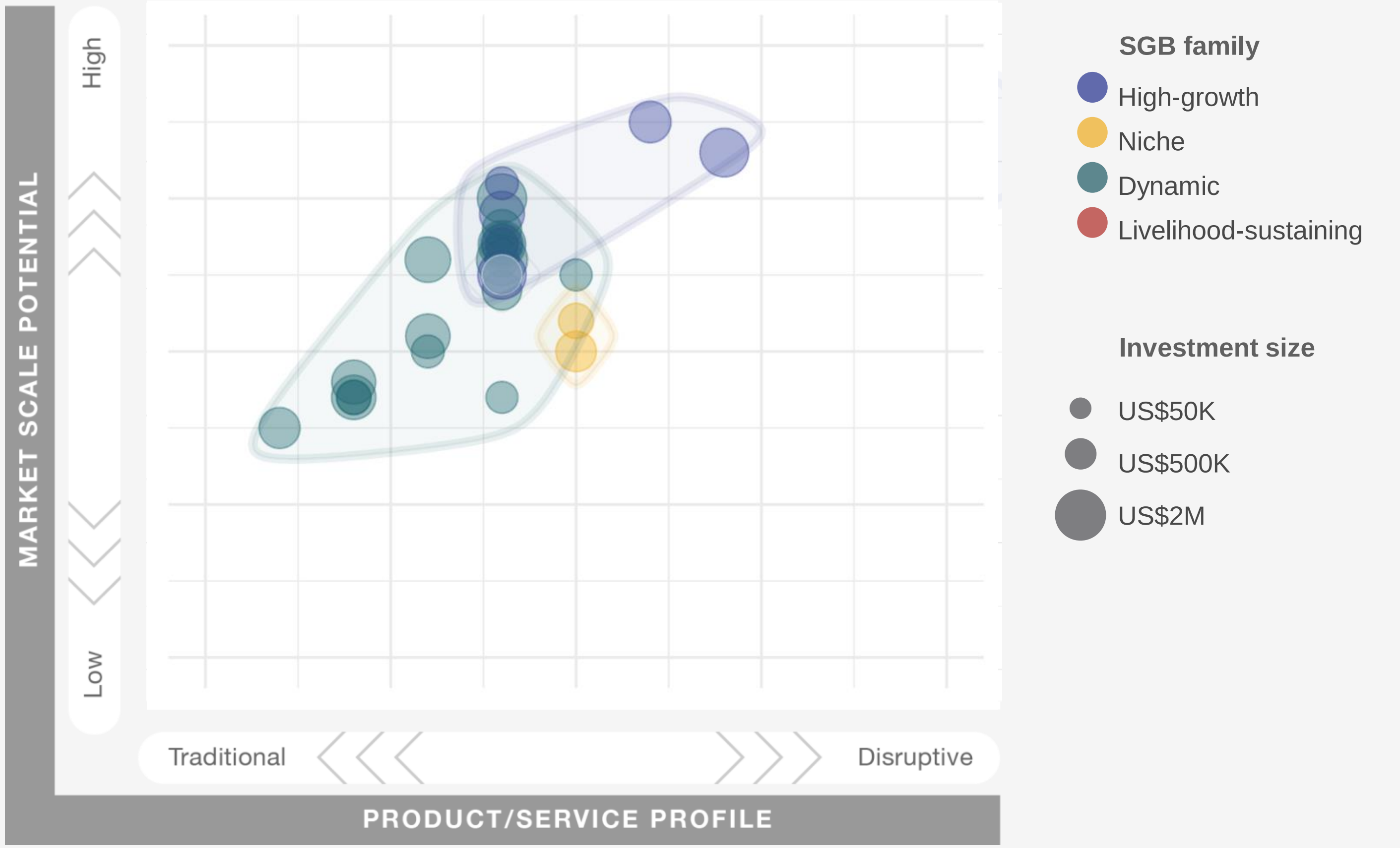
ENHANCE

IPAE

IPAE IS ABLE TO SERVE A VARIETY OF SGB TYPES THROUGH RIGOROUS SOURCING AND BY TAILORING THE INVESTMENT AND ADDED SUPPORT TO THE DISTINCT FIRM NEEDS

LENS 1: INVESTEES BY SCALE POTENTIAL, INNOVATION, SGB FAMILY, AND DEAL SIZE

Scale of 1-10, self-reported



KEY INSIGHTS

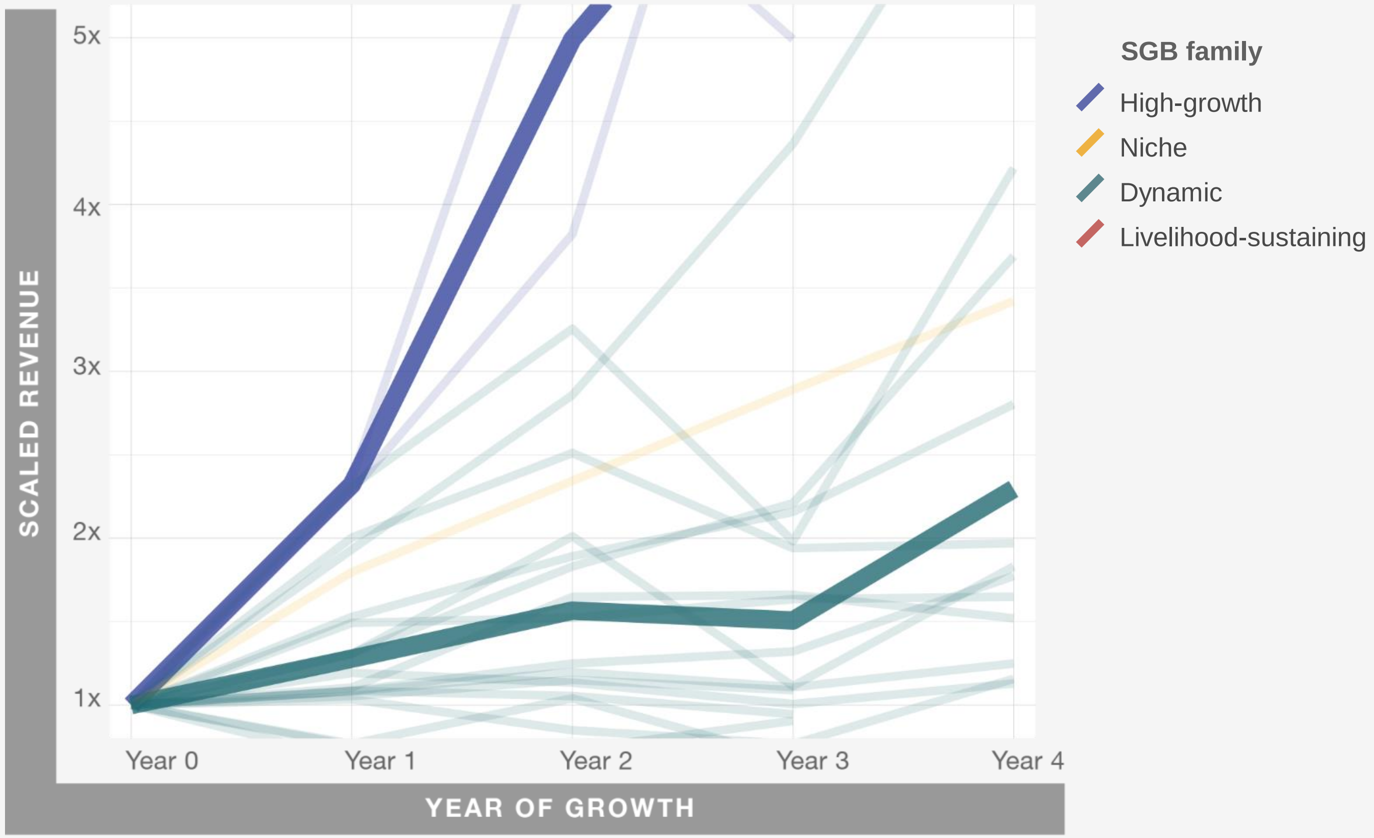
- IPAE investees display a range of market scale potentials and innovation profiles that reflect their SGB segment
- IPAE serves a diverse set of SGBs through a localized and tailored approach that enables selectivity of investees and customization of the instrument and support to maximize the growth potential of the firm and mitigate risk for the portfolio. For example:
  - A High-growth Venture may receive a minority-stake equity investment and strategy support for expansion, while
  - A Dynamic Enterprise may receive a quasi-equity loan for a specific asset purchase and financial accounting support

Note: (1) Market Scale Potential calculated as (Total Addressable Market*.5) + (Competition*.25)+ (Growth and Scale Ambition*.25). (2) Innovation profile rated on a scale from most traditional (low) to most disruptive (high).
Source: Company websites, accessed September 2019; I&P, portfolio data, September 2019.

BY TAILORING THE SUPPORT TO EACH INVESTEE, IPAE CAN CAPITALIZE ON RAPID GROWTH WHILE ALSO SERVING MORE INCREMENTAL TRAJECTORIES

LENS 2: SCALED GROWTH CURVES OF PORTFOLIO COMPANIES

Scaled revenue, as a multiple of the first year of revenue provided



KEY INSIGHTS

- IPAE serves enterprises with a variety of growth trajectories
- IPAE's High-growth Ventures achieved over a 5x increase in revenues in two years, and IPAE's Dynamic Enterprises achieved nearly a 2.5x increase in revenues in four years
- By tailoring instruments to the growth realities of investees, IPAE is able to design the most promising exit into the instrument design and maximize investment potential in the 5-7 year fund time frame

Note: Methodology: First, revenues were scaled by the first year of available revenue data per company. Second, revenues were aligned to Year 0 based on the first year of revenue available.
Source: Company websites, accessed September 2019; I&P, portfolio data, September 2019.

IPAE'S INVESTEES DEMONSTRATE MEDIUM-TO-HIGH GROWTH AMBITIONS AND RISK TOLERANCE AND GENERALLY SEEK TO ADDRESS SOCIETAL CHALLENGES

LENS 3: INVESTEES BY LEADERSHIP BEHAVIORS AND SGB FAMILY

Scale of 1-10, self-reported

KEY INSIGHTS

- IPAE's investees demonstrate medium to high growth ambitions and risk attitudes, clustered around a behavioral risk-return line
- Most investees seek to solve larger, more societal-level problems and will use both IPAE funding and support to enhance both their footprint and their impact

Note: (1) Risk tolerance is defined as the entrepreneur's willingness to accept the potential for negative consequences and proceed with a venture despite high likelihood and consequence of failure.
Source: Company websites, accessed September 2019; I&P, portfolio data, September 2019.

Omnivore Venture Capital

OMNIVORE MAKES EQUITY INVESTMENTS IN UNDERSERVED, HIGH-POTENTIAL AGRI-TECH AND FOOD-TECH VENTURES WITH POSITIVE IMPACTS ON RURAL ECONOMIES

APPROACH: **ENHANCE**

Omnivore is a venture capital firm based in India that funds entrepreneurs building the future of agriculture and food systems

INVESTMENT STRATEGY

Investment Thesis	Omnivore provides equity to tech-driven, impact-creating firms in rural economy industries with high potential for scale
Region(s)	India
Sector(s)	Farmer Platforms, Precision Agriculture, Agri Biotech, Rural Fintech, B2B Agri Marketplaces, Innovative Foods, Agri-business SaaS, F2C (Farm to Consumer) Brands, and Post Harvest Technologies
Stage(s)	Seed to Early Growth
Investment Size	US$1million–US$4 million
Investment Duration	8-10 years (estimated)
LP(s)	Fund One contained exclusively domestic investors, while Fund II includes foreign and domestic investors, such as KfW, SIDBI, and DGGF

PRODUCTS OFFERED

EQUITY INVESTMENTS
Minor equity positions with hands-on support, guidance, and access to follow-on funding

KEY PERFORMANCE DRIVERS

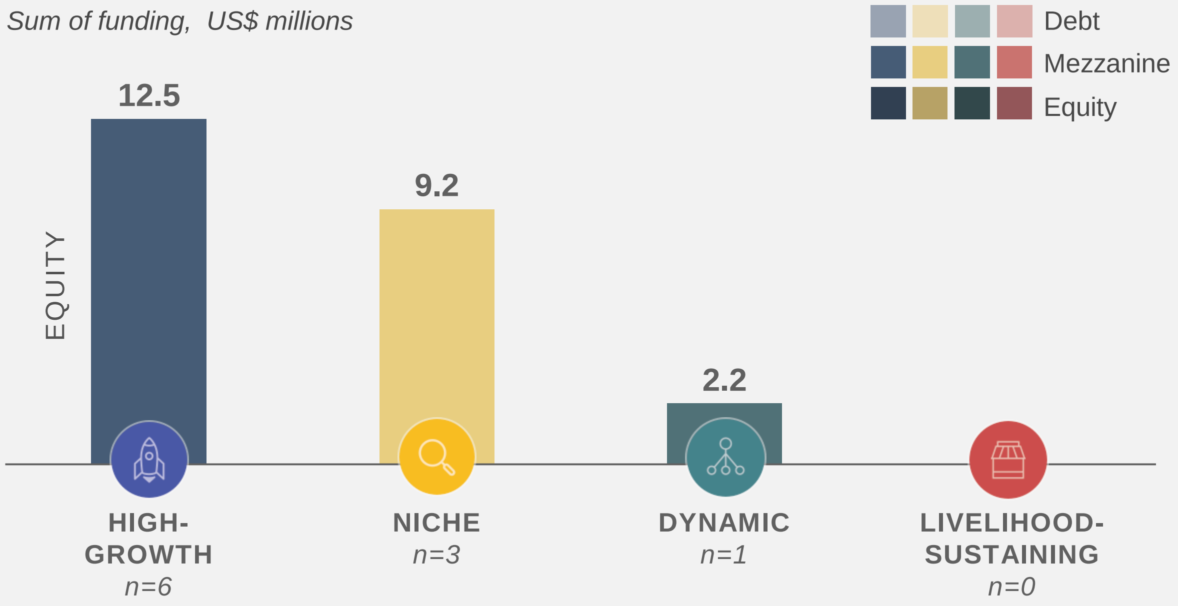
- Knowledgeable, local LPs from first fund–provided guidance
- Dual industry focuses of both upstream and downstream companies (e.g., agriculture to food processing) create a balanced portfolio poised to capture growth from either end
- Access to best of agri-tech and ag-focused start-ups that want an investor who understands their space, in addition to syndication with generalist funds
- First-time fund managers with nontraditional experiences and perspectives can help to bring new approaches

Source: Company websites, accessed September 2019; Omnivore, portfolio data, September 2019; Omnivore, “Impact Report,” 2017; VC Circle, “Omnivore marks first close of second VC fund,” 2018; Entrepreneur, “Omnivore Partners' Managing Partner Shares Why Agri and Food Startups are the Next Big Thing,” 2019.

OMNIVORE HAS MADE EQUITY INVESTMENTS EXCLUSIVELY IN HIGH-GROWTH AND DYNAMIC FIRMS WITH A POSITIVE SOCIAL IMPACT COMPONENT

FUNDING TO ENTERPRISES BY FINANCING TYPE AND SGB FAMILY

Sum of funding, US$ millions



Example Investees

STELLAPPS
Stellapps is digitizing dairy supply chains

YCOOK
YCook produces delicious steamed snacks that are farm-sourced and shelf-stable

KHEDUT
Khedut manufactures automated seeding and planting machinery

SELECTED IMPACT SPOTLIGHT[1]

OVERALL IMPACT

5.22 m
farmers impacted

11
low-income states served

INCOME

$54 m
in additional farmer income for Stellapps users

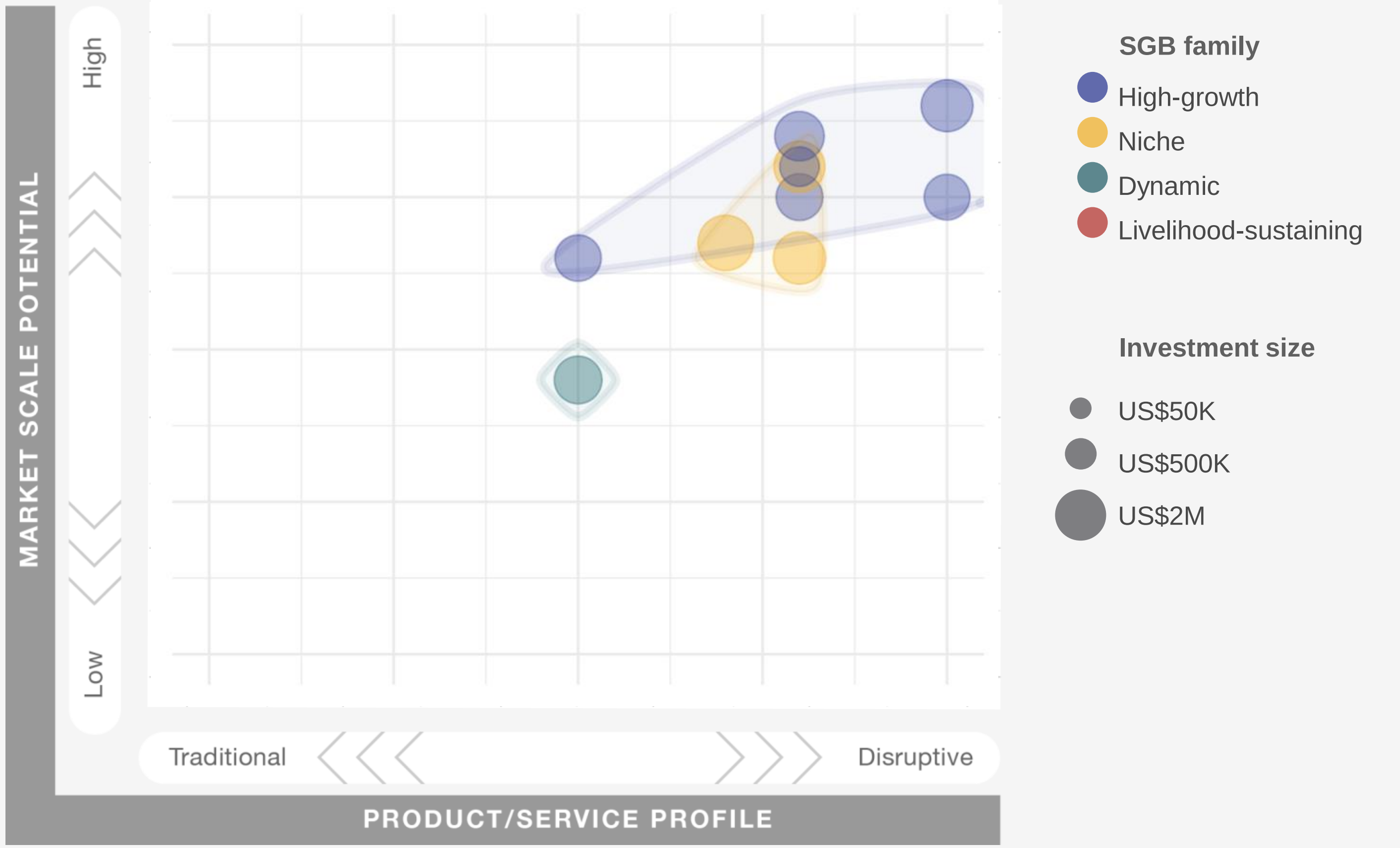
112%
increase in farmer income for YCook partners

Note: (1) All numbers self-reported.
Source: Omnivore, portfolio data, September 2019; Omnivore, "Impact Report," 2017; Dalberg analysis.

OMNIVORE'S INVESTEES DISPLAY ATTITUDES ALIGNED WITH RAPID EXPANSION AND POSSESS STRONG APPETITES FOR RISK AND THE DESIRE TO GROW QUICKLY

LENS 1: INVESTEES BY SCALE POTENTIAL, INNOVATION, SGB FAMILY, AND DEAL SIZE

Scale of 1-10, self-reported



KEY INSIGHTS

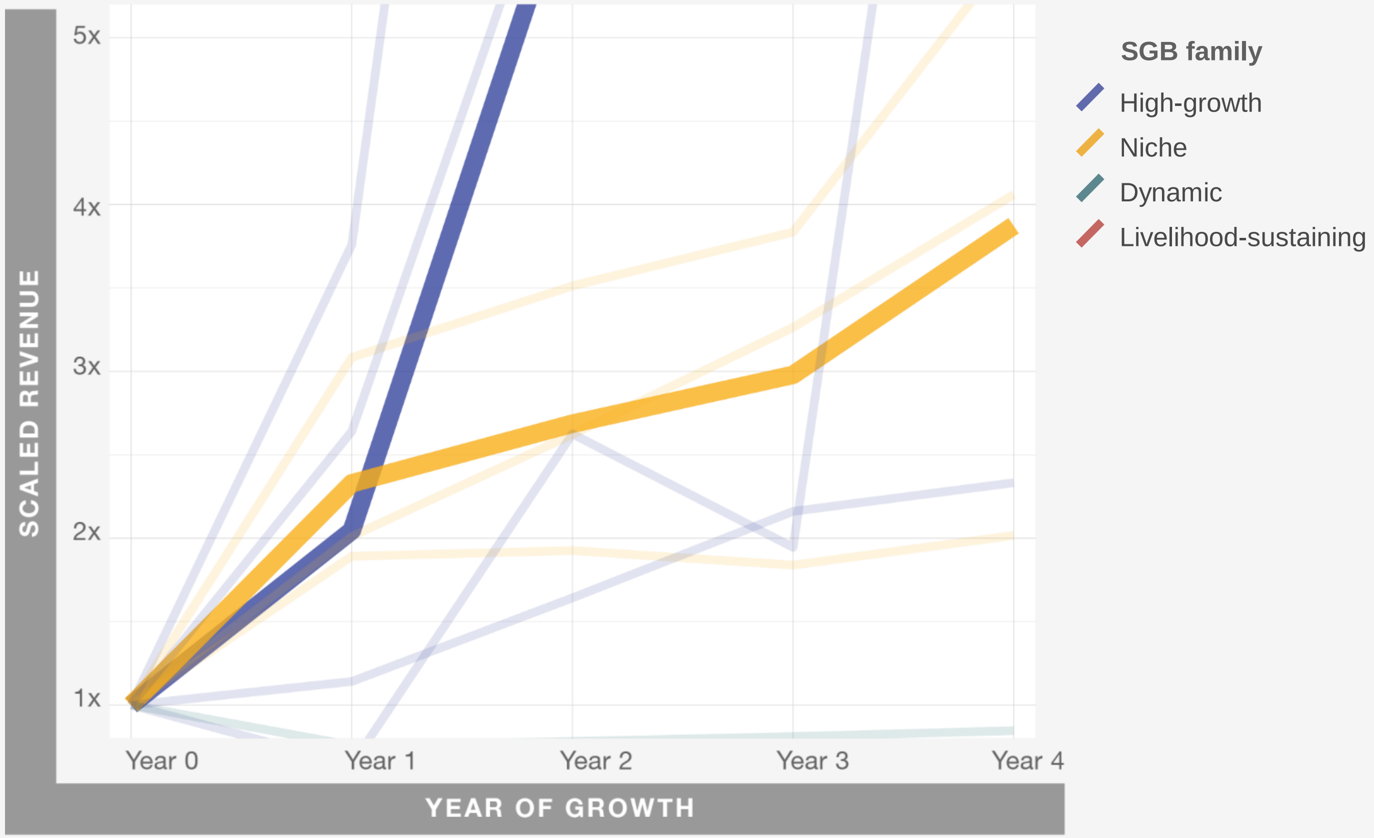
- Omnivore invests exclusively in innovative and disruptive ventures with large scale potential
- Omnivore's focus on high-tech disrupters means effective sourcing, due diligence, and sourcing are critical to the portfolio's success
- Omnivore's model relies on "j-curve" performance by several firms in the portfolio rather than moderate success across the portfolio

Note: (1) Market Scale Potential calculated as (Total Addressable Market*.5) + (Competition*.25)+ (Growth and Scale Ambition*.25). (2) Innovation profile rated on a scale from most traditional (low) to most disruptive (high).
Source: Company websites, accessed September 2019; Omnivore, portfolio data, September 2019.

PORTFOLIO COMPANIES HAVE DEMONSTRATED RAPID GROWTH, PROVIDING PROMISING FUTURE EXIT POTENTIAL FOR OMNIVORE TO ACHIEVE MARKET-RATE RETURNS

LENS 2: SCALED GROWTH CURVES OF PORTFOLIO COMPANIES

Scaled revenue, as a multiple of the first year of revenue provided



KEY INSIGHTS

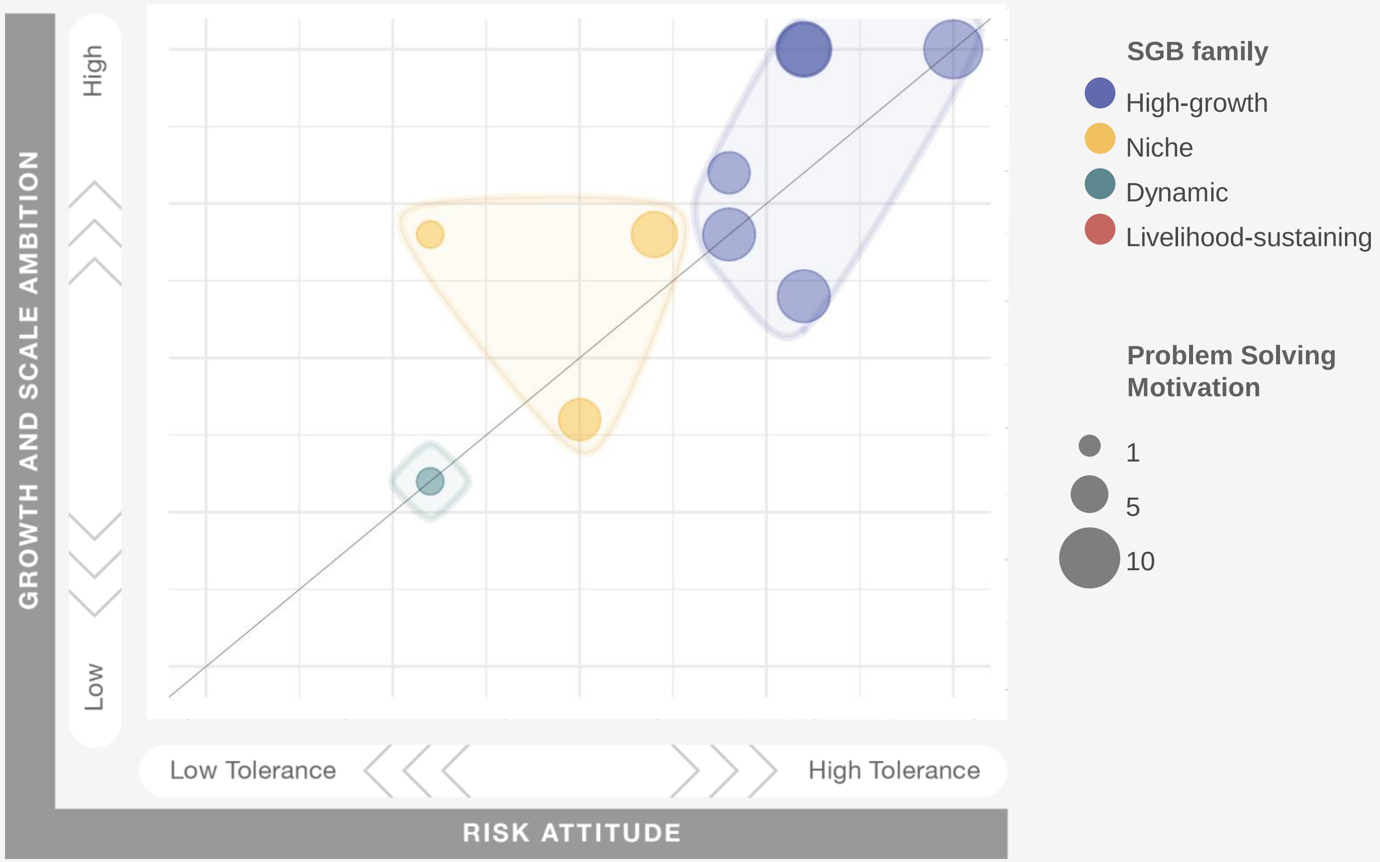
- Most of Omnivore’s investees have displayed strong “J-curve” revenue growth, with many reaching five times the original revenues in the first two years of available data
- Omnivore’s model relies on the rapid expansion of portfolio companies. Combined with exit opportunities – such as acquisition by domestic corporate players in the sector or adjacent sectors or multinationals – this will enable Omnivore to secure attractive returns for investors while also driving inclusive growth

Note: Methodology: First, revenues were scaled by the first year of available revenue data per company. Second, revenues were aligned to Year 0 based on the first year of revenue available.
Source: Company websites, accessed September 2019; Omnivore, portfolio data, September 2019.

OMNIVORE'S INVESTEES DISPLAY ATTITUDES ALIGNED WITH RAPID EXPANSION, WITH STRONG APPETITES FOR RISK AND THE DESIRE TO GROW QUICKLY

LENS 3: INVESTEES BY LEADERSHIP BEHAVIORS AND SGB FAMILY

Scale of 1-10, self-reported



KEY INSIGHTS

- Omnivore's investees have high tolerances for risk, growth and scale ambitions, and problem-solving motivations, organized roughly along a behavioral risk-return line
- These attributes are critical to achieving the rapid growth and, ultimately, exit potential around which Omnivore's portfolio is structured. Omnivore's hands-on approach will leverage these entrepreneurial leadership characteristics to scale both impact and venture footprints

Note: (1) Risk tolerance is defined as the entrepreneur's willingness to accept the potential for negative consequences and proceed with a venture despite high likelihood and consequence of failure.
Source: Company websites, accessed September 2019; Omnivore, portfolio data, September 2019; company interviews.

Adobe Capital

ADAPT

ADOBE CAPITAL

ADOBE CAPITAL INVESTS IN GROWTH-STAGE FIRMS IN LATIN AMERICA BY LEVERAGING ITS PARTNERSHIP WITH A LARGER PARENT INVESTOR AND FLEXIBLE INVESTMENT INSTRUMENTS

APPROACH: **ADAPT**

Adobe Capital is a private equity firm providing equity-like mezzanine products, technical assistance, and access to networks to impact-centric SGBs with strong growth potential

INVESTMENT STRATEGY

Investment Thesis	Adobe seeks to fill "missing middles" growth capital needs for impact-centric SGBs with scale potential by providing custom mezzanine finance, technical support, and access to a network of mentors
Region(s)	Latin America
Sector(s)	Impact-centric sectors (e.g., health, education)
Stage(s)	Early Growth
Investment Size	US$1-8 million (expected average of US$3 million)
Investment Duration	5-7 years
LP(s)	Institutional investors, such as the Inter-American Investment Corporation and Calvert Investments

PRODUCTS OFFERED

ROYALTY-BASED LOANS
Adobe Capital considers both the business model and stage of growth when tailoring royalty-based loans to SGBs' needs in order to capture upside potential without reliance on an exit

CONVERTIBLE NOTES
Adobe has provided convertible loans to investees with positive cash flows, which enables rapid negotiations

KEY PERFORMANCE DRIVERS

- Very low cost for generating a pipeline of investments due to partnership with New Ventures network/accelerator program
- Efficient but in-depth due diligence, which includes up-front growth model development and reduces term sheet restructuring and incurring external costs until certain they want to invest
- Flexibility of royalty-based loans and other debt-like mezzanine tools reduces dependence on exits in thin capital markets

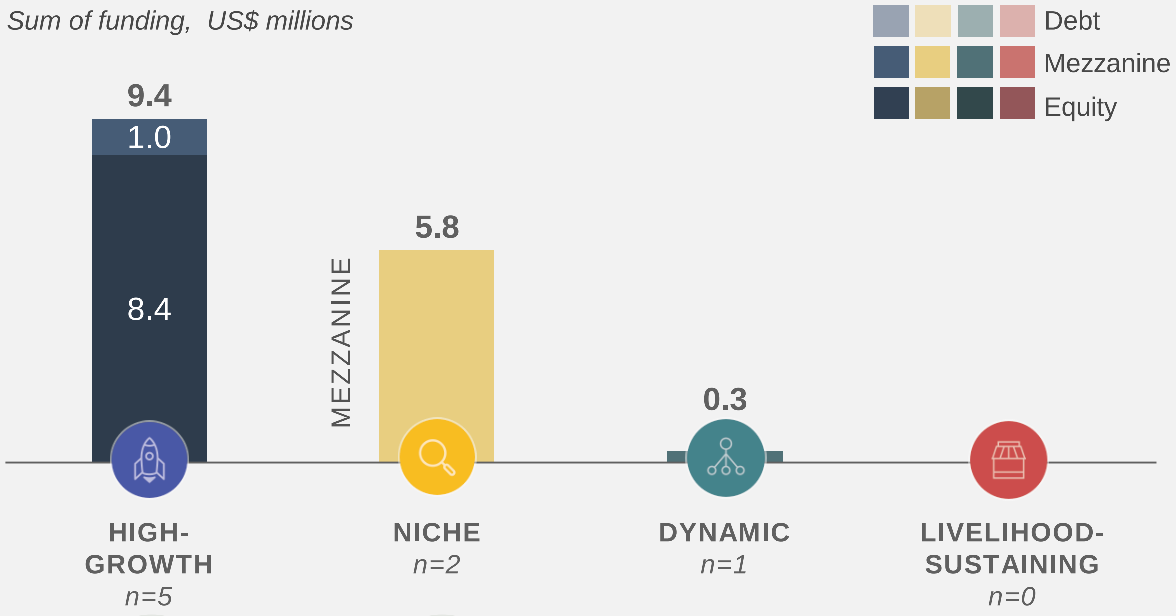
Source: Company websites, accessed September 2019; Adobe Capital, portfolio data, September 2019; company interview; Impact Assets 50, “Adobe Capital,” 2019; GIIN, “Lasting Impact: The Need for Responsible Exits,” 2018.

ADAPT

ADOBE CAPITAL

ADOBE PROVIDES A COMBINATION OF EQUITY AND DEBT-LIKE MEZZANINE PRODUCTS TO HIGH-GROWTH AND NICHE VENTURES DEPENDING ON THE FIRM'S EXIT POTENTIAL

FUNDING TO ENTERPRISES BY FINANCING TYPE AND SGB FAMILY



Example Investees

ECONDUCE

Econduce improves urban mobility through electric moped sharing

HABVITA

Habvita uses an innovative model to build rural housing in Mexico

IMPACT SPOTLIGHT[1]

OVERALL IMPACT

- **13,383** individuals receiving student loans
- **4,479** individuals enrolled in university
- **33k+** individuals housed

WOMEN

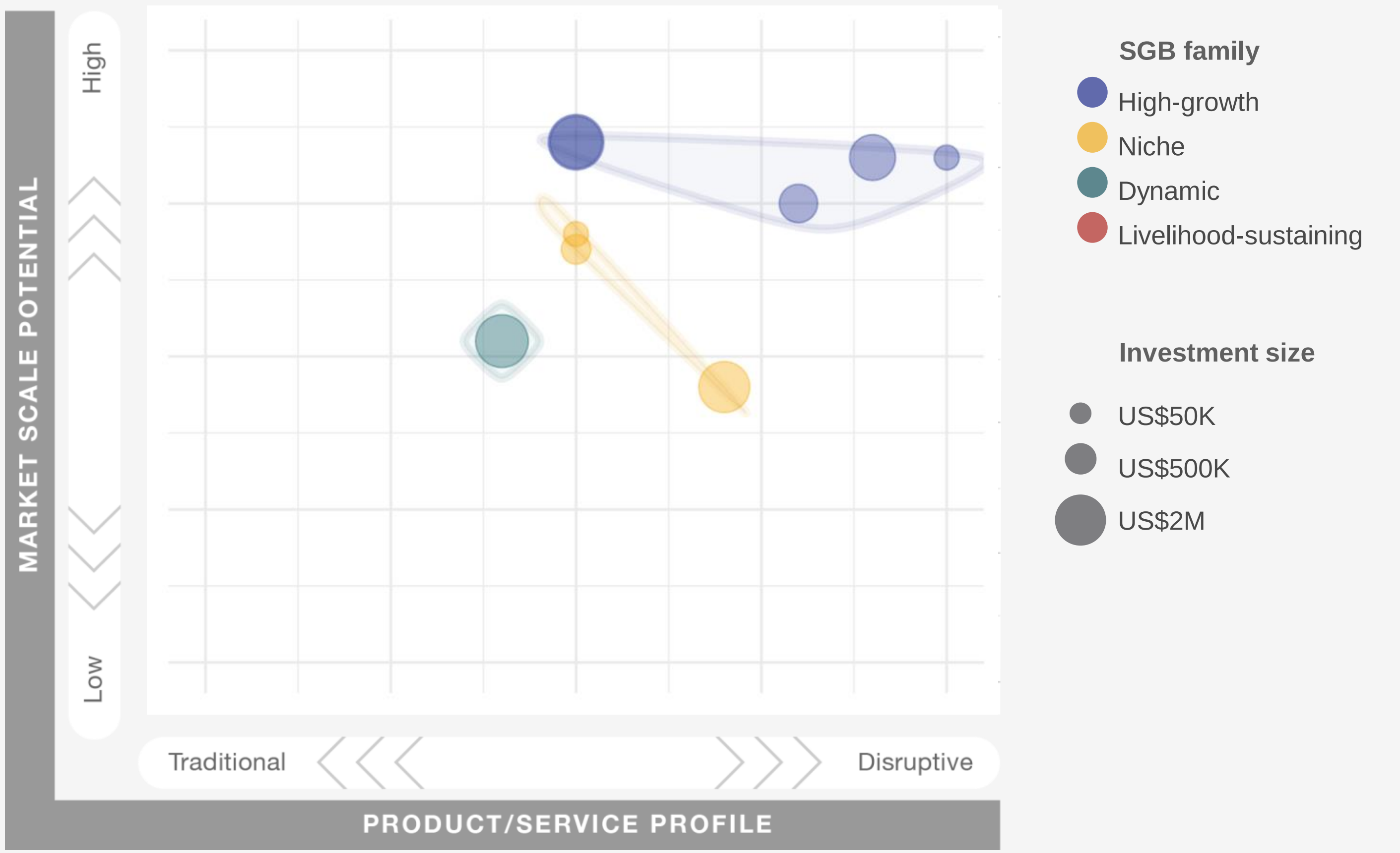
- **6,825** women receiving student loans
- **2,963** women enrolled in university
- **9,946** women housed

Note: (1) All numbers self-reported.
Source: Company websites, accessed September 2019; Adobe Capital, portfolio and impact data, September 2019; company interviews.

ADOBE PROVIDES CAPITAL BETWEEN US$1M AND US$8M TO SCALABLE COMPANIES WITH INNOVATIVE AND DISRUPTIVE IMPACT-FOCUSED SOLUTIONS

LENS 1: INVESTEES BY SCALE POTENTIAL, INNOVATION, SGB FAMILY, AND DEAL SIZE

Scale of 1-10, self-reported



KEY INSIGHTS

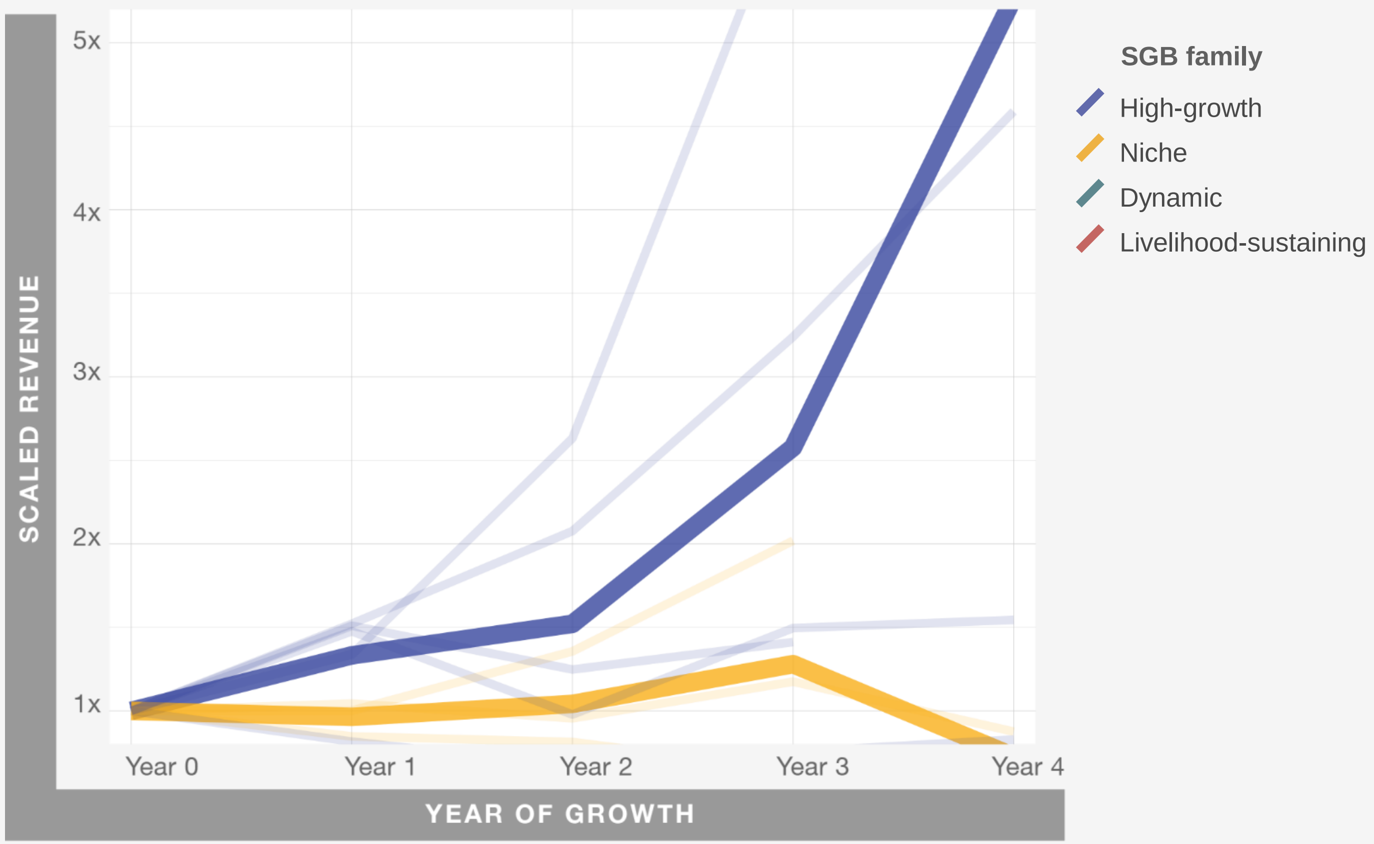
- Adobe invests in innovative and disruptive companies with high potential to scale with royalty-based debt investments of between US$1 million and US$8 million
- Adobe Capital's relationship with New Ventures (NV) is a key element in cost-effectively sourcing businesses with rapid growth potential. NV's network generates leads through word-of-mouth and conferences, while the accelerator program creates a clear pipeline of high-potential investees

Note: (1) Market Scale Potential calculated as (Total Addressable Market*.5) + (Competition*.25)+ (Growth and Scale Ambition*.25). (2) Innovation profile rated on a scale from most traditional (low) to most disruptive (high).
Source: Company websites, accessed September 2019; Adobe Capital, portfolio data, September 2019; company interview.

ADOBE'S ROYALTY-BASED INSTRUMENTS AND CONVERTIBLE NOTES ENABLE IT TO CAPTURE UPSIDE FROM ITS HIGH-GROWTH INVESTEES WHILE MINIMIZING DOWNSIDE RISK

LENS 2: SCALED GROWTH CURVES OF PORTFOLIO COMPANIES

Scaled revenue, as a multiple of the first year of revenue provided



KEY INSIGHTS

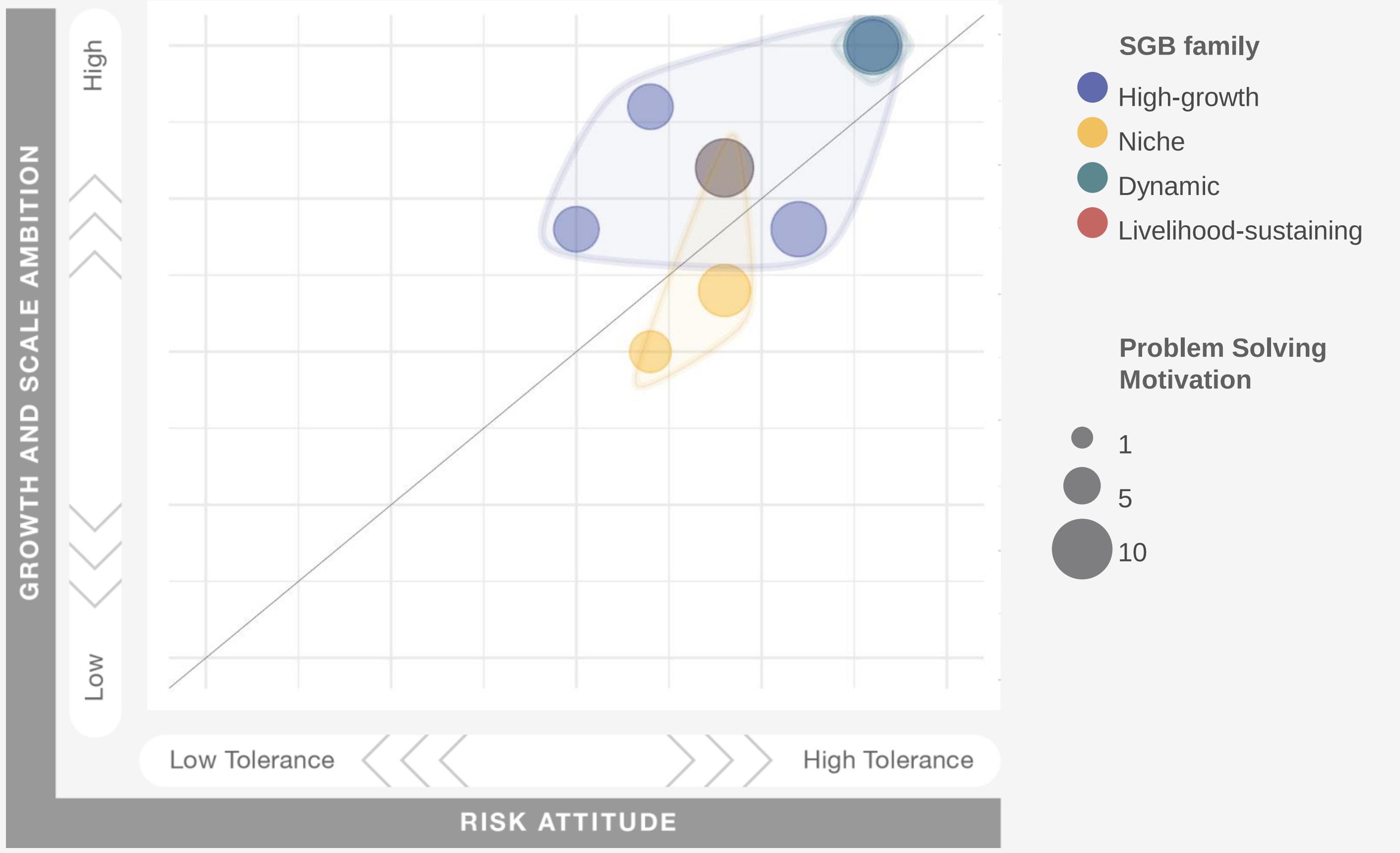
- Adobe's investees have displayed strong revenue years over the past five years, which enhances the upside Adobe has captured in the royalty-based approach
- Despite strong growth that could indicate encouraging exit potential for Adobe, options are constrained in the face of thin capital markets, so a royalty-based approach limits portfolio reliance on exits

Note: Methodology: First, revenues were scaled by the first year of available revenue data per company. Second, revenues were aligned to Year 0 based on the first year of revenue available.
Source: Company websites, accessed September 2019; Adobe Capital, portfolio data, September 2019; company interview.

ADOBE SEEKS TO INVEST IN HIGH-GROWTH, IMPACT-FOCUSED FIRMS, SO INVESTEES ARE GENERALLY RISK TOLERANT AND HAVE HIGH GROWTH AND IMPACT AMBITIONS

LENS 3: INVESTEES BY LEADERSHIP BEHAVIORS AND SGB FAMILY

Scale of 1-10, self-reported



KEY INSIGHTS

- Most investees have a high risk appetite and ambition to scale, as well as seeking to solve societal challenges, such as lack of affordable rural housing or inexpensive eye care
- These leadership traits are important to Adobe's portfolio approach – entrepreneurs must be willing to aggressively pursue growth in order to deliver the market-rate returns desired by Adobe and its LPs

Note: (1) Risk tolerance is defined as the entrepreneur's willingness to accept the potential for negative consequences and proceed with a venture despite high likelihood and consequence of failure.
Source: Company websites, accessed September 2019; Adobe Capital, portfolio data, September 2019; company interview.

I&P: IPDEV2

IPDEV COMBINES FLEXIBLE FINANCING PRODUCTS WITH EVERGREEN VEHICLES AND LOCAL TEAMS TO EFFECTIVELY SERVE WEST AFRICAN SGBS

APPROACH: **ADAPT**

I&P's IPDEV2 uses a blended finance, evergreen, and highly localized approach to deliver equity and mezzanine financing to SGBs and crowd-in country-level capital resources

INVESTMENT STRATEGY

Investment Thesis	IPDEV2 two draws on the lessons of I&P's first development fund, aiming to incubate and sponsor 10 country-level impact funds that will make flexible investments in local firms[1]
Region(s)	Sub-Saharan Africa
Sector(s)	Agnostic
Stage(s)	Seed and Early Stage
Investment Size	US$25,000 to US$500,000
Investment Duration	5-7 years, depending on instrument
LP(s)	Individuals and private and institutional investors (e.g., AfDB, Soros Economic Development Fund)

PRODUCTS OFFERED

MINORITY EQUITY STAKES
The local funds initiated by IPDEV2 make small-scale, minority-stake equity investments, which often include board seats, hands-on support, and technical assistance for targeted skills-building

QUASI-EQUITY LOANS
The funds initiated by IPDEV2 also make quasi-equity investments, for which the investing fund typically behaves as an equity investor, providing hands-on support

KEY PERFORMANCE DRIVERS

- Evergreen structure enables reinvestment of returns and reduces pressure to divest from a portfolio company prematurely
- Hands-on approach mitigates risk and enhances growth
- I&P's approach to crowding-in local funds and building impact funds with local teams mitigates risk and lowers transaction costs
- Technical assistance (grant-funded or otherwise) enhances SGB (and investment) performance by building critical skills

Note: (1) Though IPDEV2 is a fund of funds, this case study will profile both the strategies employed by the local funds (e.g., Teranga Capital) and by IPDEV2 itself to better serve SGBs.
Source: Company websites, accessed September 2019; I&P, portfolio data, September 2019; I&P Impact, Impact Report 2017-2018, 2018.

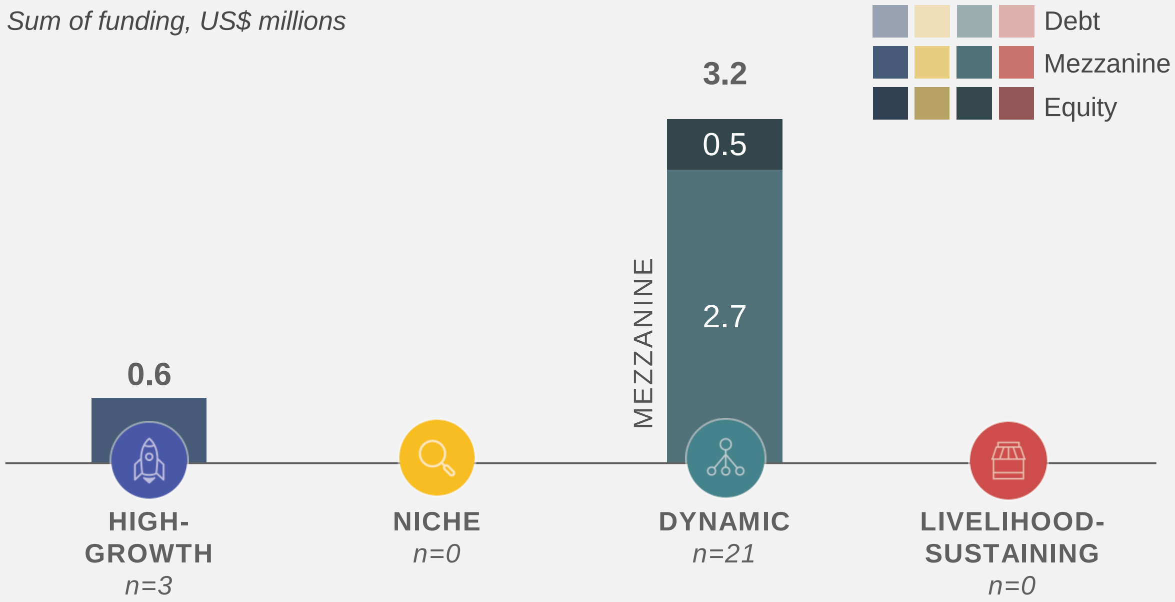
ADAPT

IPDEV

IPDEV HAS PROVIDED A RANGE OF FINANCING OPTIONS TO SGBS TO FILL THE MISSING MIDDLES FINANCING GAPS AND GENERATE INCLUSIVE GROWTH

FUNDING TO ENTERPRISES BY FINANCING TYPE AND SGB FAMILY

Sum of funding, US$ millions



Example Investees

OUICARRY

OuiCarry provides delivery service of local and international products in Senegal

RAMA CEREAL

Rama Cereal is an agro-industrial company that processes grains to sell locally and globally

IMPACT SPOTLIGHT[1]

OVERALL IMPACT

84 jobs formalized

100% of jobs formalized within the first year of investment[2]

WOMEN

25% of investee senior leadership are women

37% of portfolio company employees are women

YOUTH

15% of portfolio company employees are under 25

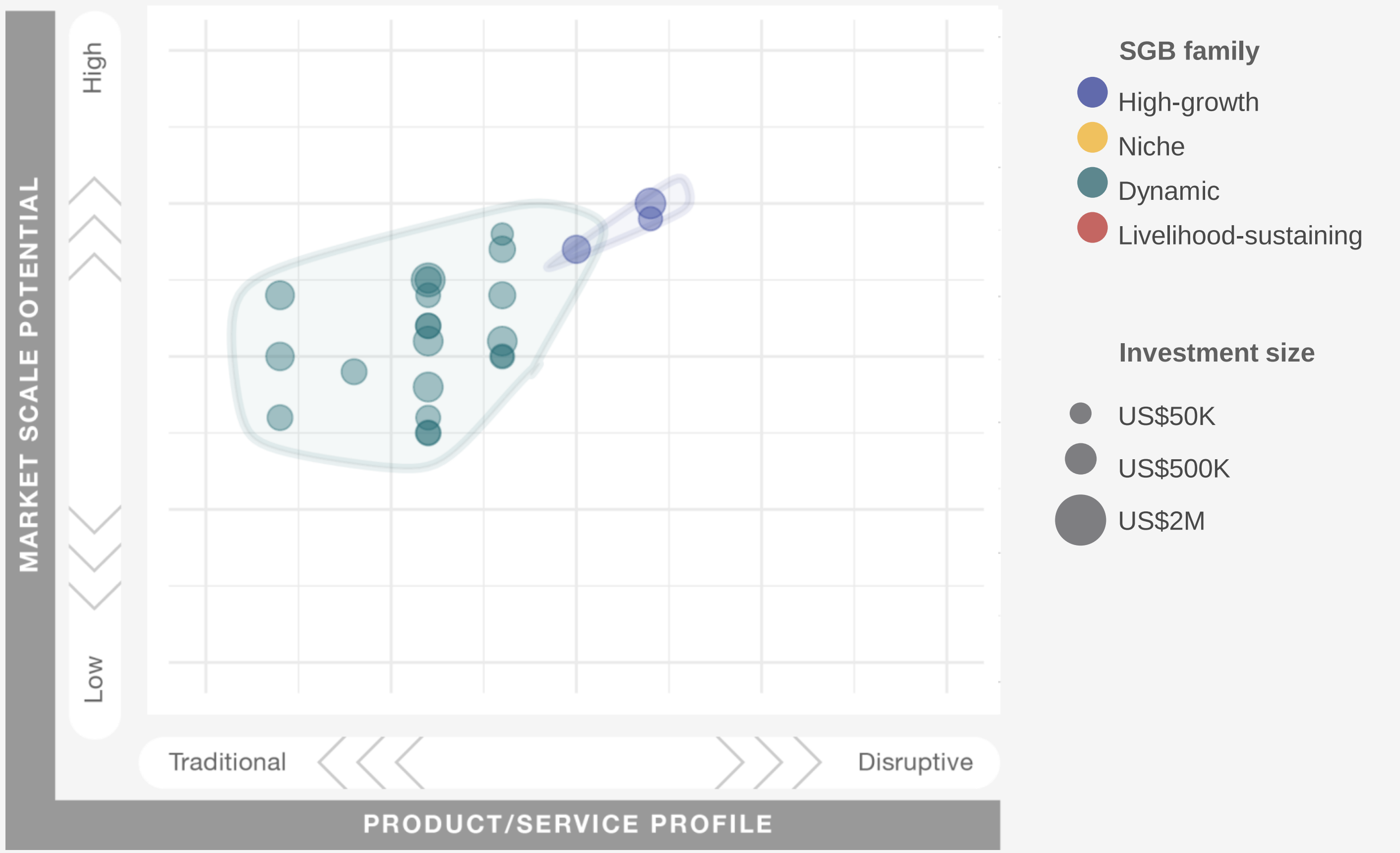
40% of low-income portfolio company employees are under 25

Note: (1) All numbers self-reported and aggregated at the I&P IPDEV2 level, versus individual funds. (2) On average, 55% of the jobs in IPDEV portfolio companies are formal at the time of investment but formalizing employment is a requirement within one year.
Source: I&P, IPDEV II portfolio data, September 2019; I&P, "IPDEV II Annual ESG and Impact Report," 2018; Dalberg analysis.

IPDEV'S PORTFOLIO OF BUSINESSES ARE THE PRODUCT OF A HIGHLY SELECTIVE SOURCING AND DUE DILIGENCE PROCESS THAT HELPS MITIGATE RISK

LENS 1: INVESTEES BY SCALE POTENTIAL, INNOVATION, SGB FAMILY, AND DEAL SIZE

Scale of 1-10, self-reported



KEY INSIGHTS

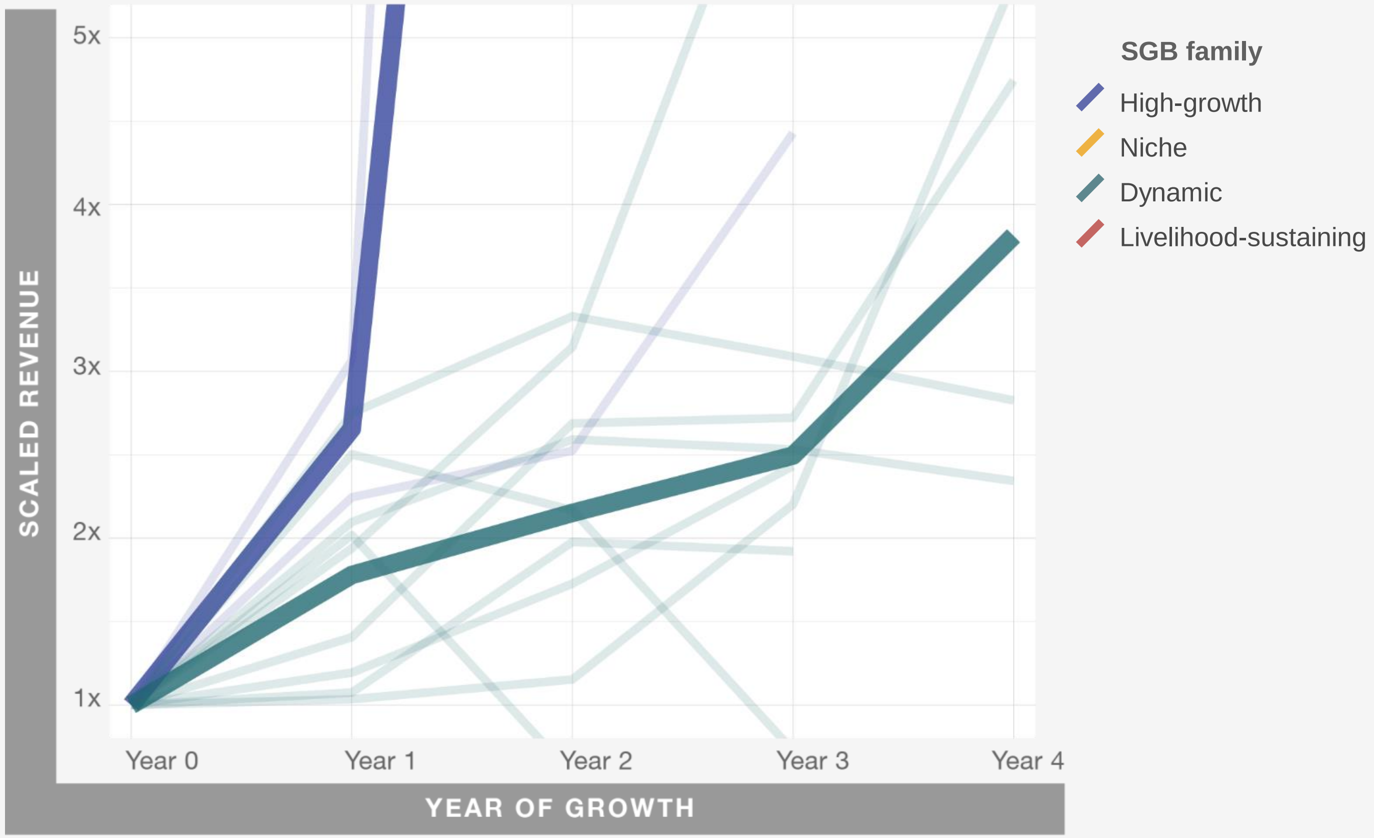
- The funds initiated by IPDEV2 typically invest in traditional business models with medium-high scale potential at relatively small ticket sizes
- IPDEV2 is designed for a highly localized approach, strengthening sourcing and due diligence through local investment manager networks that facilitate a better baseline understanding of the operating environment, mitigate risk, and lower costs
- This highly localized approach helps make the funds initiated by IPDEV2 highly selective in choosing its investees, and allows it to ultimately deliver mezzanine finance at low ticket sizes to traditional firms with moderate scale potential

Note: (1) Market Scale Potential calculated as (Total Addressable Market*.5) + (Competition*.25)+ (Growth and Scale Ambition*.25). (2) Innovation profile rated on a scale from most traditional (low) to most disruptive (high).
Source: Company websites, accessed September 2019; I&P, portfolio data, September 2019.

IPDEV'S INVESTMENTS ARE STRUCTURED AROUND STRONG, BUT GRADUAL GROWTH OF 2-3X REVENUE OVER SEVERAL YEARS

LENS 2: SCALED GROWTH CURVES OF PORTFOLIO COMPANIES

Scaled revenue, as a multiple of the first year of revenue provided



KEY INSIGHTS

- On average, Dynamic investees achieve nearly 4x increases in revenue over four years, while High-growth investees achieve over 5x growth in revenue within two years
- Local investment managers determine the appropriate instrument based on the SGB's needs and market realities; they can thus tailor more equity-like instruments to companies with stronger growth trajectories or exit potentials and more debt-like quasi-equity instruments to those likely to have modest growth and limited exit opportunities
- This approach to aligning expectations enables IPDEV2 to capture the potential upside of its portfolio of funds while filling SGB financing gaps

Note: Methodology: First, revenues were scaled by the first year of available revenue data per company. Second, revenues were aligned to Year 0 based on the first year of revenue available.
Source: Company websites, accessed September 2019; Omnivore, portfolio data, September 2019.

IPDEV'S INVESTEE PROFILES CLUSTER ROUGHLY ALONG A BEHAVIORAL RISK-RETURN LINE

LENS 3: INVESTEES BY LEADERSHIP BEHAVIORS AND SGB FAMILY

Scale of 1-10, self-reported

KEY INSIGHTS

- Investees have medium to high risk tolerance and growth and scale ambition, roughly clustered around a behavioral risk-return line
- The dispersion of leadership behaviors reflects the ability of local investment vehicles to fund a variety of business types, tailoring the instrument and added support to the ambitions and market realities of the investee

Note: (1) Risk tolerance is defined as the entrepreneur's willingness to accept the potential for negative consequences and proceed with a venture despite high likelihood and consequence of failure.
Source: Company websites, accessed September 2019; I&P, portfolio data, September 2019.

iungo capital

IUNGO CAPITAL COMBINES MEZZANINE FINANCE, PRE- AND POST-INVESTMENT SUPPORT, AND PARTNERSHIPS WITH LOCAL ANGEL INVESTORS TO MEET EAST AFRICAN SGB NEEDS

APPROACH: **ADAPT**

iungo capital uses a hybrid, self-liquidating financing structure, partnerships with local angel investors, and an innovative, self-sustaining non-profit technical assistance facility to mitigate investment risk

INVESTMENT STRATEGY

Investment Thesis	Financing for missing middle SGBs can be delivered with market rate returns by combining co-investment with local angels, technical assistance, and a hybrid self-liquidating instrument
Region(s)	East Africa
Sector(s)	Agnostic
Stage(s)	Early Stage and Growth
Investment Size	US$50,000 to US$500,000
Investment Duration	Up to 3-3.5 years for first rounds and up to 4-6 years for second rounds
LP(s)	Family offices, foundations, and institutional investors (e.g., Dutch Good Growth Fund)

PRODUCTS OFFERED

DEBT WITH A REVENUE SHARE

iungo capital provides senior secured debt that combines monthly payments and a revenue share component to contribute to total repayment; capital is typically disbursed in tranches based on pre-determined triggers, such as demonstrated revenue growth

Revenue share proportions are custom to the business, but typically range from 3-7%

KEY PERFORMANCE DRIVERS

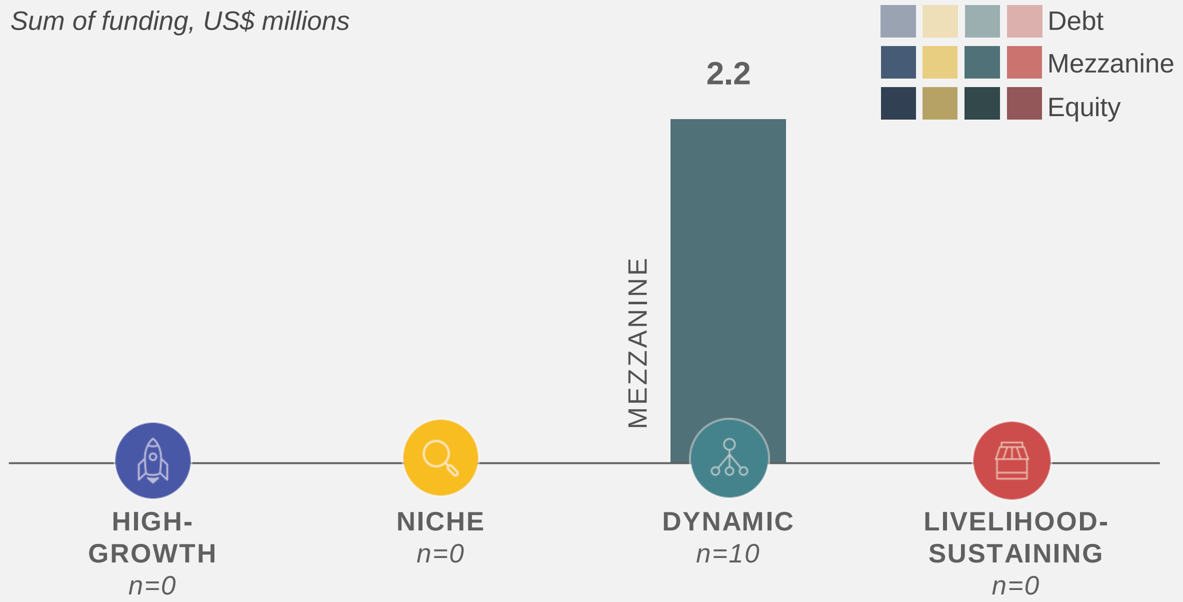
- Quality performance across portfolio, instead of unicorns
- Reduced due diligence time and cost through angel investor input and pre-investment preparation by iungo XL, iungo capital's partner technical assistance facility
- Risk mitigation through revenue-based instruments that reduce exit dependence and flexible time-frames using quasi-evergreen approach

Source: Company websites, accessed September 2019; iungo capital interview; iungo capital website.

IUNGO CAPITAL PROVIDES MEZZANINE FINANCING TO DYNAMIC ENTERPRISES

FUNDING TO ENTERPRISES BY FINANCING TYPE AND SGB FAMILY

Sum of funding, US$ millions



Example Investees

ONE TO FISH

One to Fish is a fish processing and exporting company in Uganda

IMPACT SPOTLIGHT[1]

OVERALL IMPACT

10
investees

WOMEN

132
women employed across 10 portfolio companies

YOUTH

87
individuals under age 35 employed across seven portfolio companies

Note: (1) All numbers self-reported.
Source: iungo capital, portfolio data, September 2019; iungo capital website; company websites.

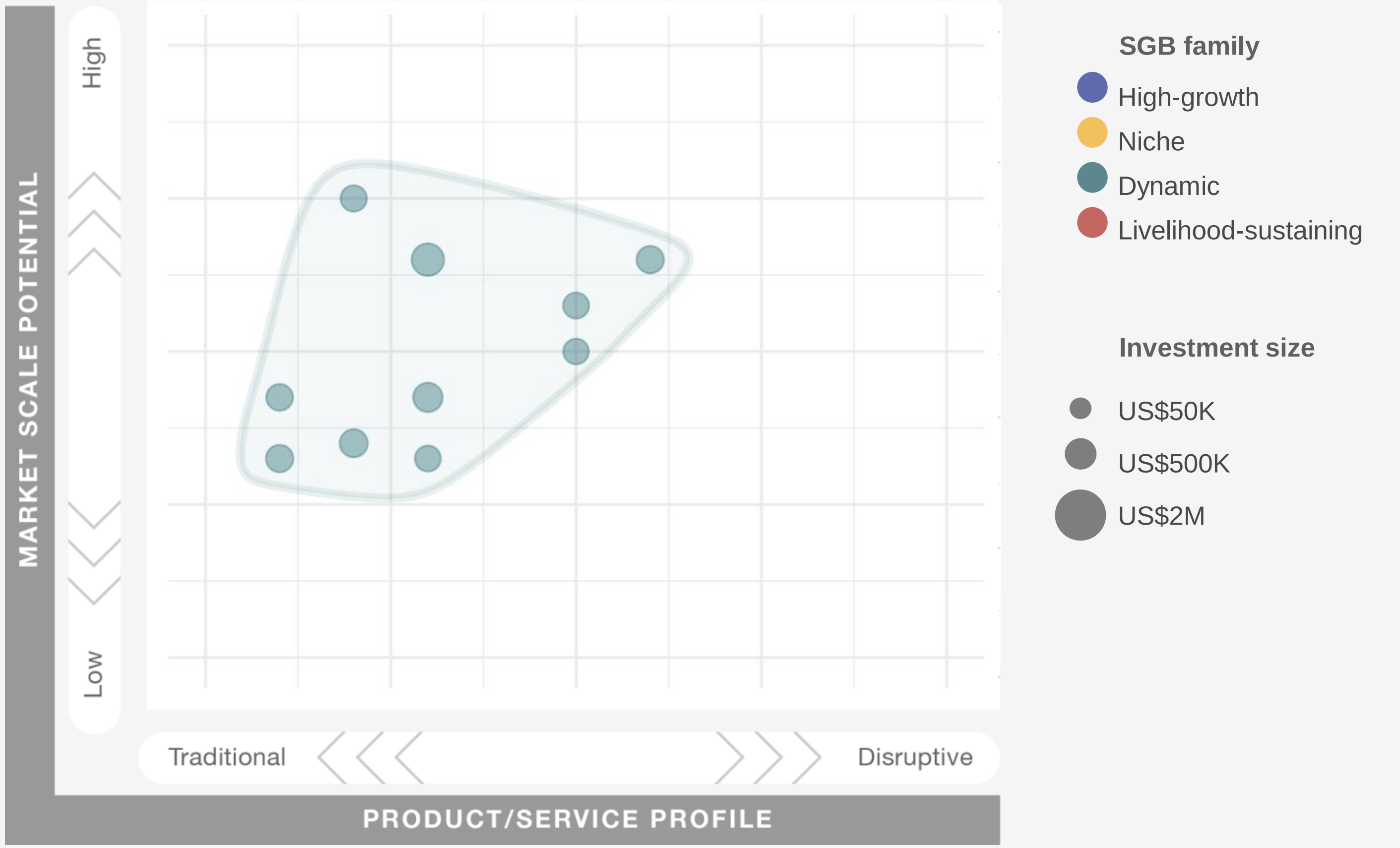
ADAPT

iungo capital

IUNGO CAPITAL DELIVERS LOW TICKET SIZES TO TRADITIONAL SGBS BY REDUCING RISK THROUGH USING LOCAL NETWORKS, A NON-PROFIT TA FACILITY, AND REVENUE-BASED INSTRUMENTS

LENS 1: INVESTEES BY SCALE POTENTIAL, INNOVATION, SGB FAMILY, AND DEAL SIZE

Scale of 1-10, self-reported



KEY INSIGHTS

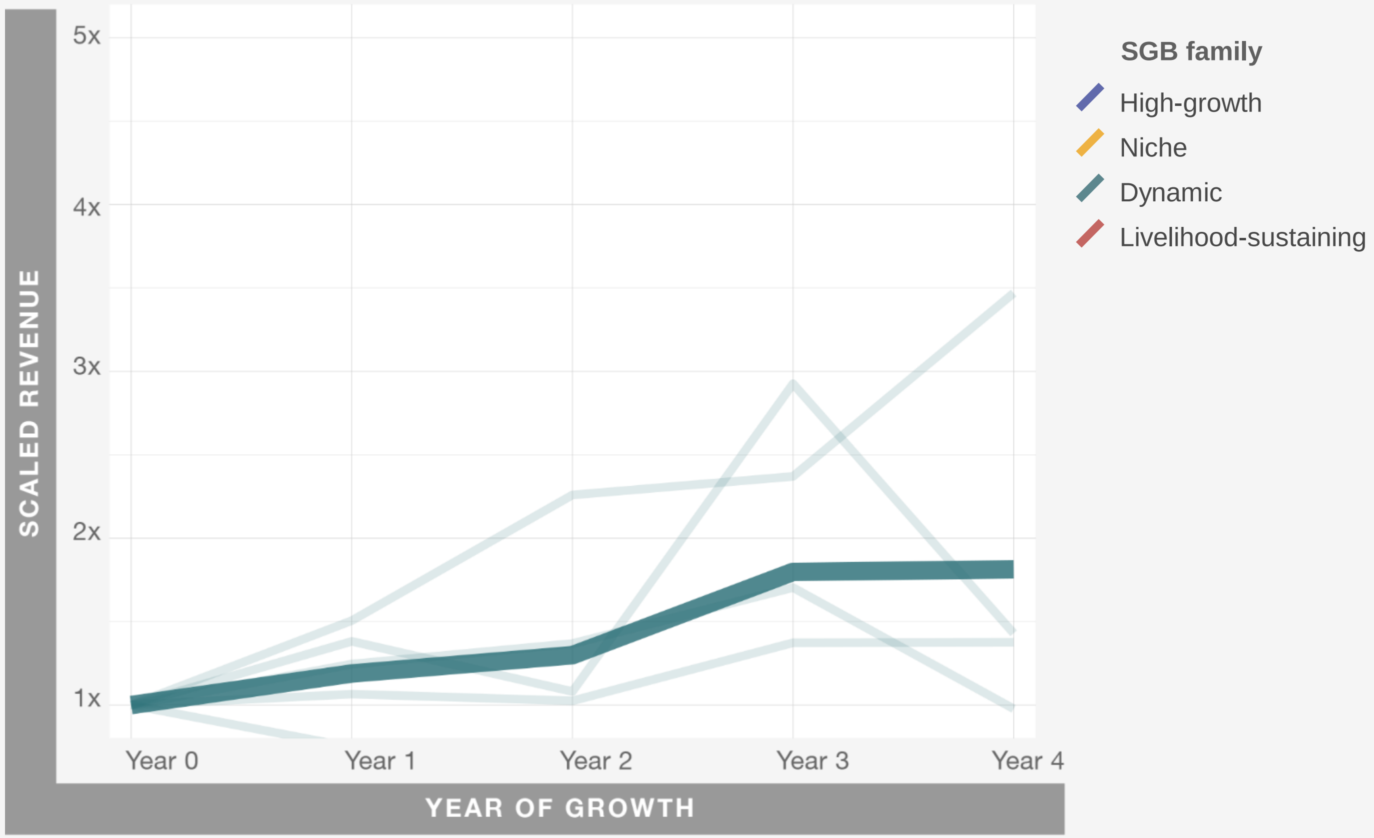
- iungo capital typically invests in traditional business models, with medium-scale potential, at small ticket sizes
- iungo capital is able to invest at a low volume using small ticket sizes by:
  - (1) Keeping sourcing and due diligence costs low through the use of a self-sustaining non-profit technical assistance facility (participants only pay if they receive investment) and a network of angel investors
  - (2) Mitigating risk of lost capital by using revenue-based instruments, conditional capital disbursement, and reputational incentives

Note: (1) Market Scale Potential calculated as (Total Addressable Market*.5) + (Competition*.25)+ (Growth and Scale Ambition*.25). (2) Innovation profile rated on a scale from most traditional (low) to most disruptive (high).
Source: Company websites, accessed September 2019; iungo capital, portfolio data, September 2019; company interviews.

GIVEN LIMITED MARKET SCALE POTENTIALS AND TRADITIONAL BUSINESS MODELS, IUNGO CAPITAL'S INVESTEES GENERALLY ACHIEVE MODEST GROWTH

LENS 2: SCALED GROWTH CURVES OF PORTFOLIO COMPANIES

Scaled revenue, as a multiple of the first year of revenue provided



KEY INSIGHTS

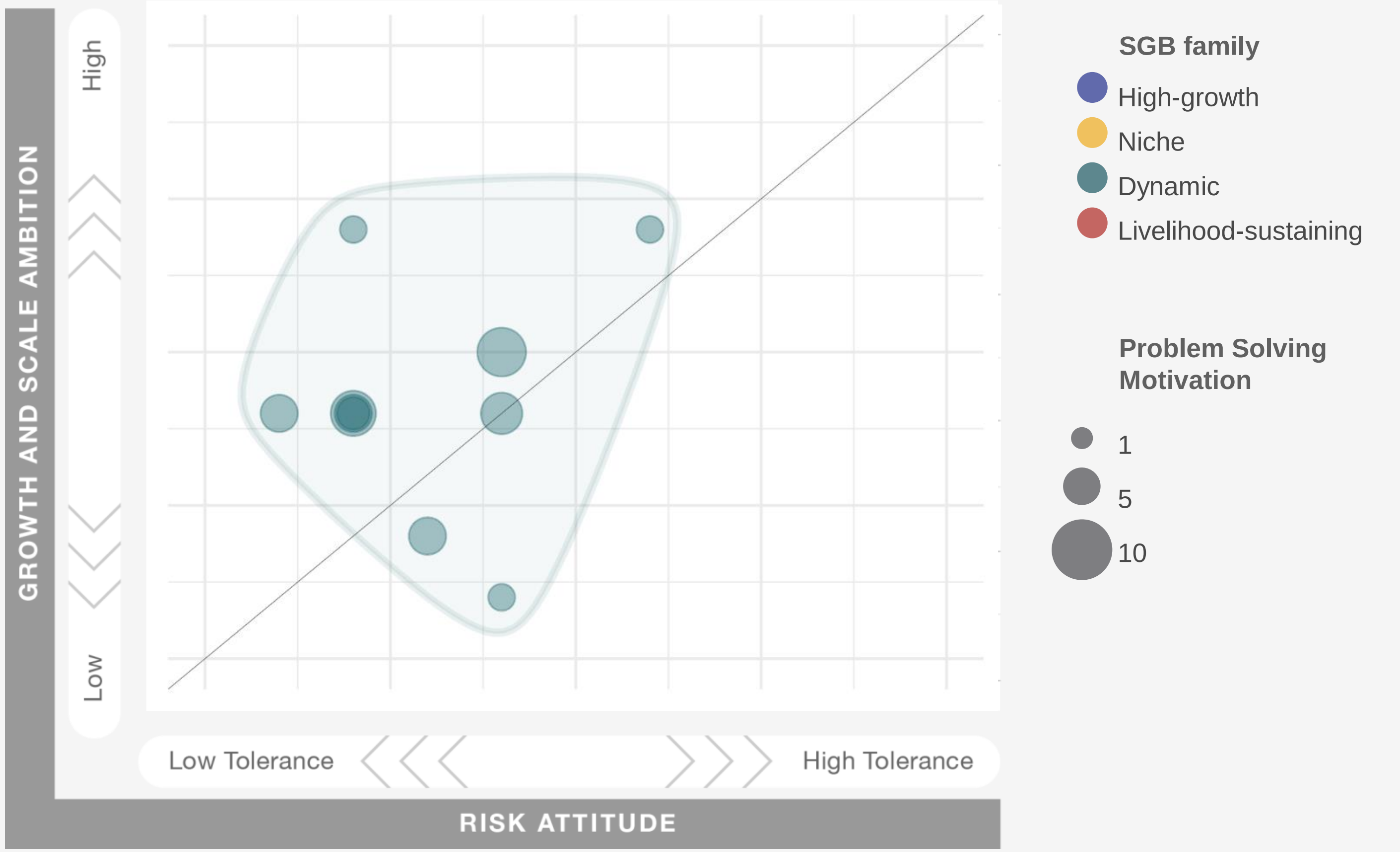
- Although growth among investees is varied, the average, Dynamic investee achieved a 2x increase in revenue over five years
- Although this growth increase would not support the exit requirements of more equity-like instruments (particularly in thin capital markets), iungo capital's approach combines both debt and a revenue share to reduce the risk of capital loss while also capturing potential upside of strong growth

Note: Methodology: First, revenues were scaled by the first year of available revenue data per company. Second, revenues were aligned to Year 0 based on the first year of revenue available.
Source: Company Websites, accessed September 2019; iungo capital, Portfolio Data, September 2019; Company Interviews

IUNGO CAPITAL'S INVESTEES TYPICALLY AIM TO SOLVE MORE PERSONAL-LEVEL CHALLENGES, AND DISPLAY A RANGE OF GROWTH AMBITIONS AND RISK TOLERANCES

LENS 3: INVESTEES BY LEADERSHIP BEHAVIORS AND SGB FAMILY

Scale of 1-10, self-reported



KEY INSIGHTS

- iungo capital's lendees display more personal problem-solving motivations, a range of growth and scale ambitions, and medium risk tolerance
- Despite high growth ambitions, due to market constraints and traditional-leaning business models, most will expand gradually, for example by moving to a larger factory space or adding new productive assets
- iungo capital's entrepreneurs may have a higher risk tolerance than expected for Livelihood or Dynamic Enterprises, which may be associated with their willingness to try unfamiliar investment tools

Note: (1) Risk tolerance is defined as the entrepreneur's willingness to accept the potential for negative consequences and proceed with a venture despite high likelihood and consequence of failure.
Source: Company websites, accessed September 2019; iungo capital, portfolio data, September 2019; company interviews.

Pomona Impact

POMONA IMPACT PROVIDES DEBT-CENTRIC MEZZANINE FINANCING (PRIMARILY SUBORDINATED DEBT AND REVENUE-BASED LOANS) TO EARLY STAGE SOCIAL ENTERPRISES IN CENTRAL AMERICA

APPROACH: **ADAPT**

Pomona Impact provides revenue-based loans, subordinated debt, and, less frequently, equity, along with hands-on support, to strengthen the financial viability and impact of early stage SGBs with social missions

INVESTMENT STRATEGY

Investment Thesis	Promote sustainable wealth creation and improved social outcomes by financing SGBs that create jobs and develop solutions to social/environmental challenges
Region(s)	Central America
Sector(s)	Agribusiness; AgTech; Basic Services; Other
Stage(s)	Early stage
Investment Size	US$50,000 to US$200,000
Investment Duration	3-7 years
LP(s)	Institutional investors (e.g., IDB Lab)

PRODUCTS OFFERED

REVENUE-BASED LOANS WITH A WARRANT KICKER
Investees pay back loans at a percentage of revenues (which ramp up over time) until three times the original capital has been returned with the option of a small warrant kicker to maximize upside potential

SUBORDINATED DEBT
Scheduled payments of principal and interest

EQUITY
Both preferred and common shares and also convertible debt

KEY PERFORMANCE DRIVERS

- Can pursue deals opportunistically due to flexible approach
- High-touch support reduces default rates
- Reduced dependency on exits for revenues and more consistent cash flow

Source: Company websites, accessed September 2019; Pomona, portfolio data, September 2019; Pomona Impact, Impact Report 2017-2018, 2018.

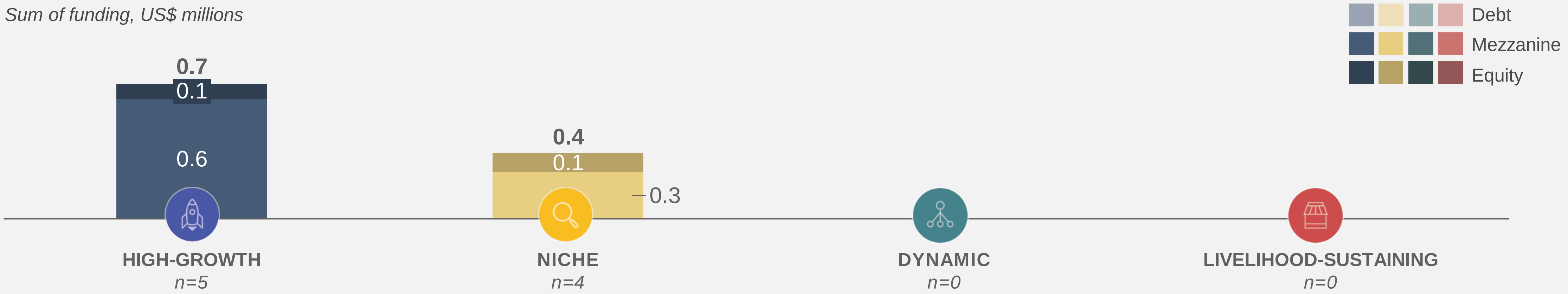
ADAPT

POMONA IMPACT

INVESTEES TEND TO BE HIGH-GROWTH OR NICHE VENTURES THAT RECEIVE MEZZANINE INVESTMENT

FUNDING TO ENTERPRISES BY FINANCING TYPE AND SGB FAMILY

Sum of funding, US$ millions



Example Investees

YELLOW PALLET

Yellow Pallet manufactures transport pallets from banana fiber by-product

WILD Gum

Wild Gum makes organic, biodegradable chicle (chewing gum), for global sale

IMPACT SPOTLIGHT[1]

OVERALL IMPACT

166 jobs created by portfolio companies

9,890 Low-income persons touched

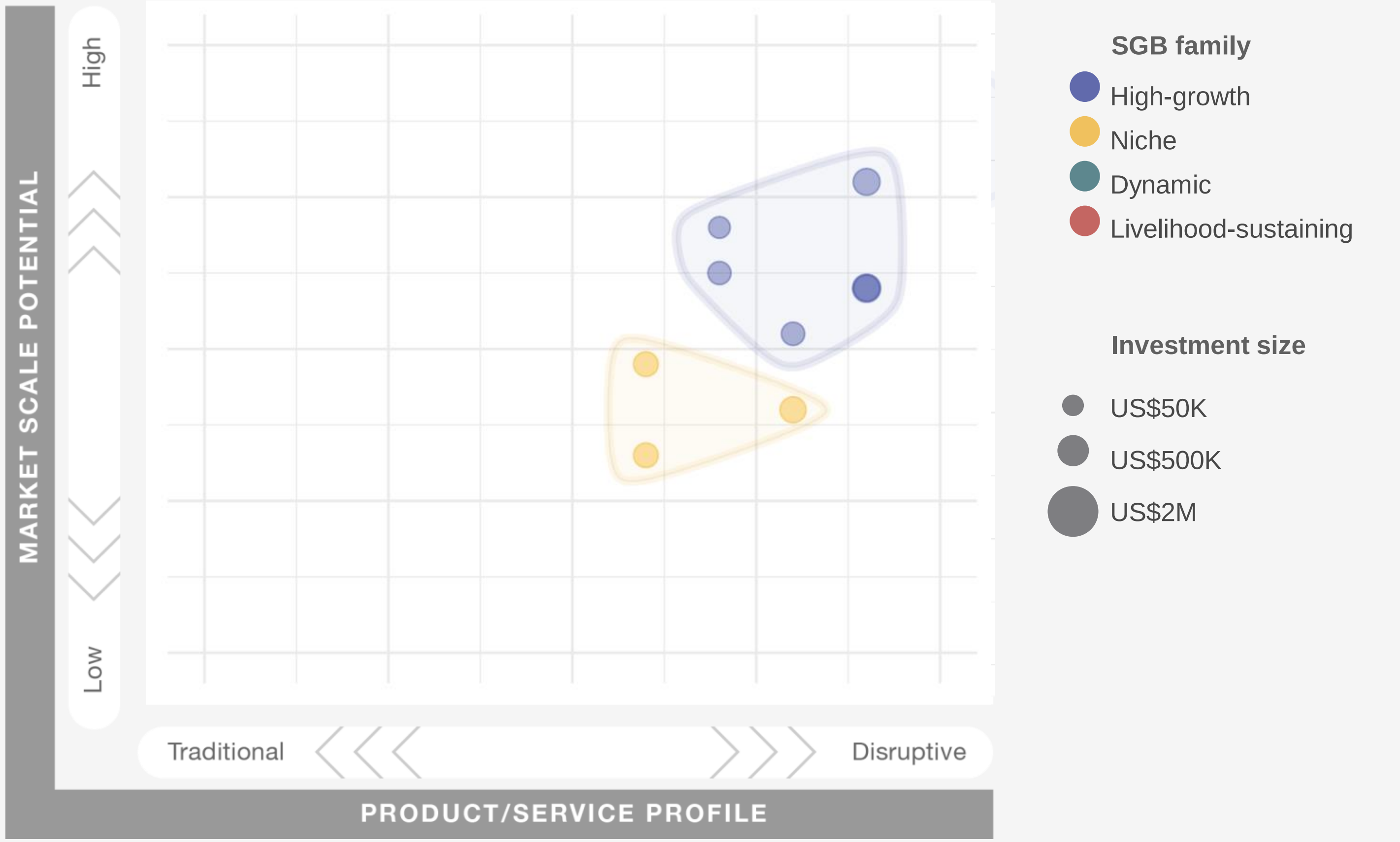
Note: (1) All numbers self-reported.

Source: Company websites, accessed September 2019; Pomona, portfolio data, September 2019; Pomona Impact, Impact Report 2017-2018, 2018.

INVESTEES ARE HIGHLY INNOVATIVE, WITH MEDIUM-TO-LARGE SCALE POTENTIALS

LENS 1: INVESTEES BY SCALE POTENTIAL, INNOVATION, SGB FAMILY, AND DEAL SIZE

Scale of 1-10, self-reported



KEY INSIGHTS

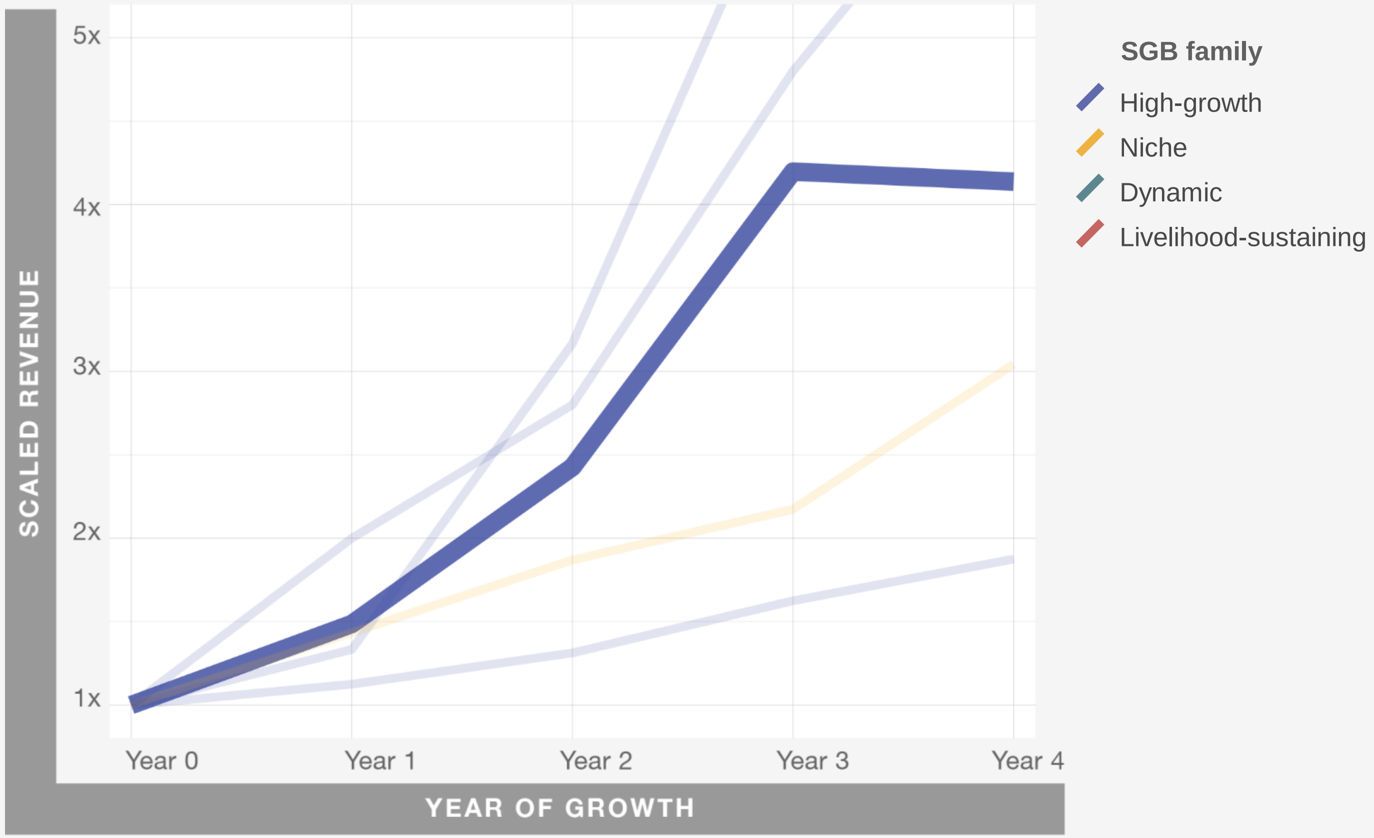
- Pomona's investees generally provide highly innovative or disruptive services or products (e.g., pallets made from agro-processing waste) and have medium- to large-scale potential
- Pomona customizes products, but they typically include an element to capture upside potential and structuring exits at the outset

Note: (1) Market Scale Potential calculated as (Total Addressable Market*.5) + (Competition*.25)+ (Growth and Scale Ambition*.25). (2) Innovation profile rated on a scale from most traditional (low) to most disruptive (high).
Source: Company websites, accessed September 2019;Pomona, portfolio data, September 2019.

BY USING A MIX OF EQUITY INVESTMENTS, REVENUE-BASED LOANS, AND SUBORDINATED DEBT, POMONA MITIGATES PORTFOLIO-LEVEL RISK WHILE CAPTURING UPSIDE POTENTIAL

LENS 2: SCALED GROWTH CURVES OF PORTFOLIO COMPANIES

Scaled revenue, as a multiple of the first year of revenue provided



KEY INSIGHTS

- Pomona's portfolio companies achieved strong revenue growth over recent years, reaching on average at 4x increase over four years
- Many of Pomona's investments are tied to company performance in terms of revenues, which both builds in upside potential and also reduces reliance on exits due to revenue sharing products
- By combining equity investments, revenue-based loans, and subordinated debt, Pomona balances product risk at the portfolio balance

Note: Methodology: First, revenues were scaled by the first year of available revenue data per company. Second, revenues were aligned to Year 0 based on the first year of revenue available.
Source: Company websites, accessed September 2019; Pomona, portfolio data, September 2019.

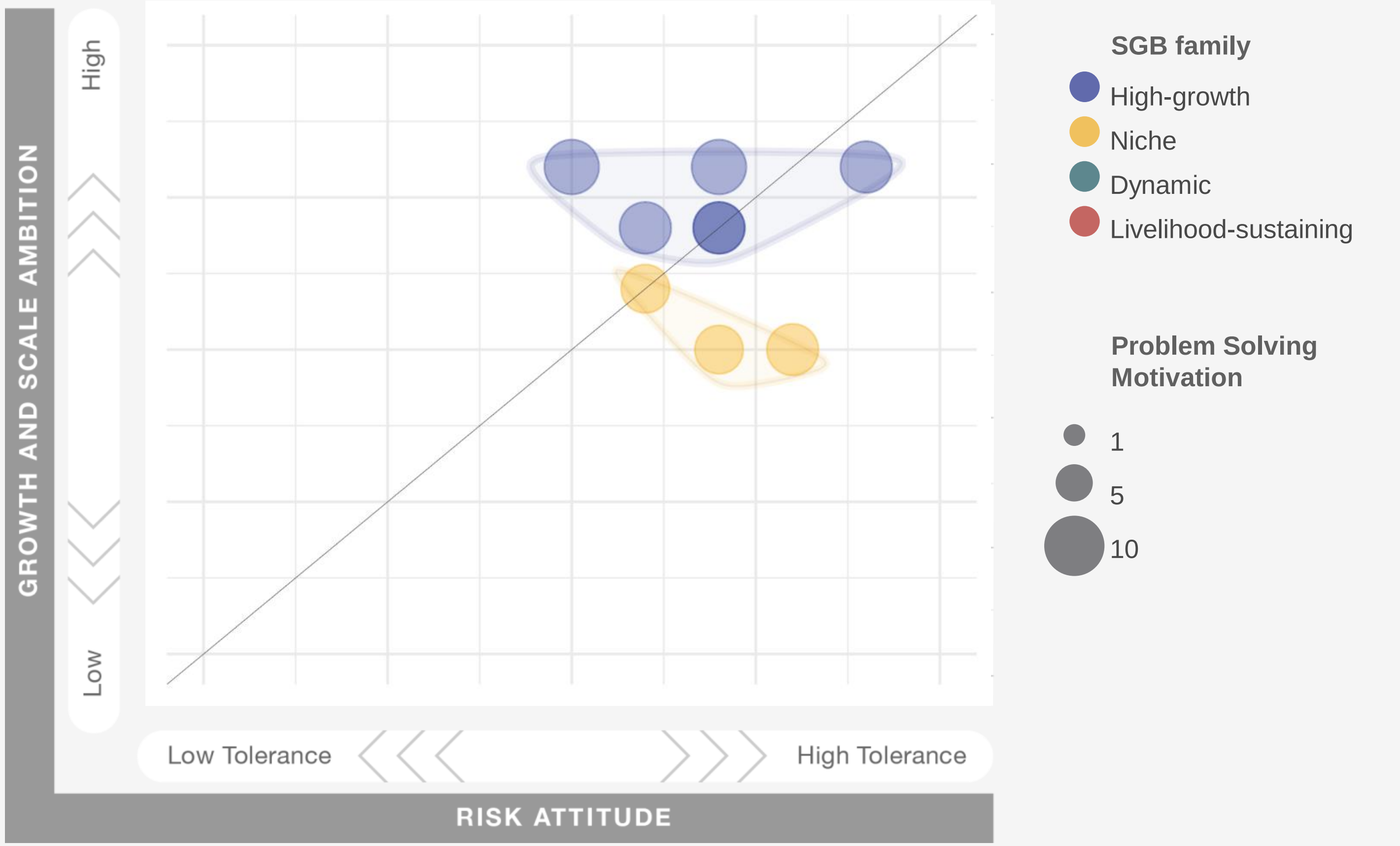
ADAPT

POMONA IMPACT

INVESTEES ARE AMBITIOUS, RISK TOLERANT, AND SOCIETALLY MOTIVATED, A COMBINATION THAT SUPPORTS BRINGING INNOVATIVE AND DISRUPTIVE PRODUCTS TO MARKET

LENS 3: INVESTEES BY LEADERSHIP BEHAVIORS AND SGB FAMILY

Scale of 1-10, self-reported



KEY INSIGHTS

- Pomona's investees display high tolerance for risk and growth and scale ambitions, roughly clustered around a behavioral risk-return line
- Investees seek to solve societal challenges and create impact through a high-growth business model
- These leadership characteristics are critical to scaling unproven or disruptive services and products to market

Note: (1) Risk tolerance is defined as the entrepreneur's willingness to accept the potential for negative consequences and proceed with a venture despite high likelihood and consequence of failure.
Source: Company websites, accessed September 2019; Pomona, portfolio data, September 2019.

Business Partners International

BUSINESS PARTNERS LEVERAGES IN-HOUSE EXPERTISE ON SPECIFIC SECTORS WITH STANDARDIZED BUT FLEXIBLE INVESTMENT PRODUCTS TO SERVE SGBS AT LOW COST

APPROACH: **SYSTEMATIZE**

Business Partners International (BPI) combines standardized investment products with deep in-house expertise about market risks to provide semi-customized solutions for SGBs at a high volume and low cost

INVESTMENT STRATEGY

Investment Thesis	BPI invests in formal small and growing businesses in seven African countries, mitigating risk and providing cost-effective finance through process standardization and value-add services
Region(s)	East and Southern Africa
Sector(s)	Agnostic
Stage(s)	Early Growth to Mature
Investment Size	US$50,000 to US$1 million
Investment Duration	Investment dependent
LP(s)	Corporate bodies, governments, multilateral institutions, banks

PRODUCTS OFFERED

BPI has a set of standardized investment products that they can customize for each deal, from equity to different types of mezzanine finance to straight debt; their products often include a performance component and/or self liquidating mechanism

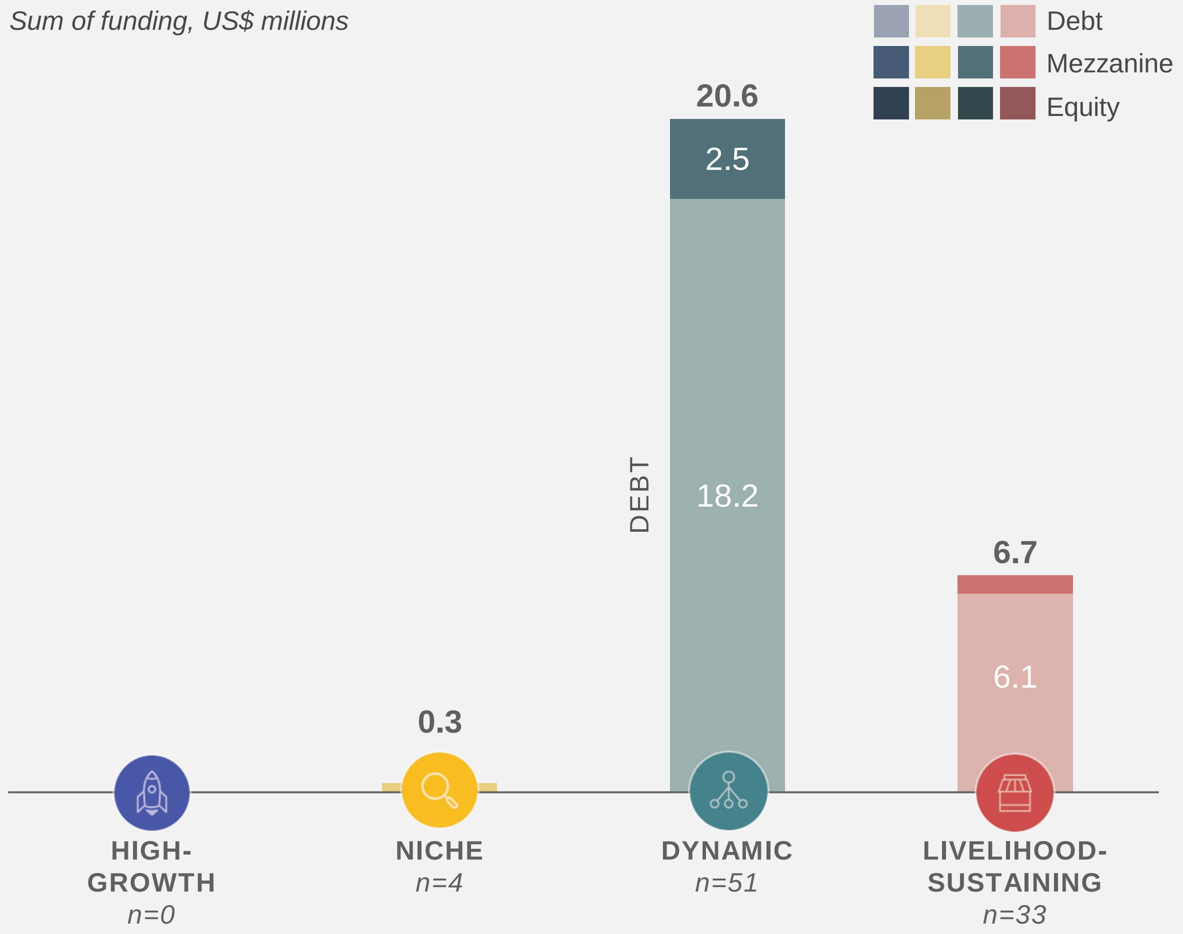
KEY PERFORMANCE DRIVERS

- Evergreen structure allows for patient capital and continual reinvestment of returns
- Streamlined due diligence and valuation process drawing on an extensive database of past deals that enables rapid turn-around times and reduced reliance on outside experts
- High transaction volume
- Revenue-share instruments mitigate risk by providing immediate cash flow
- Hands-on technical assistance program provides training for gaps in business expertise

Source: Company websites, accessed September 2019; BPI interview; BPI website.

BPI'S EAST AFRICA AND SOUTHERN AFRICA FUNDS PRIMARILY DELIVER MEZZANINE FINANCE TO DYNAMIC AND LIVELIHOOD-SUSTAINING ENTERPRISES

FUNDING TO ENTERPRISES BY FINANCING TYPE AND SGB FAMILY



IMPACT SPOTLIGHT[1]

OVERALL IMPACT

38k+ jobs sustained

396 technical assistance interventions

WOMEN

37% of entrepreneurs are women

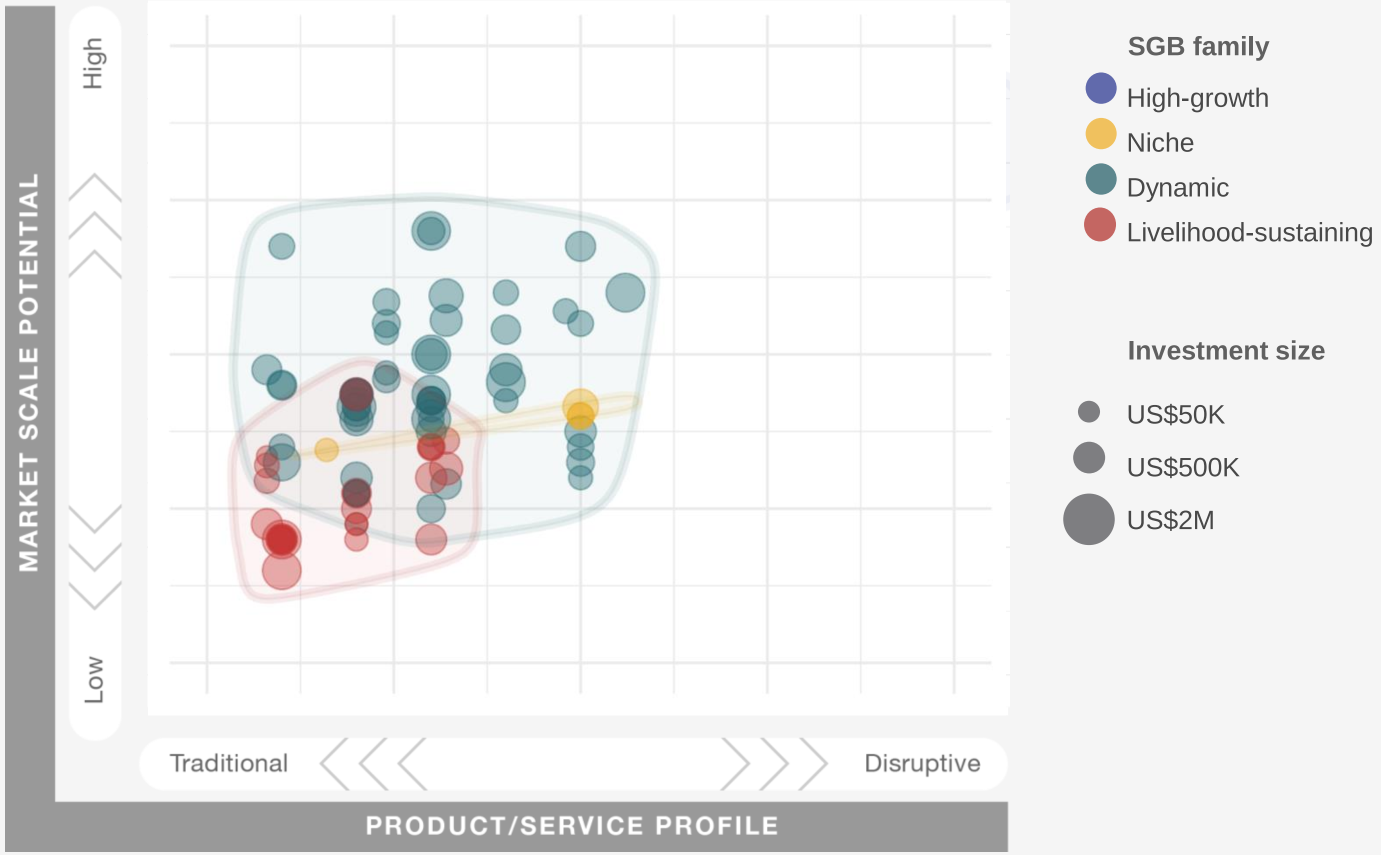
170 women-owned businesses supported

Note: (1) Sample of investees does not include businesses South Africa or Namibia as well as one firm that remained unclassified. In total, BPI's investment activity over the past six years is US$38.25 million. (2) All numbers self-reported.
Source: BPI, portfolio data, September 2019; BPI website; Dalberg analysis.

BPI'S EXPERTISE ON SPECIFIC SECTORS ALLOWS THEM TO INVEST IN A RANGE OF DYNAMIC ENTERPRISES AS WELL AS MORE DOWN-MARKET LIVELIHOOD-SUSTAINING ENTERPRISES

LENS 1: INVESTEES BY SCALE POTENTIAL, INNOVATION, SGB FAMILY, AND DEAL SIZE

Scale of 1-10, self-reported



KEY INSIGHTS

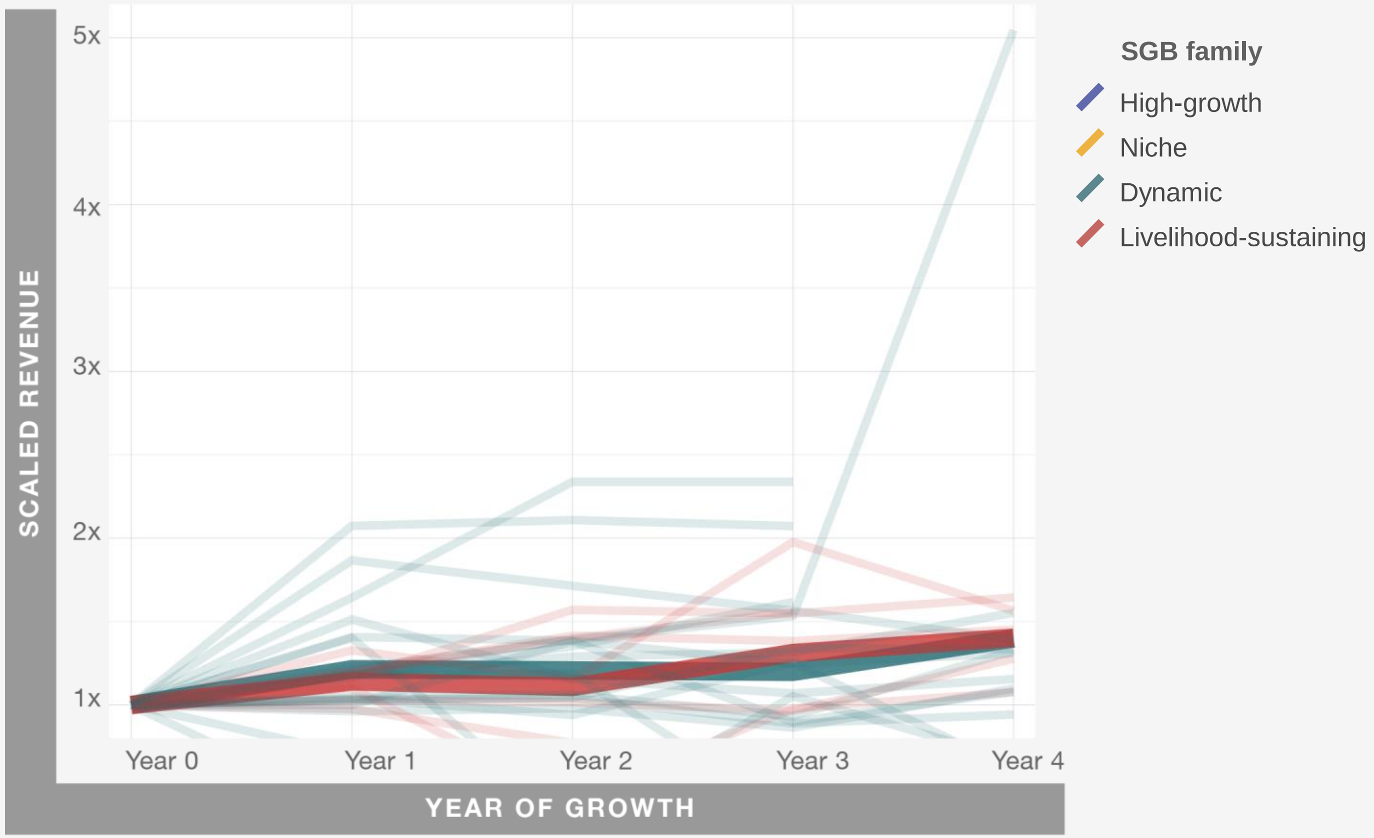
- BPI typically invests in traditional business models (Dynamic Enterprises) with a wide range of market potentials and innovation profiles
- The flexibility of BPI's model allows it to serve the lower end of the market (Livelihood-sustaining Enterprises) as well as Niche Ventures

Note: (1) Market Scale Potential calculated as (Total Addressable Market*.5) + (Competition*.25)+ (Growth and Scale Ambition*.25). (2) Innovation profile rated on a scale from most traditional (low) to most disruptive (high).
Source: Company websites, accessed September 2019; BPI, portfolio data, September 2019; company interviews.

BPI'S PORTFOLIO COMPANIES MODERATELY INCREASE REVENUES, AND VARIABILITY ACROSS INVESTMENTS IS RELATIVELY LOW

LENS 2: SCALED GROWTH CURVES OF PORTFOLIO COMPANIES

Scaled revenue, as a multiple of the first year of revenue provided



KEY INSIGHTS

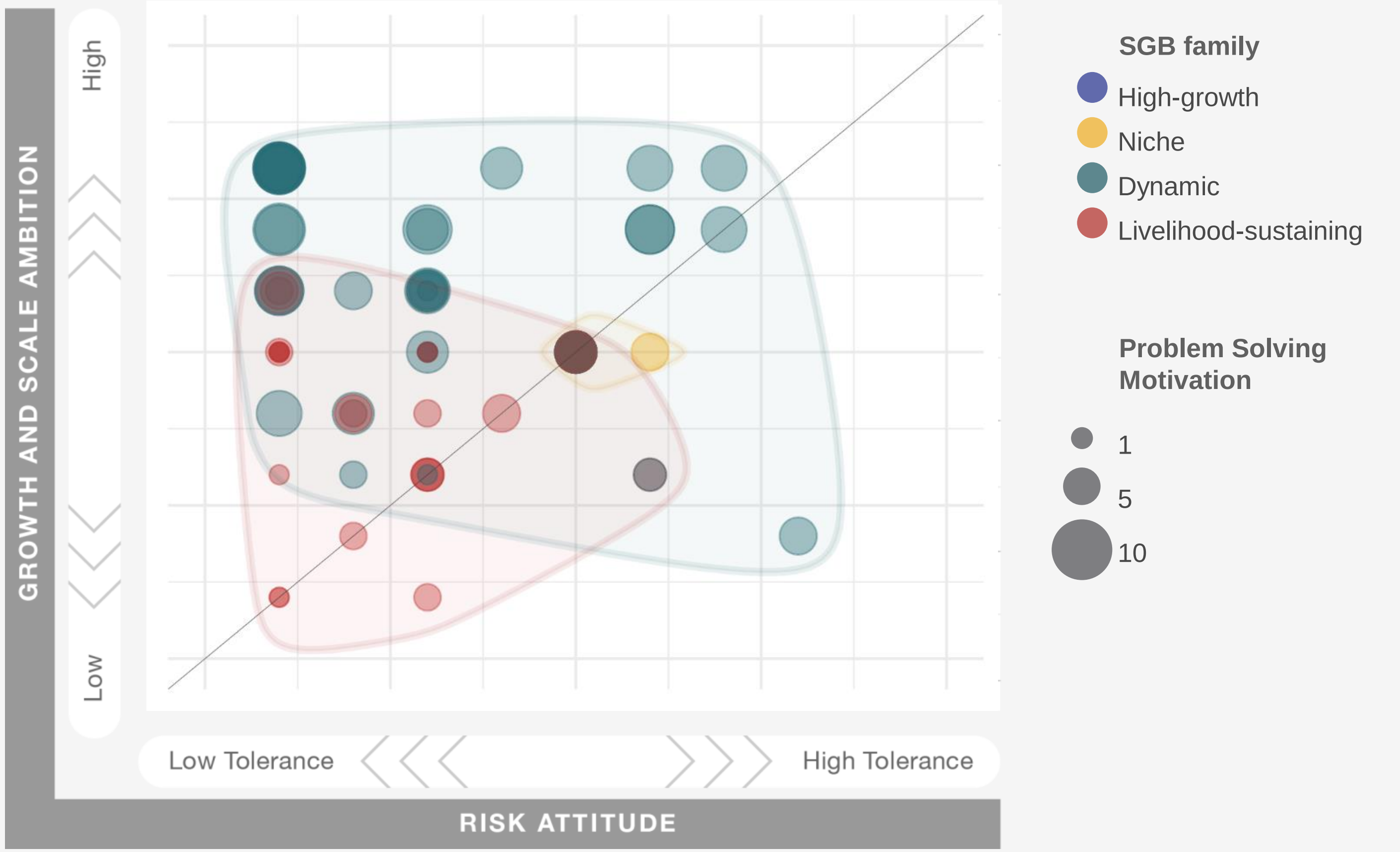
- BPI's investees display modest revenue growth: an increase of about 1.5 times over four years
- The modest revenue growth and low variability overall makes mezzanine products such as revenue-based loans a good fit for mitigating risk and achieving market rate returns

Note: Methodology: First, revenues were scaled by the first year of available revenue data per company. Second, revenues were aligned to Year 0 based on the first year of revenue available.
Source: Company websites, accessed September 2019; BPI, portfolio data, September 2019; company Interviews.

BPI'S INVESTEES ARE RELATIVELY RISK AVERSE, AND DIFFERING NEEDS ACCORDING TO GROWTH AMBITIONS MAY BE MET BY COACHING AND MENTORSHIP

LENS 3: INVESTEES BY LEADERSHIP BEHAVIORS AND SGB FAMILY

Scale of 1-10, self-reported



KEY INSIGHTS

- Overall, BPI's investees are relatively risk averse and have a diverse range of growth ambitions and problem-solving motivations
- To achieve growth ambitions, BPI's lendees may work with local mentors who provide them with coaching to support business performance and expansion

Note: (1) Risk tolerance is defined as the entrepreneur's willingness to accept the potential for negative consequences and proceed with a venture despite high likelihood and consequence of failure.
Source: Company websites, accessed September 2019; BPI, portfolio data, September 2019; company interviews.

SMEcorner

SMECORNER USES A DIGITALLY ENABLED APPROACH TO PROVIDE UNSECURED AND SECURED LOANS TO FILL WORKING CAPITAL NEEDS OF TRADITIONAL SGBS

APPROACH: **DIGITIZE**

SMEcorner provides working capital in the form of unsecured and secured loans to SGBs using a digitally enabled approach

INVESTMENT STRATEGY

Investment Thesis	SMEcorner provides working capital to traditional businesses at a competitive rate but high volume
Region(s)	India
Sector(s)	Agnostic
Stage(s)	Early Growth to Mature
Investment Size	~US$10,000 on average
Investment Duration	~28 months
LP(s)	Investors include the Dutch Good Growth Fund, Accion Venture Lab, and Quona Capital

PRODUCTS OFFERED

UNSECURED LOANS
SMEcorner provides collateral-free business loans between US$700 and US$35,000 across a variety of repayment tenors

TRADITIONAL LOANS
SMEcorner provides secured loans between US$2,800 and US$107,000 at tenures up to 15 years

KEY PERFORMANCE DRIVERS

- Business model empowers attractive returns despite low margins due to high transaction volume
- Automated, data-driven process allows for continuous learning and improved risk assessment over time
- Semi-automated processes and alternative data collected during in-person customer acquisition drives costs down, while maintaining highly effective due diligence

Source: Company websites, accessed September 2019; SMEcorner, portfolio data, September 2019; SMEcorner interview.

SMECORNER'S APPROACH TO APPROVING LOANS RELIES ON IN-PERSON VISITS COUPLED WITH DIGITALLY ENABLED INTERVIEWS, FOLLOW-UP, AND DECISION MAKING

CUSTOMER ACQUISITION

- SMEcorner representatives go door to door meeting potential customers – small, traditional, family-owned businesses
- They spend 30-40 minutes discussing business and funding needs, and if a match, the funding options available
- If interested, the SMEcorner representative takes photos of the business and notes data points, including level of customer traffic

CREDIT ASSESSMENT

- Lendees receive a mobile link to an automated interview, during which they digitally provide key business activity and financial information, such as the intended use of capital and current revenues
- SMEcorner conducts a reference check with customers and suppliers to determine the quality of the relationships (e.g., does the business pay suppliers on time)
- SMEcorner inputs information into an automated decision-making process, which determines creditworthiness using factors including CIBL score, past performance,[1] lendee age, business/sector experience, and customer traffic

DIGITIZED APPROACH TO CUSTOMER ACQUISITION AND CREDIT ASSESSMENT

DOORSTEP ACCESS

Sales App

Through FOS & Bulk Acquisition - Supply Chain Channel

DIGITIZE PAPER FOR QUICKER LOANS

Cognitive Data Analyzer

Using an AI/ML enabled engine for data extraction and analysis

Documents scanned in the field

TECH & DATA SCIENCE ENABLED UNDERWRITING

Web Scraping Credit Mining App
Auto-generated Pre-PD Summary
Auto-generated Appraisal Note
Bounce Probability Check
Physical PD

DECISION

Rule-Based Mapping Engine

Principal

Platform Partners

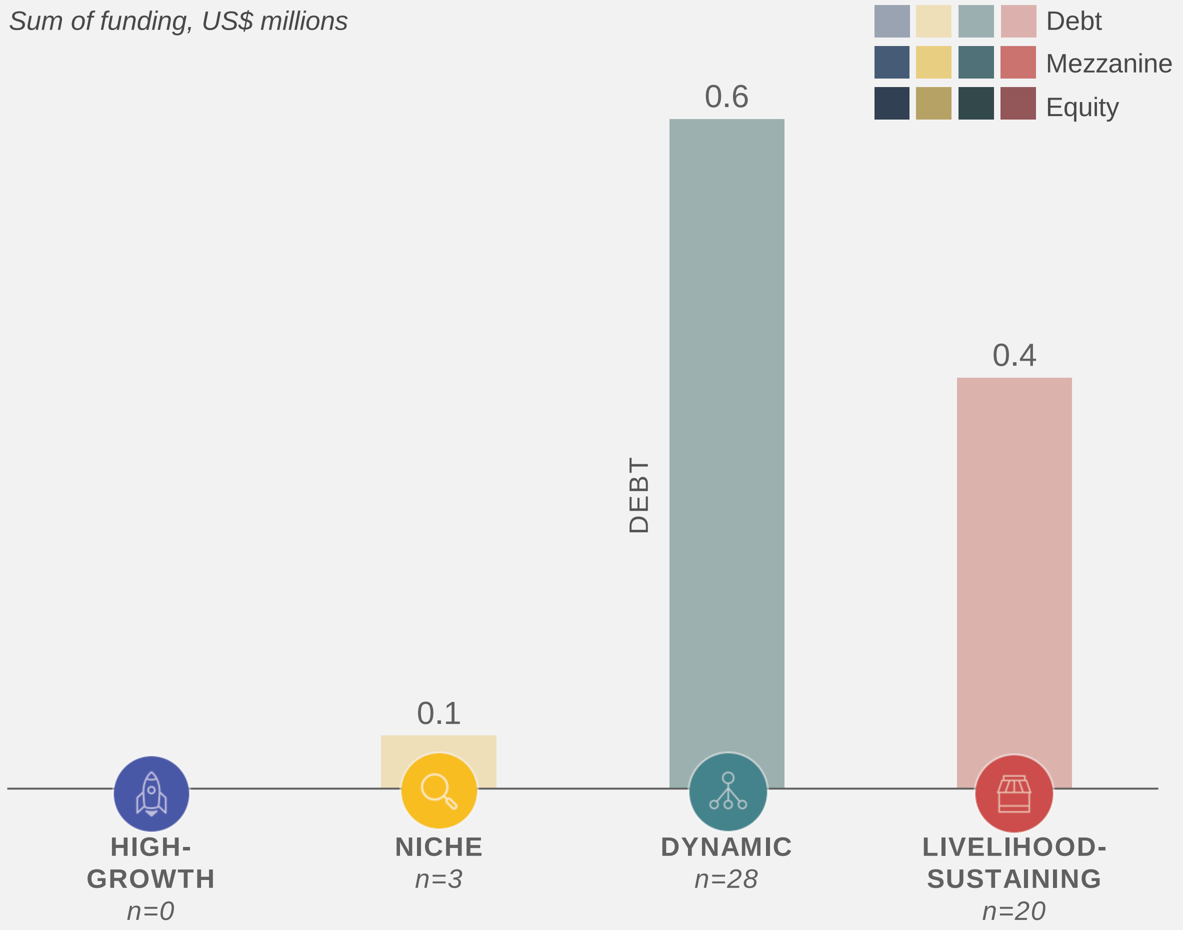
Note: (1) Importantly, SMEcorner does not make credit decisions on any growth potential, instead focusing on measures of past success.
Source: SMEcorner interview; SMEcorner, portfolio data, September 2019; Dalberg analysis.

DIGITIZE

SMECORNER

SMECORNER PROVIDES LOANS MOSTLY TO DYNAMIC AND LIVELIHOOD-SUSTAINING ENTERPRISES

FUNDING TO ENTERPRISES BY FINANCING TYPE AND SGB FAMILY



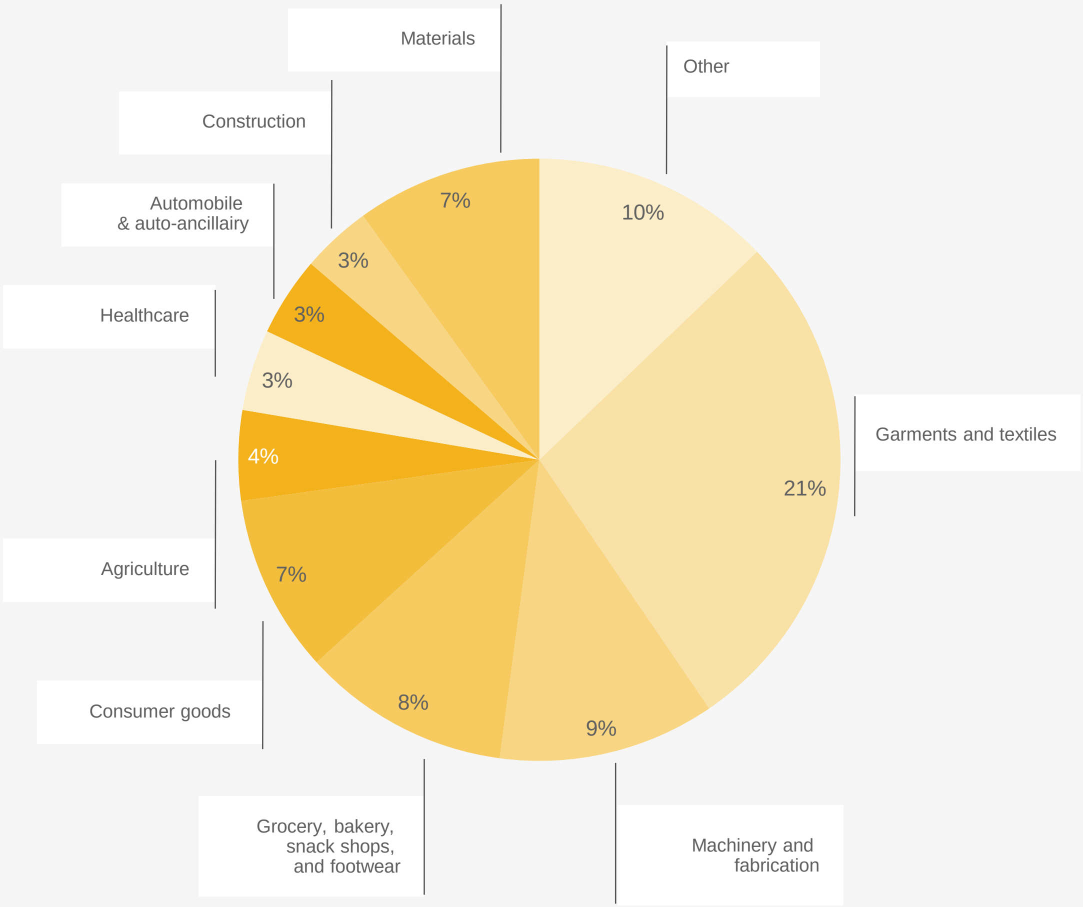
SPECIAL CONSIDERATIONS

- SMEcorner fills missing middles gaps by using a digitized approach that enables low-cost service provision
- Lending decisions are based on limited and alternative data collected through in-person customer acquisition visits, automated interviews, and digital applications, which at scale inform machine-based credit decision making
- Though SMEcorner does consider SGB type in its customer targeting, it does not consider the market scale potential, innovation profile, and specific leadership behaviors (risk tolerance, growth ambition, and problem solving motivation) of each individual organization
- As such, SMEcorner's portfolio is better analyzed through other metrics collected, such as sector and ticket size

Note: (1) All numbers self-reported.
Source: SMEcorner, portfolio data, September 2019; Dalberg analysis.

HIGH PREVALENCE OF TRADITIONAL BUSINESSES IN TRANSPORTATION, HEALTH, FOOD SERVICE, AND AGRICULTURE REDUCES COMPLEXITY AND EMPOWERS RISK MITIGATION

LENS 1: INVESTEES BY SECTOR AND BUSINESS ACTIVITY



KEY INSIGHTS

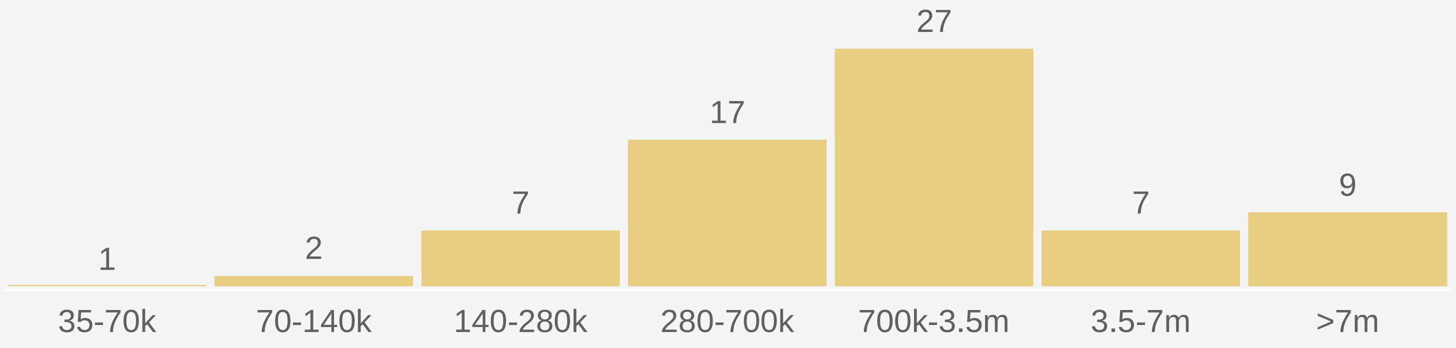
- SMEcorner's investees follow traditional business models, particularly in the transportation and storage and human, food, and accommodation services
- Consolidation into a handful of business sectors and activities is helpful for pattern recognition (e.g., indicators of success)

Note: (1) All numbers self-reported.
Source: SMEcorner, portfolio data, September 2019; Dalberg analysis.

MOST LENDEES REACH BETWEEN US$300,000 AND US$3.5 MILLION IN ANNUAL TURNOVER

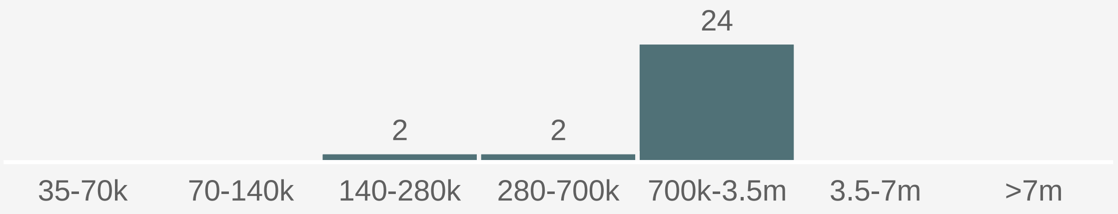
LENS 2: REVENUE DISTRIBUTION OF SAMPLE LENDEES

Range of revenues, US$

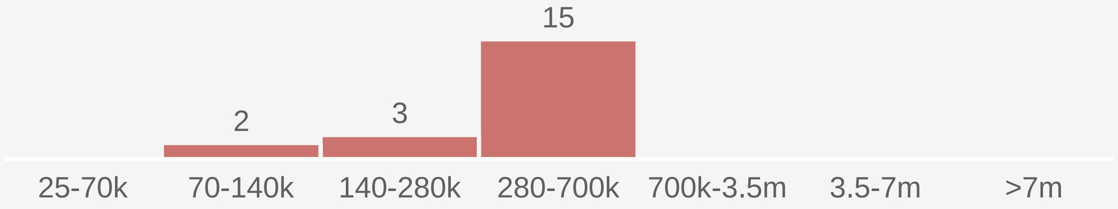


Range of revenues by segment, US$

DYNAMIC



LIVELIHOOD-SUSTAINING



KEY INSIGHTS

- The majority of SMEcorner’s lendees have revenues under US$3.5 million, but all Livelihood-sustaining Enterprises have revenues under US$700,000
- SMEcorner is able to serve smaller SGBs at affordable interest rates by lowering the cost of its diligence and credit decision making and lending at high transaction volumes

Note: (1) All numbers self-reported. (2) Distribution by segment does not sum to distribution overall due to small sample of unclassified lendees.
Source: SMEcorner, portfolio data, September 2019; Dalberg analysis.

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