

Closing the Gaps: Finance Pathways for Serving the Missing Middles

FULL REPORT | JANUARY 2020



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Introduction

- This report connects the financing gaps faced by different SGB segments to the innovative products and approaches that are emerging to meet those financing needs.
- This work incorporates and builds on previous research outlining the four distinct segments or “families” of SGBs, the growth of mezzanine finance, and the different strategies used by finance providers to serve SGBs.

This report highlights linkages and gaps between specific SGB financing needs and alternative financial products and approaches being used by finance providers



CONTEXT & GOAL

Recent research has shed light on the different types of small and growing business (SGBs)¹ in emerging markets and on the new and alternative financial products and business models that serve them. However, the connections between the financial needs of the different SGBs and the alternative approaches used by SGB finance providers often remain unclear. This report aims to increase awareness about the approaches that appear to be working best to address SGB finance gaps and to explore what additional support is needed to help scale them and drive the emergence of new ones.

This report builds on three research studies in particular:²

- *The Missing Middles: Segmenting Enterprises to Better Understand Their Financial Needs*
- *New Perspectives on Financing Small Cap SMEs in Emerging Markets: The Case for Mezzanine Finance*
- *Scaling Access to Finance for Early-Stage Enterprises in Emerging Markets: Lessons from the Field*



OBJECTIVES

- **Build an organizing framework** to connect SGB segments and their specific needs with alternative instruments and provider models
- **Highlight alternative models and trends in the SGB finance ecosystem** in emerging and frontier markets, focusing in particular on alternative finance providers
- **Identify the different approaches that alternative financial intermediaries** are using to address SGB financing needs
- **Highlight the most promising developments in the field** and the most critical remaining gaps

GUIDING PRINCIPLES

- **Focus on the core enterprise needs from the entrepreneur's perspective**
- **Ground insights in the real-world experiences** of financial intermediaries and investors
- **Build on existing work** by identifying novel approaches and synthesizing best practices
- **Emphasize practicality** by creating a document that is not overly technical and therefore can be accessible and useful for investors and others

Notes: 1) *Small and growing businesses (SGBs)*, a term coined by the Aspen Network of Development Entrepreneurs (ANDE), encompasses formal or formalizing small- and medium-sized enterprises (SMEs) with financing needs between \$20,000 and \$2 million. 2) These reports can be found using the following links: "[The Missing Middles: Segmenting Enterprises to Better Understand Their Financial Needs](#)"; "[New Perspectives on Financing Small Cap SMEs in Emerging Markets](#)," and "[Scaling Access to Finance for Early-Stage Enterprises in Emerging Markets: Lessons from the Field](#)."

The challenges of serving SGBs through traditional channels have guided the development of alternative financial products and business models for serving their unmet finance needs



WHAT CHALLENGES DO FINANCE PROVIDERS FACE WHEN SERVING SGBS?

- 1 ASSESSING RISK AND MAKING LENDING DECISIONS**

Little or no collateral and limited information on business performance make accurately assessing credit risk difficult and expensive. Given these limitations, completing credit assessments and identifying risk mitigation strategies can be time-consuming and costly as well as requiring changes in legacy systems and processes.
- 2 DEPOSIT-TAKING REGULATORY BURDEN AND LIMITED CAPITAL FOR LENDING**

Financial institutions are constrained both by the amount of capital they have available and by pressures to maximize returns with minimal risk, leading them to invest in larger businesses and government securities.
- 3 THE HIGH COST OF REACHING SGB CUSTOMERS**

Initiating relationships with SGB customers has historically been difficult due to the high cost of establishing local presence and branches, information asymmetries, and broad lack of trust in financial institutions.
- 4 PRODUCT FIT WITH SGB NEEDS**

Product types, loan amounts, due diligence timelines, and disbursement policies are often misaligned with the SGBs' specific financial needs.
- 5 ENSURING REPAYMENT**

Following up on delinquent payments can be costly relative to loan amounts.
- 6 LIMITED EXIT OPPORTUNITIES FOR EQUITY INVESTORS**

The number of large players who can acquire smaller companies is limited, and the number of entrepreneurs inclined to sell their businesses is limited as well.

As the investment landscape evolves, incumbent and emerging players use new capabilities to develop and deploy alternative financing solutions for SGBs

STRATEGIC CAPABILITIES OF ECOSYSTEM PLAYERS

FOCUS OF THIS REPORT

ALTERNATIVE FINANCE PROVIDERS

- Develop and adapt products and business model to SGB needs
- Use new technologies to assess credit risk and monitor portfolios
- Partner with donors and other development organizations to create new financing models and provide technical assistance



TRADITIONAL FINANCIAL INSTITUTIONS

- Apply proven business models and own capital to serve SGBs using common products (primarily debt or equity)
- Rely on established brands and clients
- Maintain and leverage large balance sheets

SUPPLY-CHAIN PARTNERS

- Acquire, serve, and communicate with SGBs through their distribution channels
- Work with SGBs as both suppliers and customers
- Mitigate risk through business relationships with SGBs and the wider market

Although these three categories have historically been distinct, innovations and evolving business models have led to increasing overlap

This report builds on previous research outlining the four SGB families, the case for using mezzanine finance for SGBs, and profiles of early-stage finance providers

OVERVIEW ON THE STATE OF SGB FINANCING

- **SGBs are regarded as the economic backbone of emerging markets** and as key drivers of employment growth and economic activity
- **SGBs in low- and lower-middle-income countries experience a financing gap of ~\$930B**, representing ~18% of the total MSME gap
- **Previous research has identified four distinct SGB profiles** within the “missing middle,” differentiated by key variables. (See figure at right)
- Financial providers developing suitable financing for SGBs face significant challenges, and the **need persists for more effective financial vehicles and business models**
- **Emerging innovations in products and provider models show promise** for driving financial inclusion, but **many solutions are still in early stages**

FOUR SGB FAMILIES AND THEIR FINANCING NEEDS



The SGB finance pathways discussed here emerged through expert interviews, workshops, case studies, and analysis of eleven SGB financial provider portfolios

WHAT DO WE MEAN BY “FINANCE PATHWAYS”?

The term *finance pathways* as used in this report refers to the different ways that alternative SGB finance providers serve the unmet needs of the different SGB segments. While the overall SGB finance gap remains large, a wide range of business models are now available for SGB finance providers to use alongside the growing number of financial instruments in SGB investor toolkits. This report highlights how these linkages – or “pathways” – between different SGB needs, financial instruments, and finance provider strategies work (or fail to work) today. The report’s overall goal is to help stakeholders in the SGB finance ecosystem target their support and investments more effectively.

REPORT METHODOLOGY AND APPROACH

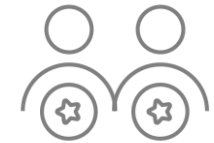
This report provides a theoretical framework and is not meant to serve as a comprehensive review of all SGB finance providers. These findings were developed through a mix of primary and secondary research, including:



Analysis of portfolio data and **interviews with 10 SGB investor partners**



Brainstorming with lead sponsors and core experts and reviewers in **four Working Group sessions**



Interviews and material reviews with **18 SGB sector experts**



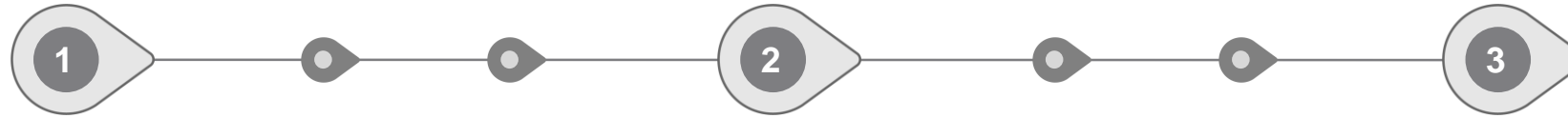
Review of **20+ key research reports** in SGB finance



Validating the approach through **industry forums**, including SME Finance Forum, Global Impact Investing Investor Forum, and the Dutch Good Growth Fund SME Conference

This report identifies SGB finance needs and maps them against alternative financial instruments and finance provider approaches to deploying capital

THE REPORT USES THE FOLLOWING STRUCTURE TO EXPLORE ANSWERS TO KEY LEARNING QUESTIONS:



SGB NEEDS AND GAPS

- What are the different types of SGB finance gaps?
- What are the financing needs of SGBs, by segment and stage of growth?

SGB FINANCE INSTRUMENTS

- Which financial instruments are best suited to specific SGB needs?
- What innovations are emerging in different geographies?

PROVIDER STRATEGIES

- What approaches (and what combinations of approaches) are alternative SGB finance providers using?
- What are the key performance drivers for providers serving SGBs?

RECOMMENDATIONS FOR SGB ECOSYSTEM ACTORS

- This report concludes with recommendations on how ecosystem actors can best help fill the critical finance gaps facing SGBs.

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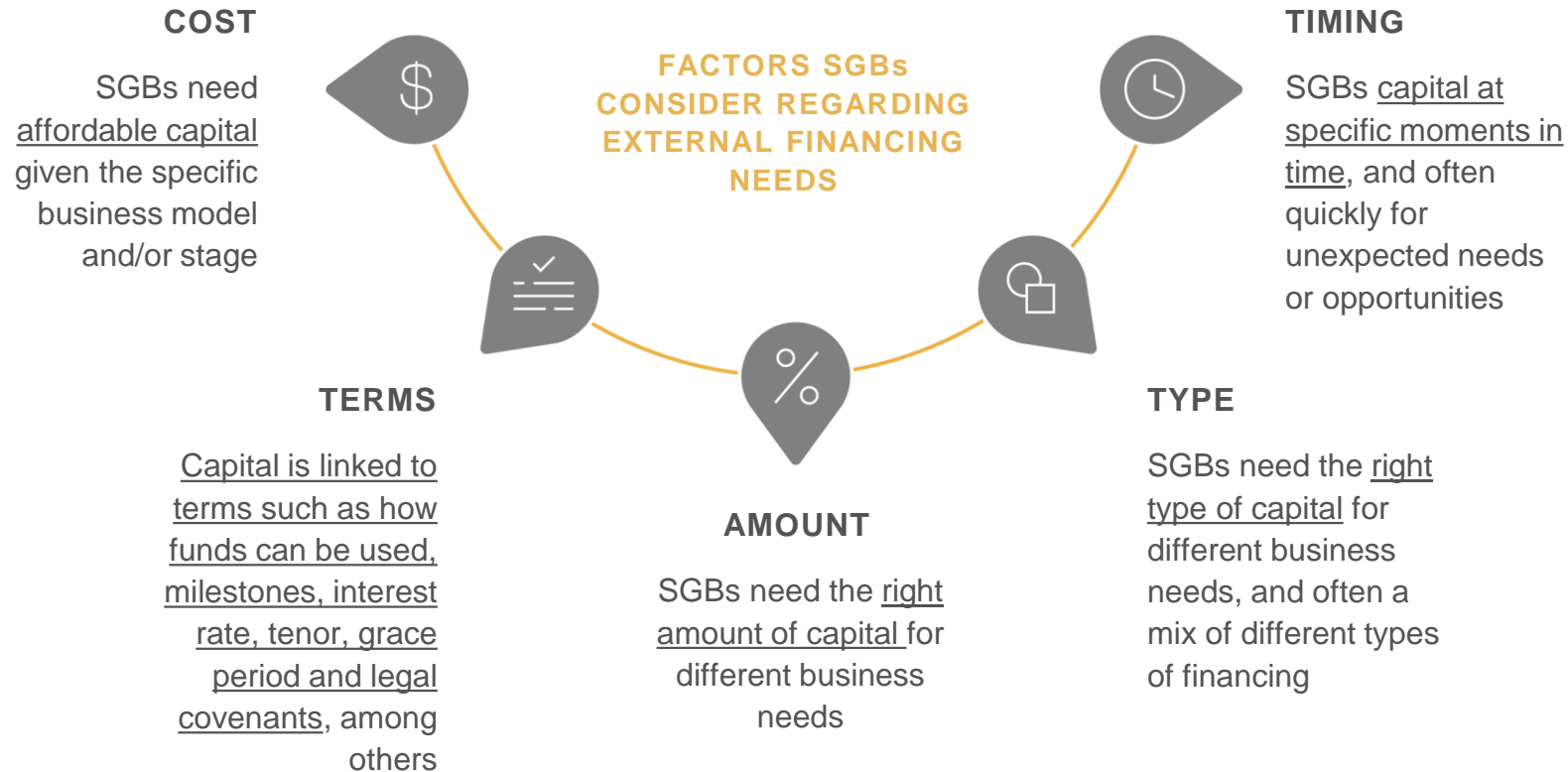
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The financing gaps of SGBs by segment

- All SGBs face critical financing gaps but those gaps vary greatly by segment and stage of business
 - There is an acute working capital finance gap across all Livelihood-sustaining Enterprises as well as a need for new asset financing models for underserved types of Capex
 - There is also a large working capital finance gap across all Dynamic Enterprises as well as a need for growth capital
 - Niche Ventures face large finance gaps across the board due to business models that are disruptive but have limited market potential; the gap is particularly acute in the early stages
 - High-growth Ventures face large financing gaps in the early stages due to unproven business models and high risks

SGBs consider five main factors when evaluating external financing needs against potential options



SGBs need capital that fits their specific needs, which depends on market context and where an individual SGB is on its business journey





MOST LIVELIHOOD-SUSTAINING ENTERPRISES NEED SMALL WORKING CAPITAL LOANS TO SUSTAIN THEMSELVES, BUT THEY ARE NOT WELL-SERVED DUE TO HIGH TRANSACTION COSTS, HIGH PERCEIVED RISK, AND INFLEXIBLE PRODUCTS

FINANCIAL NEEDS	Early Stage	Mature Stage
Primary financing needs	<ul style="list-style-type: none"> • Initial setup • Small working capital • Small capex 	<ul style="list-style-type: none"> • Small working capital • Small capex
SGBs' primary considerations	<ol style="list-style-type: none"> 1. Right amount of capital 2. Capital at an affordable cost 	<ol style="list-style-type: none"> 3. Capital with the right terms

PROVIDERS	Early Stage	Mature Stage
Existing finance providers	<ul style="list-style-type: none"> • Microfinance institutions 	<ul style="list-style-type: none"> • Microfinance institutions • Banks & Fintechs
Providers' primary challenges	<ol style="list-style-type: none"> 1. Minimum loan sizes and high interest rates due to high perceived risk and high transaction costs 2. Onerous lending requirements, such as formal financial statements and several years of business history 3. Inflexible repayment terms 4. Lack of education and non-financial support 	

REMAINING GAPS	Early Stage	Mature Stage
Working capital	N/A <i>(Typically self-funded)</i>	Very large gap. The supply of finance, particularly for cyclical capital needs, remains very low relative to huge demand in EMs
Capital expenditure	N/A <i>(Typically self-funded)</i>	Very large gap. New leasing models are emerging for specific assets (e.g., vehicles), but key gaps remain for many asset types.
Operating expenses	N/A <i>(Typically self-funded)</i>	Medium gap. Finance for operating costs is in less demand compared to working capital and capex due to limited growth potential.

ILLUSTRATIVE EXAMPLE: CAMALEON BARBERSHOP



Camaleon Barbershop in Lima, Peru, required start-up and asset capital to set up service space in Miraflores, including purchasing assets such as chairs, mirrors, and TVs.

Source: Facebook, Camaleon Barber Shop (2019).

There is a significant working capital finance gap across all Livelihood-sustaining Enterprises as well as a need for new asset financing models for underserved types of capital expenditure.



EXAMPLE OF LIVELIHOOD-SUSTAINING ENTERPRISE. A LOAN FROM A LOCAL BANK HELPED AN ENTREPRENEUR START CAMALEON BARBERSHOP BUT GROWTH HAS BEEN FINANCED FROM ONLY CASH FLOW DUE TO HIGH INTEREST RATES



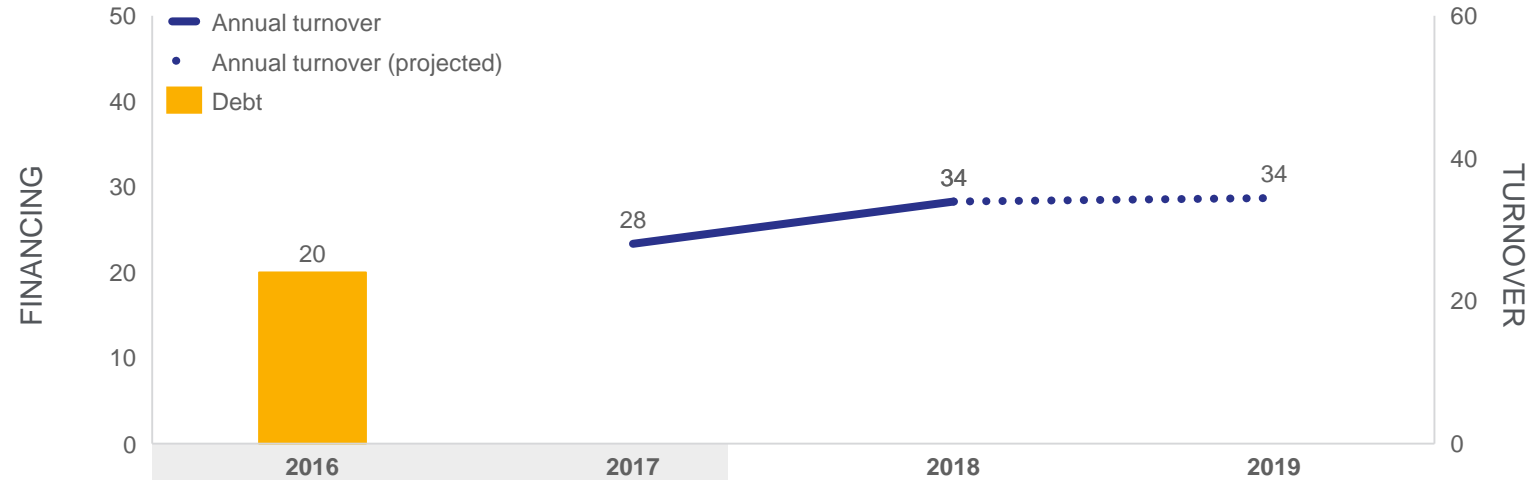
BUSINESS OVERVIEW



Camaleon Barbershop provides haircuts, beard trims, and shaving services to customers in the Miraflores neighborhood of Lima, Peru. One of the current owners, Melissa Ciquero, bought the business from a friend in 2017 using the severance payment she received from her previous employer. She owns the business with her husband Javier Farfan and they recently renovated the barbershop using the profits from the first year. They hope to open a second location in the next one to two years.

CAMALEON BARBERSHOP REVENUES AND FINANCING, 2016 TO 2019

USD, THOUSANDS



FINANCING

TURNOVER

Financing needs & considerations	2016	2017	2018	2019
	20	28	34	34
	<ul style="list-style-type: none"> The original founder Ana Penilla decided to start a small barbershop in 2016 after losing her job and secured a USD \$20,000 loan from the bank to purchase assets such as barber chairs, tables, mirrors, and TVs for the space. The interest rate was 12% and the loan needed to be repaid within three years (but took only 1.5) After three years the founder unexpectedly had to move cities and decided to sell the business 		<ul style="list-style-type: none"> In 2019 husband and wife Javier and Melissa were looking to invest a small payout Melissa had received after losing her job– the couple had been thinking for a long time about starting a small business, but never seemed to have enough capital or the right opportunity Melissa was friends with the original owner and after receiving her payout decided to buy the barbershop with Javier for \$12,000 using the payout and savings Javier and Melissa have renovated the business using cash flow but hope to get a USD \$20,000 loan from a bank in the next 1-2 years to open a second location 	
Round:	Seed		Early stage	
Providers:	Self-finance; bank		Self-finance	
Capital Need:	Start-up capital; Fixed assets		Fixed assets	



FINANCING CHALLENGES

Internal

- Limited savings to purchase a small business
- Growth constrained by cash flows since the owners thought bank loans were too expensive

External

- High local interest rates
- Limited funding available for small businesses



DYNAMIC ENTERPRISES ALSO HAVE UNMET WORKING CAPITAL NEEDS AND FACE ADDITIONAL GAPS ACCESSING FINANCE WITH QUICK APPROVAL PROCESSES AND MORE FLEXIBLE STRUCTURES

FINANCIAL NEEDS	Early Stage	Mature Stage
Primary financing needs	<ul style="list-style-type: none"> • Initial setup • Working capital • Capex 	<ul style="list-style-type: none"> • Working capital • Capex
SGBs' primary considerations	<ol style="list-style-type: none"> 1. Right type of capital 2. Right amount of capital 3. Capital at an affordable cost 	<p>Previous considerations, plus</p> <ol style="list-style-type: none"> 1. Capital at the right time
PROVIDERS	Early Stage	Mature Stage
Existing finance providers	<ul style="list-style-type: none"> • Money lenders / local networks • Mezzanine providers 	<ul style="list-style-type: none"> • Banks • Suppliers
Providers' primary challenges	<ol style="list-style-type: none"> 1. Onerous lending requirements such as high collateral minimums (which can be higher than the amount of a loan) 2. High interest rates due to local cost of capital and/or banks' unfamiliarity with the business model 3. Inflexible repayment terms 4. Relatively few options available beyond debt and equity 	
REMAINING GAPS	Early Stage	Mature Stage
Working capital		<ul style="list-style-type: none"> • Very large gap. Firms struggle to secure working capital in high enough amounts to purchase seasonal inputs without collateral.
Capital expenditure	Typically self-funded with limited loans for working capital and fixed assets	<ul style="list-style-type: none"> • Very large gap. New leasing models are emerging for common assets, but gaps remain for financing specialized equipment.
Operating expenses		<ul style="list-style-type: none"> • Medium gap. Finance for operating costs is needed for growth and can sometimes be secured if a business has several years of financial statements.

ILLUSTRATIVE DYNAMIC ENTERPRISE: LYSA & CO. (SENEGAL)



Lysa & Co., a dynamic enterprise producing gourmet food products in Senegal, recently entered its second generation of family leadership, bringing greater growth ambitions and financing needs. The company needed capital to finance expansion into a larger manufacturing facility as well as to purchase large quantities of cashews at the seasonal harvest.

Source: Le Petit Journal Dakar, "Sylvie Sagbo-Gommard, dirigeante de Sénar Les Délices Lysa" (2019).

There is a very large working capital and trade finance gap across all Dynamic Enterprises as well as a need for more patient, long-term capital



EXAMPLE OF DYNAMIC ENTERPRISE. LYSA & CO. HAS GROWN SIGNIFICANTLY BUT BELIEVES THAT OPPORTUNITIES ARE STILL LIMITED BY INADEQUATE EXTERNAL FINANCE



BUSINESS OVERVIEW

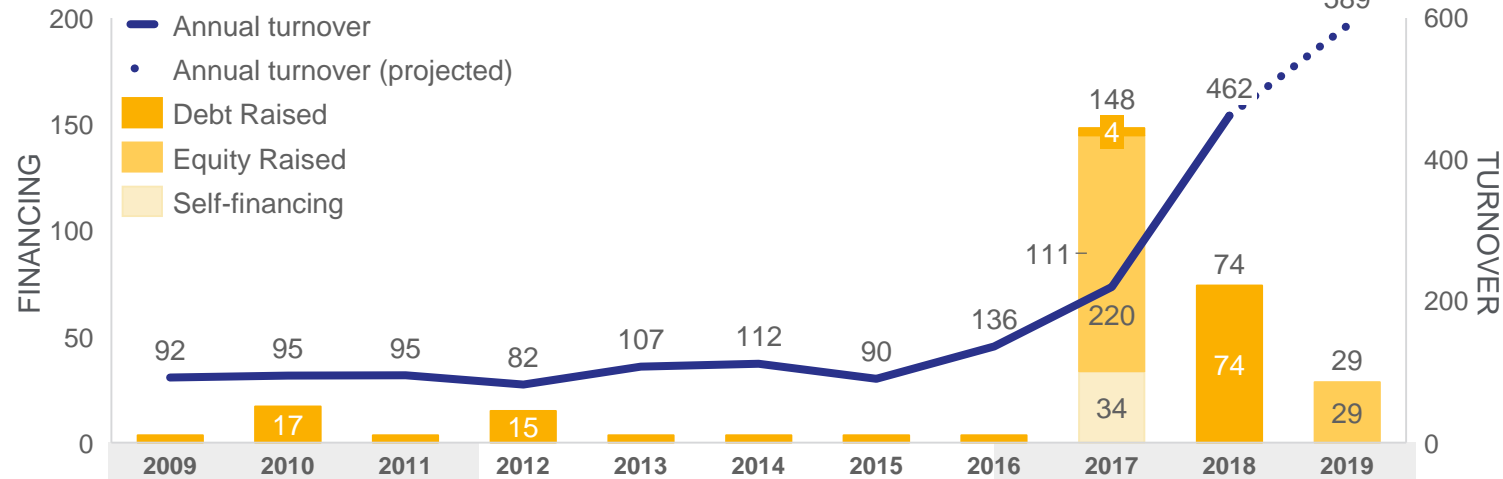


Lysa & Co. is a traditional groundnut processing business in Senegal that has grown through incremental expansion of production and distribution channels.

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.

LYSA & CO. REVENUES AND FINANCING, 1982 TO 2017

USD, THOUSANDS



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 relative to past financings, providing equity and debt

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

Round:	Seed	Early Stage	Early Growth
Providers:	Self-finance; bank	Self, "Adapt" provider	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 local cost of capital and perceived risks
- Banks require credit to be fully collateralized
- Seasonal nature of groundnuts creates time-sensitive capital needs, but lending and capital raising process can be time intensive and drawn out



NUMEROUS FINANCE GAPS AFFECT NICHE VENTURES, GIVEN THAT THEY ARE DIFFICULT TO COMPARE WITH OTHER COMPANIES DUE TO THEIR DISRUPTIVE NATURE AND MORE LIMITED MARKET POTENTIAL

FINANCIAL NEEDS	Early Stage	Growth Stage	Mature Stage
Primary financing needs	<ul style="list-style-type: none"> Initial set-up R&D & prototypes Product-market fit 	<ul style="list-style-type: none"> Working capital Product development Asset finance Growth capital / opex 	<ul style="list-style-type: none"> Working capital Asset finance Refinancing
SGBs' primary considerations	1. Right type of capital	Previous, plus 1. Right amount of capital	Previous, plus 1. Capital at an affordable cost
PROVIDERS	Early Stage	Growth Stage	Mature Stage
Existing providers	<ul style="list-style-type: none"> Grant-makers Seed challenges 	<ul style="list-style-type: none"> Impact funds NBFIs 	<ul style="list-style-type: none"> Banks NBFIs
Providers' primary challenges	<ol style="list-style-type: none"> Lack of early-stage equity capital due to (real and perceived) smaller market potential and lower exit potential Long due-diligence process with non-traditional business models Relatively few options available beyond debt and equity High interest rates due to local cost of capital and/or banks' unfamiliarity with the business model 		
REMAINING GAPS	Early Stage	Growth Stage	Mature Stage
Working capital	Very large gap. Grants and equity finance are growing but still relatively small; traditional investors do not fund due to risky model and limited market size.	Large gap. Cash-strapped firms cannot purchase inputs to complete orders in advance	Medium gap. A track record and predictable cash flow unlocks some capital and firms typically have more collateral to put up for cyclical costs.
Capital expenditure		Large gap. Assets for both production and distribution	
Operating expenses		Large gap. Limited appetite to fund the growth for unproven niche markets.	

ILLUSTRATIVE EXAMPLE: TAMUL PLATES



Source: Women on Wings, "Creating sustainable livelihoods in Assam" (2019).

Social enterprise Tamul Plates is a niche venture based in India that uses village-level manufacturing units to transform areca nut sheaths into ecofriendly, biodegradable tableware for regional and global distribution. Tamul Plates requires both working capital to purchase areca nut sheaths during the seasonal harvest and funding to develop additional manufacturing clusters.

Niche Ventures face large finance gaps across the board due to disruptive business models with limited market potential; the gap is particularly acute in the early stages.



EXAMPLE OF NICHE VENTURE. TAMUL PLATES HAS BEEN UNDERSERVED BY MOST FINANCE PROVIDERS BUT NONETHELESS HAS GROWN WITH THE HELP OF GRANTS, LOANS, AND IMPACT INVESTMENTS



BUSINESS OVERVIEW

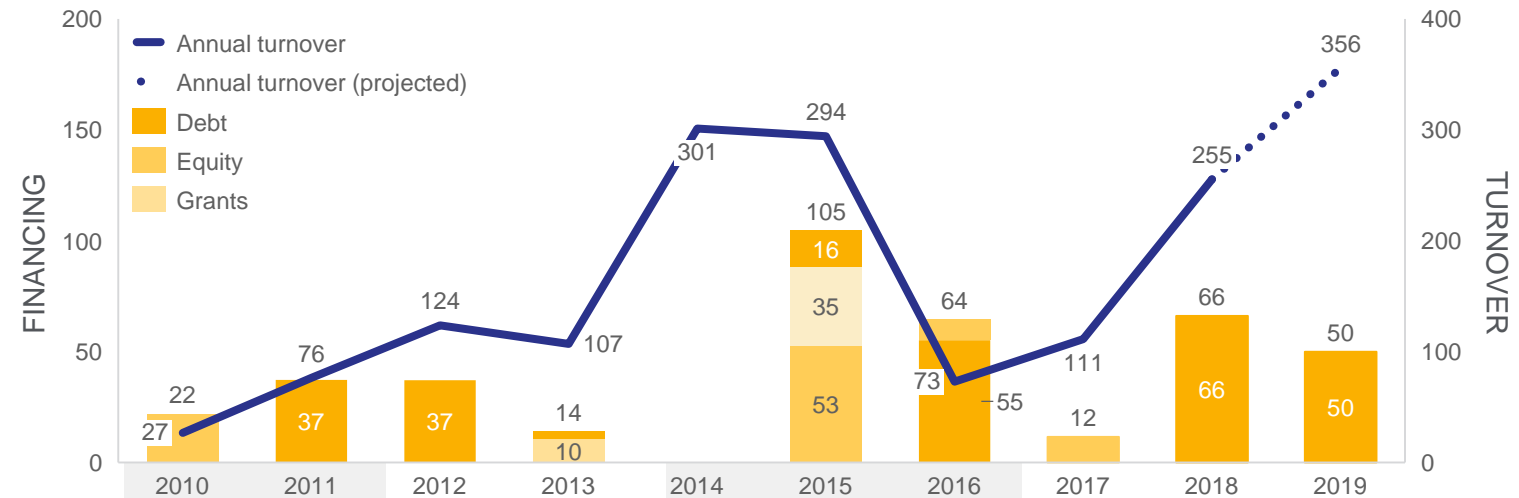
Business Overview: Tamul Plates turns agricultural byproducts into eco-friendly tableware

Founder Arindam Dasgupta is a socially minded entrepreneur committed to creating jobs in India's northeastern region by manufacturing high-quality goods using local inputs and staff.



TAMUL PLATES REVENUES AND FINANCING, 2009 TO 2018

USD, THOUSANDS



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 it didn't qualify for more debt financing, given its limited collateral and balance sheet losses.
- Turning to equity, the company successfully raised funds, but delays in reception caused

- In 2016, the firm faced challenges from India's demonetization, but it recovered using financing from impact investors.
- At this time the company also was 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 investor	NBFIs, Traditional equity
Capital Need:	Piloting	Working capital; growth	Working capital; assets	Working capital; assets; growth



FINANCING CHALLENGES

Internal

- Limited collateral
- Limited credibility in eyes of traditional institutions due to non-business background
- Demonetization in 2016 affected revenues

External

- High collateral requirements
- High interest rates from NBFIs
- Limited interest in model from equity investors (which focus more on technology)
- Limited options for older start-ups who have aged out of accelerators and need help driving and managing growth



HIGH-GROWTH VENTURES FACE CHALLENGES RAISING EQUITY FINANCE BECAUSE OF THE RISKS OF INVESTING IN UNPROVEN PRODUCTS AND BUSINESS MODELS IN EMERGING MARKETS

FINANCIAL NEEDS	Early Stage	Growth Stage	Mature Stage
Primary financing needs	<ul style="list-style-type: none"> Initial set-up R&D & prototypes Product-market fit 	<ul style="list-style-type: none"> Working capital Product development Asset finance Growth capital / Opex 	<ul style="list-style-type: none"> Working capital Asset finance Refinancing
Primary considerations of SGBs	<ol style="list-style-type: none"> Right type of capital Right amount of capital Capital with the right terms 		<ol style="list-style-type: none"> Right type of capital
PROVIDERS	Early Stage	Growth Stage	Mature Stage
Existing providers	<ul style="list-style-type: none"> Traditional VC Philanthropic actors 	<ul style="list-style-type: none"> Banks Traditional PE NBFIs 	<ul style="list-style-type: none"> Banks Traditional PE DFIs
Primary challenges of providers	<ol style="list-style-type: none"> Extremely high-risk business models due to disruptive nature, especially in the early stages Limited exit potential for equity investors, especially on timelines that match industry standards (5-7 years) Weak enabling environments that companies can leverage to grow Lack of investor knowledge of specific sectors 		
REMAINING GAPS	Early Stage	Growth Stage	Mature Stage
Working capital	Large gap. Gap is more acute for asset heavy businesses, but generally funding product and model pilots is challenging	Medium gap. Firms need working capital to match cashflow multiples of 1.5 or greater, yet do not have the collateral or history to secure these amounts	Medium gap. Funds keeping pace with expansion and rapidly increasing customer demand can be accessed by firms with strong track records and balance sheets, but options are limited and local costs can be high.
Capital expenditure			
Operating expenses	Large gap. Firms find few equity investors in their markets and sectors to fund early day-to-day activities	Medium gap. There are more investors for firms with demonstrated market fit, but options are slim for non-tech firms.	

ILLUSTRATIVE EXAMPLE: BIOSENSE

Founded by doctor-entrepreneurs, Biosense makes cutting-edge diagnostic tools to identify common health issues at a patient's point of care, specifically in unserved communities with limited health infrastructure. Biosense's funding needs have varied with each growth stage; initially the team needed grants to develop and test its inventions, but later it needed working and growth capital to rapidly expand by building manufacturing capacity and distribution channels.



Source: YourStory, "This revolutionary healthcare firm producing affordable medical devices first started as a college project", 2018

High-Growth Ventures face financing gaps due to high risks and a lack of patient investors in the early stages and a lack of non-equity options to fund certain types of growth.



EXAMPLE OF HIGH-GROWTH VENTURE: BIOSENSE HAS USED GRANTS, LOW-INTEREST LOANS FROM FOREIGN LENDERS AND FOUNDATIONS, AND EQUITY FROM IMPACT FUNDS TO FUEL INVENTION AND GROWTH



BUSINESS OVERVIEW

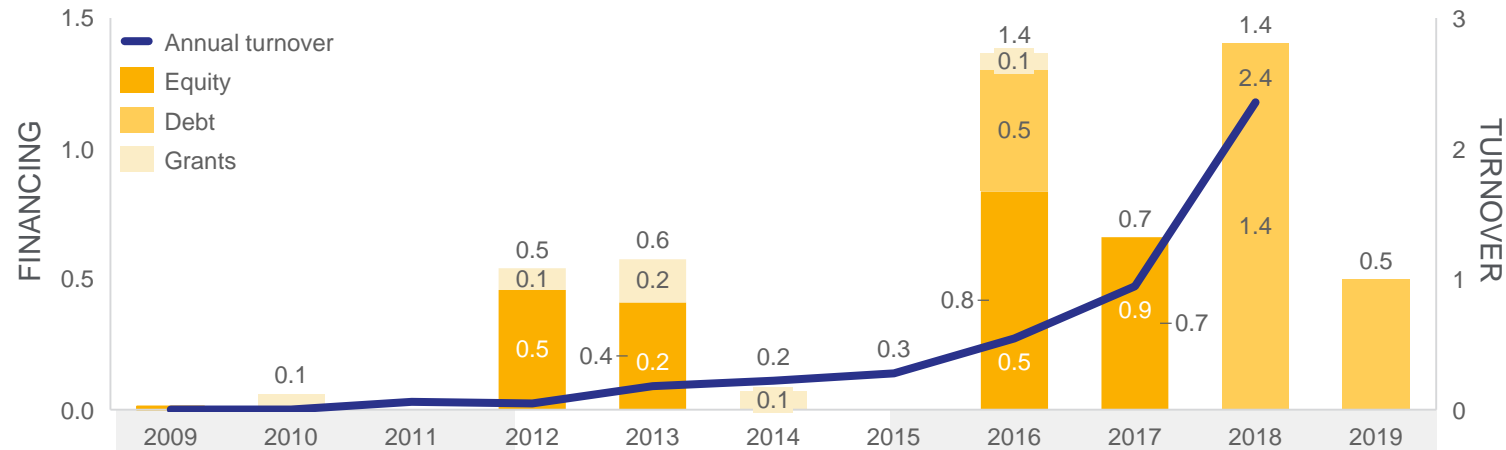
Biosense is a health technology firm that develops, manufactures, and distributes innovative point of care diagnostic tools to support screening for common health issues in communities with limited healthcare infrastructure.

History. Starting out as a medical school project, the founders recognized that there was a market (and social need) for cost-effective, self-administrated diagnostic and monitoring tools for common diseases. They found success developing and commercializing those tools.



BIOSENSE REVENUES AND FINANCING, 2009 TO 2019

USD, MILLIONS



Financing needs & considerations

- Beginning as a med school project, Biosense designs diagnostic tools to aid health screening.
- Initially, 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 injection from a syndicate of angel investors.

- By 2016, the company sought to scale and required significant working capital.
- Biosense raised equity from an alternative finance provider and low-interest loans from foundations and foreign lenders.
- An international foundation provided a local Indian bank with a guarantee on a loan product to Biosense, which unlocked needed debt financing for growth.

Round:	Seed	Early Stage	Early growth
Providers:	Self-finance; impact orgs	Foundations; angel investors	Alternative provider; traditional lenders
Capital Need:	Capex	Working capital; capex	Working capital; growth



FINANCING CHALLENGES

Internal

- Strong skillset in product innovation, but needed business skillset
- Lack of experience compared to competitors increased difficulty of raising capital

External

- Challenging lending climate since the sector became more risk averse due to recent bank failures
- Time intensity of grant applications
- Lack of support (or unaffordable options) from traditional banks due to lack of collateral
- Lack of working capital finance

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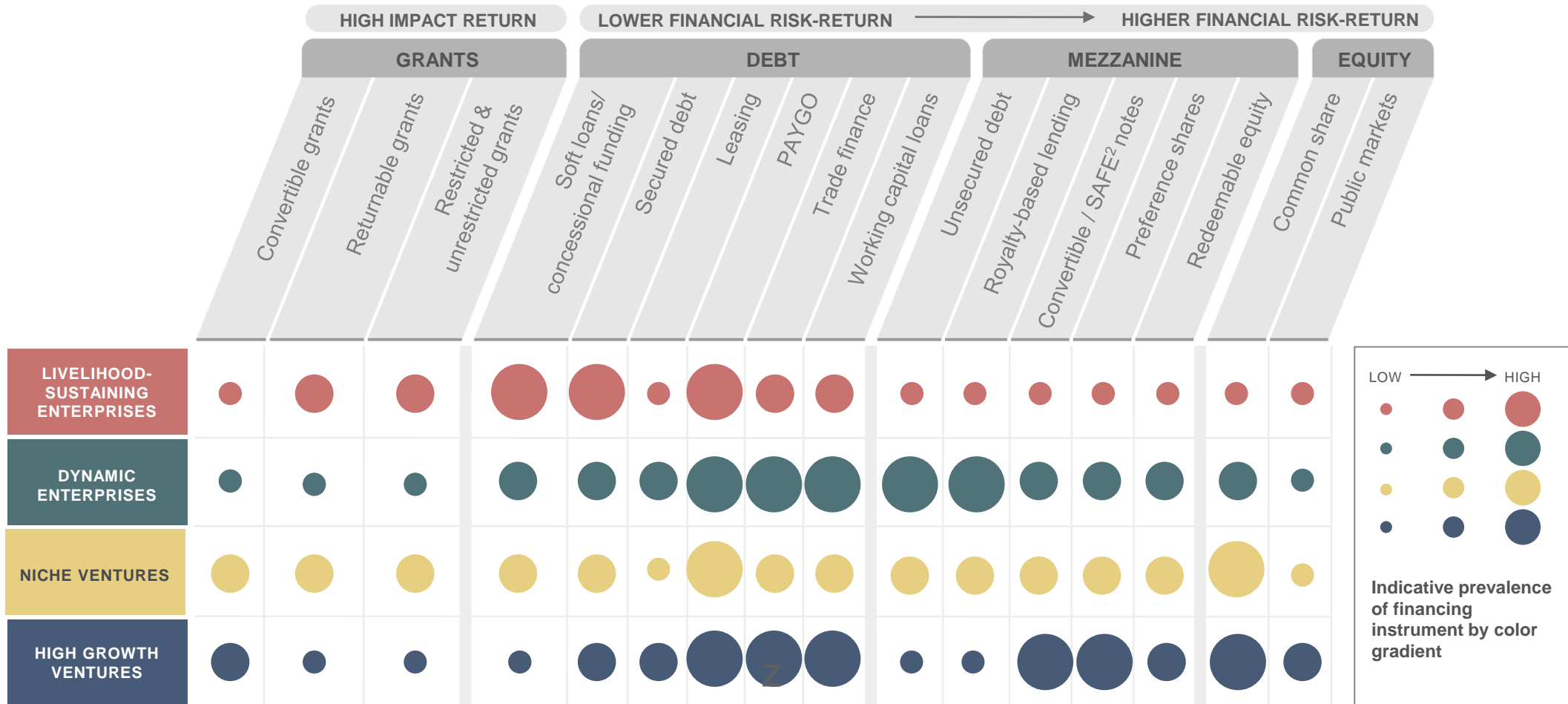
ANNEX

Financial products to serve different SGB gaps

- Finance providers today use a range of proven and emerging financial products to serve different SGB segments and their prevalence varies widely by segment
- Several products are scaling quickly and helping to fill finance gaps by providing capital that meets the needs of different SGB segments while also reducing risks for finance providers
- Challenges such as financial regulations and a lack of capital relative to needs are shaping if and how financial products can address finance gaps going forward

A range of financial instruments are being used by finance providers to serve unmet SGB needs but the prevalence of each varies significantly by SGB segment

PREVALENCE¹ OF INSTRUMENT BY SGB FAMILY

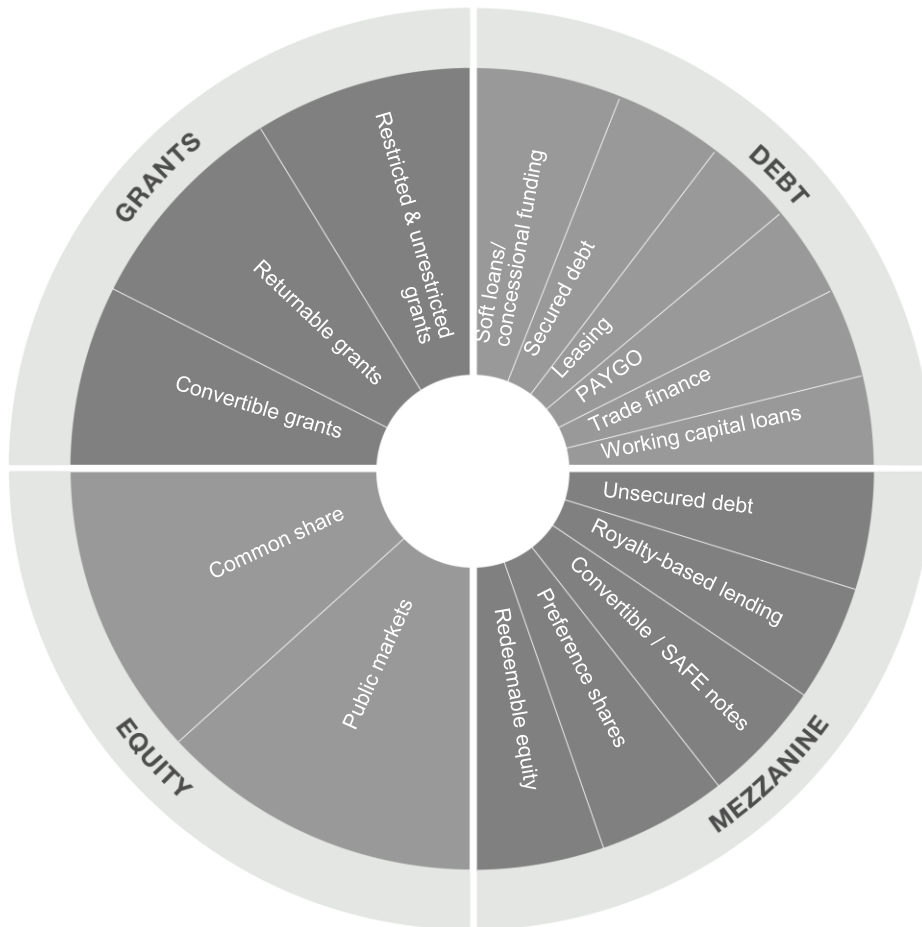


Notes: 1) We are defining prevalence as the degree to which existing SGB finance providers are using this product across each SGB segment, which does not necessarily correspond to its potential nor to the size of specific finance gaps. 2) SAFE stands for simple agreement for future equity
 Source: Dalberg analysis; Expert interviews

Alternative financial instruments are at different stages in their development with several, such as a royalty-based lending, growing quickly

UNIVERSE OF SGB FINANCING INSTRUMENTS

There are a growing number of financial instruments in the market across asset classes which are showing promise for SGBs



A GROWING NUMBER OF INSTRUMENTS ACROSS ASSET CLASSES ARE SHOWING PROMISE FOR MEETING SGB NEEDS

ROYALTY-BASED LENDING

Royalty-based lending has moved from a promising concept to one of the **primary tools used by leading SGB investors**. They are now the core product for established funds such as Adobe Capital, and impact investors such as Village Capital have modeled how their IRRs can be as high as 30%¹ with limited risk using this instrument.

WORKING CAPITAL LOANS

Fintech models that analyze alternative data and supply chain partners focused on helping their clients grow are unlocking more working capital for all SGB segments

TRADE FINANCE

Trade finance – including factoring, receivable-based finance, and supply chain financing – is increasingly used by leading fintechs and value chain partners, especially in agriculture. New regulations in many emerging markets requiring electronic invoicing are further stimulating the growth of these products.

SAFE NOTES

SAFE notes are now widespread in emerging markets because they provide the same benefits as convertible notes but in a simpler and more accounting-friendly way.

These rapidly growing instruments are filling important finance gaps by providing SGBs with the capital they need while reducing risks for finance providers

	FINANCE GAP ADDRESSED	HOW SGBS BENEFIT	HOW PROVIDERS BENEFIT
ROYALTY-BASED LENDING	Right type of capital. SGBs receive growth capital without having to provide equity, and investors receive a lower-risk return that compares favorably to other asset classes.	Provides access to growth capital by pledging a percentage of future cashflow with payments proportional to how well the business is doing and without giving away ownership.	Investors receive a consistent share of the SGB's cash flow until a predetermined amount is paid. They can also be designed to provide additional upside depending on business performance .
WORKING CAPITAL LOANS	Capital at the right time. Providers have established fast processes for making investment decisions so SGBs can receive capital quickly and exactly when they need it.	Supports ability to meet day-to-day expenses and thereby improve ability to reliably finance daily operations.	Lenders can put their investment capital to work quickly, and also manage a higher loan volume due to fast repayments
TRADE FINANCE	Capital at an affordable cost with the right terms at the right time. Providers evaluate needs based on an SGB's financial history and growth potential.	Improves cashflow by allowing business to receive cash to cover the period between completing an order, raising an invoice, and receiving payment	Intermediaries handle repayments directly with reliable third parties and use the product / invoice to secure timely and complete payments
SAFE NOTES	Right type of capital. SGBs at an early and unpredictable stage receive capital that can be used for multiple purposes.	Receive financing that does not need to be repaid and can often be used for more unpredictable business activities such as demonstrating product-market fit. They also postpone time-consuming negotiations on valuation.	Investors have the right to receive equity in the future and the simpler structure results in faster negotiations and fewer tax and accounting adjustments .

Over the past few years there has been a significant increase in experimentation and the pioneering of new products designed specifically for SGBs

Not Exhaustive



DFIS AND BLENDED FINANCE

Development actors have prioritized blended finance as a tool for catalyzing private investment in developing countries and could mobilize significant amounts of funding to close the SGB finance gap if it could be properly targeted. **The number of blended finance deals has grown from 35 in 2005 to over 300 in 2017**, representing \$100Bn in funding mobilized to date¹.

MAJOR REGIONAL PRODUCT TRENDS



MIDDLE EAST

- **SAFE notes** (simple agreement for future equity) that behave more like warrants than debt (like convertible notes do) that offer simplicity by minimizing terms and conversion is triggered when both parties agree



LATIN AMERICA

- **Royalty-based lending has gathered enough evidence** for a call to action in further scale and replication (e.g., Adobe Capital)
- **Emerging fintech players in the region are disrupting the financial service space** with the vast majority doing direct lending (e.g., Konfio, Sempfi) and recently emerging platform-based lending models targeting SGBs (e.g., A55)
- **Venture builders offer holistic support** to SGBs, from inception to maturity (e.g., Polymath Ventures)



INDIA

- **India leads the way in the development of partnership led business models** for lending to SGBs³
- India is a center for **advanced solutions for loans and digital payments** for small merchants



AFRICA

- **Trade finance including factoring, receivables, value chain financing** has been growing quickly, particularly in the agriculture sector
- **PAYGO models are quickly growing in small asset financing markets** like the off-grid solar energy in East Africa (e.g., Mobisol) although performance has been mixed
- **Emerging SGB debt products securitized against loans and receivables in a bond-like structure** (e.g., Lendable)



SOUTH EAST ASIA

- **Strong momentum for peer-to-peer platforms for SGBs** which connect a diverse range of investors and borrowers
- **There are 150+ fintechs operating in the region**, including many focused on predicting finance risk²
- **New peer-to-peer lending models for Livelihood-sustaining Enterprises** (e.g., Amarthia)
- **Emerging sophisticated invoice financing and receivables-based lending** via mobile phones

Four broad challenges are shaping how alternative financial instruments that can help fill SGB finance gaps grow and evolve

TOTAL CAPITAL AVAILABLE

- Growing trends such as blended finance are crowding in more capital to the SGB sector, but these types of **catalytic funds only represent a fraction of the existing funding gap**, even when combined with government aid budgets governments¹
- **Domestic capital has huge potential to shape markets but it is generally much more risk averse** in emerging markets and not yet investing in the SGB sector

RESTRICTIONS DUE TO FINANCIAL REGULATION

- **Regulatory barriers about how mezzanine products are treated from a legal and accounting perspective can limit if and how they are used** (e.g., convertible debt)
- **The enabling environments that shape if and how alternative financial service providers operate vary widely**; for examples, regulations about data that fintechs collect shape their growth

PRODUCT COMPLEXITY

- **Alternative products such as cash flow-based lending show promise but can also be calculated incorrectly and/or easily manipulated** by SGBs due to accounting complexities and lack of knowledge
- **Customized products for meeting investor and SGB needs must be easily understood by all parties and aligned with incentives of later-stage investors**

CAPACITY OF FUND MANAGERS

- **Many SGB fund managers are relatively inexperienced**, which presents an opportunity to try new approaches but also a risk in terms of identifying and managing investment and operational risk

¹ MacArthur Foundation, The Rockefeller Foundation, Omidyar Network. Catalytic Capital Consortium Zero Gap. 2019
Source: Dalberg analysis, expert interviews

SECTION ONE

SECTION TWO

SECTION THREE

SECTION FOUR

SECTION FIVE

REFERENCES
AND RESEARCH
PARTICIPANTS

ANNEX

Alternative approaches reduce risk and better serve SGB financing gaps

- Alternative SGB finance providers are differentiated by the products they offer, the standardization of their internal processes, and the non-financial support they provide
- We identified five distinct approaches used by alternative SGB finance providers to better serve SGBs and reduce risk

Global trends are driving innovations in how capital is deployed, particularly with respect to financial products, capital structures, financing strategies, and operational models

MAJOR TRENDS IN SGB FINANCE:

Not exhaustive

EMERGING NEW INVESTMENT STRATEGIES

- **Data analytics and enhanced customer segmentation are being applied across a range of funds** as they seek to better understand specific markets and opportunities
- **The number of thematic and sector-focused funds is growing** as in-house expertise reduces due diligence costs
- **Large technology platforms are entering the market**, looking for new customers

EVOLVING CAPITAL STRUCTURES

- **More funds use evergreen structures**, given that exits from SGB equity investments can take ten or more years
- **More blended finance models are emerging** as use of grants, guarantees, and first-loss capital becomes more frequent

DIVERSIFYING FINANCIAL PRODUCTS

- **Mezzanine finance for SGBs is growing as an asset class** as more investors deploy and experiment with products beyond simple debt or equity. Royalty-based lending, in particular, shows promise for further growth
- **Once niche financial products such as leasing, factoring, and online alternative finance are growing globally** as more providers realize that these instruments can effectively (and profitably) address key market gaps
- **Grant funding is being blended with traditional investment**, allowing many finance providers to offer SGBs financial products that have historically been beyond the reach of traditional finance

INCREASINGLY MULTI-STAKEHOLDER OPERATIONS

- **New multi-stakeholder partnerships of for-profit investors, donors, and technical assistance providers** allow SGBs to obtain the support they need when they need it

The SGB financing gap remains massive, but these trends are leading different types of players to enter the market and enabling the sector's broader growth

Four categories help define financial providers' approaches to addressing SGB financing gaps; the strongest strategic differentiators relate to product offering and operations

Finance innovations and SGB risk-reduction approaches

1. TARGET INVESTEES			2. CAPITAL STRUCTURE		3. PRODUCTS		4. OPERATIONAL MODEL	
SGB SEGMENT	SGB STAGE	SGB SECTOR	FUND STRUCTURE	LPs & RETURN EXPECTATIONS	INVESTMENT MINDSET	PRODUCT CUSTOMIZATION	STANDARDIZATION OF PROCESSES	NON-FINANCIAL SUPPORT
Livelihood sustaining	Seed	Sector agnostic	Closed fund	Blended finance (lower cost, diversified risk capital)	Debt	Standardized	Highly standardized operations	No support
Dynamic enterprises	Early							
Niche ventures	Growth	Sector focused	Evergreen fund	Traditional LPs (higher cost, lower risk capital)	Mezzanine	Moderately customized	Moderately standardized operations	Provide direct support
High-growth ventures	Mature							
DESCRIPTION SGB finance providers look for opportunities in different segments, stages, and sectors according to their strategy. They sometimes intentionally maintain a mix of investment types to balance risks.			Different funds have different types of limited partners, each with its own target returns and investment timelines.		A range of products exist, but finance providers have different preferences ("mindsets") about them and customize them to varying degrees.		Internal processes can be either focused/streamlined or individualized; non-financial support may be a core element of a particular approach.	

Interviews helped identify the primary differentiators between financial intermediaries serving SGBs

Traditional providers have struggled to adequately tailor their products and operating models to meet SGB needs, leaving persisting finance gaps



TRADITIONAL BANKS

Traditional banks struggle to meet SGB needs because their:

- Cost of due diligence is too high in comparison with the loan size driven by high-touch, lengthy lending processes
- Financing options are limited by required collateral, track record and positive cash flow that most SGBs in emerging markets do not have
- Regulations limit flexibility in instruments and leverage

SGBs are often difficult to serve as they do not have track record or financial statements required for banks to assess their businesses.



MICROFINANCE INSTITUTIONS

Microfinance institutions struggle to meet SGB needs because their:

- Range of ticket sizes is typically too small to enable meaningful forward planning and growth for SGBs
- Tenor is often too short to provide the right length of financing needed by SGBs
- Interest rates for the size of capital provided are often too high to be affordable for most SGBs
- Due diligence costs on individual borrowers can prohibit the ability to serve many smaller SGBs



PRIVATE EQUITY & VENTURE CAPITAL






Traditional private equity and venture capital players struggle to meet SGB needs because their:

- Expertise is typically in domains outside of underserved sectors such as healthcare or geographies such as Bangladesh, Haiti or Nigeria
- Returns are reliant on exits, which are challenging in the thin capital markets many SGBs operate in

Analyzing providers' focuses using these four categories reveal five alternative approaches to addressing SGB financing gaps and reducing risk left by traditional sources of finance

KEY DIMENSIONS OF DIFFERENTIATION:

PREVALENCE: ● High ● Medium ● Low ● Limited

PROVIDER APPROACH FOR ADDRESSING FINANCE GAPS	DESCRIPTION	PRODUCTS		OPERATIONAL MODEL		EXAMPLES
		Investment mindset	Product customization	Process standardization	Non-financial support	
ENHANCE	“Enhance” the value of equity investment through sector expertise and non-financial support		●	●	●	
CATALYZE	“Catalyze” impact and follow-on investment by blending finance to support harder-to-serve businesses or markets		●	●	●	
ADAPT	“Adapt” products, partners, and approaches based on specific SGB needs and local market context		●	●	●	
SYSTEMATIZE	“Systematize” internal knowledge and processes to keep due diligence and investment costs low		●	●	●	
DIGITIZE	“Digitize” the investment process to automate decision-making and achieve a radically lower cost to serve		●	●	●	

Vertical axis labels: EQUITY (top), MEZZANINE (middle), DEBT (bottom)

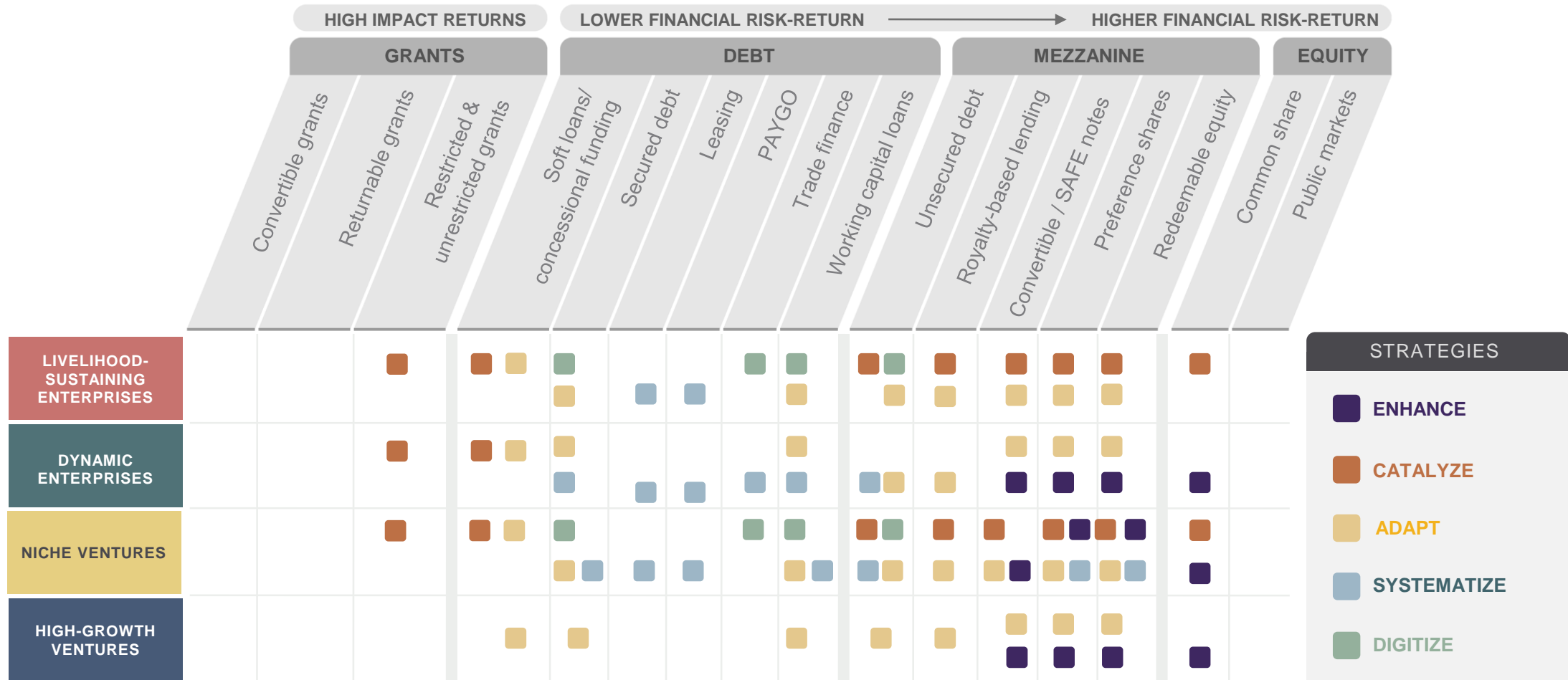
The five approaches differ in terms of products and operational model

PREVALENCE: ● High ● Limited ● Low ● Medium

PROVIDER APPROACHES FOR ADDRESSING SGB FINANCE GAPS	KEY DIMENSIONS OF DIFFERENTIATION:				EXAMPLES
	PRODUCTS		OPERATIONAL MODEL		
	Investment mindset	Product customization	Process standardization	Non-financial support	
ENHANCE	<p>● EQUITY</p> <p>● MEZZANINE</p> <p>● DEBT</p>	Customize investments to SGB needs, including occasional use of mezzanine	Extensive due diligence undertaken for each investment, so processes are not highly standardized	Very hands-on support to drive growth and financial performance as well as improve governance and compliance	
CATALYZE		Innovate on traditional non-profit models by using financial products such as recoverable grants and equity with sub-commercial return expectations	Follows a standard investment process, yet due to small volume and personalized service, approaches can be tailored for each investment	Frequently provides technical assistance, since ventures operate in harder-to-serve markets	
ADAPT		Focus on closely aligning financial product(s) to investees' specific needs, often including use of mezzanine products (e.g., revenue sharing) and/or product combinations (e.g., traditional loans with small equity components)	Investment process and funds vary in size and structure but generally revolve around a core product, such as a royalty-based loan	Often joins with local partners (e.g., business angels) offering technical and market assistance, either pre- or post-investment	
SYSTEMATIZE		Customize products to the needs of each SGB, but products are generally standardized across the portfolio	"Off-the-shelf" investment approaches and/or deep industry knowledge that can lower due diligence and transaction costs	Relatively high deal volume, typically in moderate-growth "bread and butter" businesses; provides non-financial support, often by creating market linkages	
DIGITIZE		The product is typically debt, but loan amounts, interest rates, and tenors can be customized	Focus on digitizing key parts of the due diligence process and analyzing information in new ways	Investments often disbursed digitally so investees can borrow or receive equity through a "branchless" experience	

Approach-specific choices among grant, debt, mezzanine, and equity products are applied to different SGB segments, although the five approaches may demonstrate significant overlap

ALTERNATIVE FINANCE STRATEGIES AND INSTRUMENTS TYPICALLY SERVING THE MISSING MIDDLES



The financial sustainability of each approach centers on different performance drivers

FINANCIAL SUSTAINABILITY DRIVERS OF PROVIDER APPROACH

	ENHANCE	CATALYZE	ADAPT	SYSTEMATIZE	DIGITIZE
REVENUES	<ul style="list-style-type: none"> • Returns from exits drive economic performance, although the hands-on nature of the approach and emerging market context means that exits can be both lower on average than in more developed markets but also more frequent as a percentage of investments 	<ul style="list-style-type: none"> • Using instruments such as redeemable grants to recover the start-up costs of promising businesses and early-stage equity to maximize upside 	<ul style="list-style-type: none"> • Balancing longer-term equity investments and more immediate cash flow needs via revenue-share loans 	<ul style="list-style-type: none"> • High volume of deals per year (to compensate for a lean operational model) • Cross-selling products and services to high-performing borrowers 	<ul style="list-style-type: none"> • Very high loan volume and repeat SGB clients by offering a seamless customer experience
COST EFFECTIVENESS	<ul style="list-style-type: none"> • Keeping due diligence costs low by leveraging in-house expertise and networks • Identifying and working with outside partners and experts who can bring expertise to portfolio companies 	<ul style="list-style-type: none"> • Lower overall cost of capital by creating financial structures that blend commercial and non-commercial funds • Supporting specific operational functions and/or technical support for riskier SGBs with grant funding 	<ul style="list-style-type: none"> • Third parties provide hands-on support, particularly in the early stages of the business (e.g., working with local angel networks and technical assistance partners providing SGBs with specialized support) 	<ul style="list-style-type: none"> • High-quality and well-organized internal data that can be used to quickly evaluate potential deals • Continuous data-driven learning to reduce portfolio risk and to keep overhead costs low • Simple internal approval process for new investments (e.g., very few management layers) 	<ul style="list-style-type: none"> • A radically lower cost to serve by spreading fixed technology costs over many loans as well as continuous data-driven learnings to identify savings • Balancing the use of tech-enabled processes and key human touch points to reduce portfolio risk (e.g., fraud) • A customer acquisition cost (CAC) that enables fast scaling • Lower cost of borrowing by using local financing sources and/or partnering with sources of capital with the right risk-return profile

ENHANCE APPROACHES RESEMBLE THE VENTURE CAPITAL MODEL BUT PROVIDE MORE TARGETED SUPPORT AND PRODUCTS TAILORED TO HIGH-POTENTIAL SGBS

APPROACH

“ENHANCE”

DESCRIPTION

Finance providers with an Enhance approach make equity investments into SGBs, but unlike traditional equity investors they target difficult to serve sectors and geographies, expanding access to equity finance to a broader range of business profiles. To do this, Enhance-approach providers take a longer time horizon than traditional equity and hence often use evergreen structures, and the sectors they focus on go well beyond technology. Support provided can include introducing potential partners, active brokering of potential exit opportunities, and strengthening the enabling infrastructure.

FINANCE GAPS TARGETED

- Early-stage finance for Niche Ventures and High-Growth Ventures
- Opex for Niche Ventures and High-Growth Ventures in a growth stage

• **Typical investment size ranges:** \$825K-\$2.2 million USD¹

EXAMPLES*



Gemini Capital



FINANCE INNOVATIONS AND SGB RISK-REDUCTION APPROACHES

NUMBER OF PROVIDERS:

NONE

FEW

MANY

1. TARGET INVESTEES			2. CAPITAL STRUCTURE		3. PRODUCTS		4. OPERATIONAL MODEL	
SGB SEGMENT	SGB STAGE	SGB SECTOR	FUND STRUCTURE	LPs & RETURN EXPECTATIONS	INVESTMENT MINDSET	PRODUCT CUSTOMIZATION	STANDARDIZATION OF PROCESSES	NON-FINANCIAL SUPPORT
Livelihood sustaining	Seed	Sector agnostic	Closed fund	Blended finance (lower cost, diversified risk capital)	Debt	Standardized	Highly standardized operations	No support
Dynamic enterprises	Early							
Niche ventures	Growth	Sector focused	Evergreen fund	Traditional LPs (higher cost, lower risk capital)	Mezzanine	Moderately customized	Moderately standardized operations	Provide direct support
High-growth ventures	Mature		Flexible; both closed and evergreen funds	Flexible; both blended finance & trad. LPs	Equity	Highly customized	Highly deal-centric operations	Provide support through 3rd party

ENHANCE-APPROACH FINANCERS TARGET HIGH-GROWTH VENTURES AND RECEIVE SUPPORT FROM BOTH COMMERCIAL INVESTORS AND DEVELOPMENT INSTITUTIONS

WHO SUPPORTS THEM

Commercial investors support the use of the Enhance approach, and given their hands-on model, they tend to be based in the country where they typically make investments and thus can actively promote the growth of their portfolio companies. International development partners also provide support, given the high-impact potential of target companies.

THE SGB SEGMENTS THEY SERVE

Enhance-focused financiers invest primarily in High-Growth Ventures in emerging markets but they may opportunistically invest in Niche Ventures or Dynamic Enterprises. They generally focus on SGBs in specific regions and/or sectors that they know well to provide support going well beyond financing needs.

WHAT THEY PROVIDE

The enhance focus provides equity financing that can drive growth. Portfolio companies have generally already demonstrated the viability of a new product or service but need growth capital to scale quickly.

KEY PERFORMANCE DRIVERS

Customer segments: Enhance providers focus on sectors in which they have specific expertise and/or existing networks; this enables them to provide the non-financial support that many emerging market ventures need to grow.

Non-financial support to SGBs: Non-financial support is critical for reducing risk and fueling growth in high-growth ventures. Enhance strategies may include connecting portfolio companies to global companies as possible customers, introducing other investors, and providing sector- or product-specific know-how to improve product-market fit.

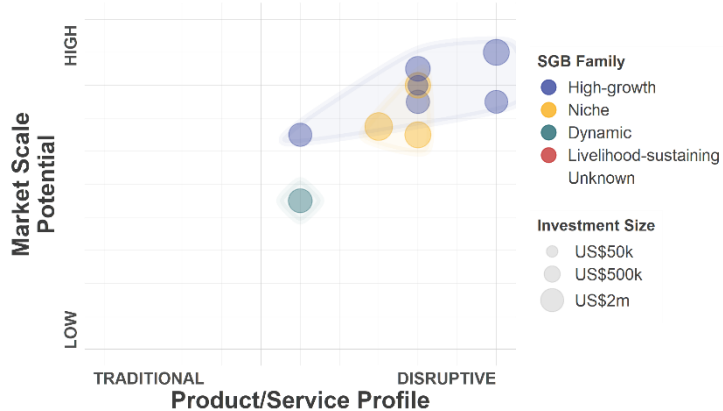
SUPPORT NEEDED

Enhance strategies need partners to help improve the enabling infrastructure and provide technical assistance to their portfolio companies.

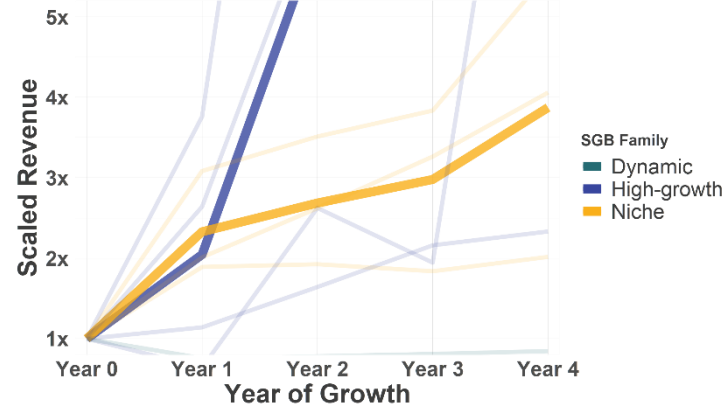
ENHANCE PROVIDER EXAMPLE: OMNIVORE VC (INDIA)* HAS DEEP SECTOR KNOWLEDGE OF AGRICULTURE, WHICH IT USES TO SERVE HIGH-GROWTH AGRO- AND FOOD-PROCESSING VENTURES

The portfolio companies of SGB finance providers with enhance approaches, such as Omnivore (India), are innovative, fast-growing, and highly risk tolerant.

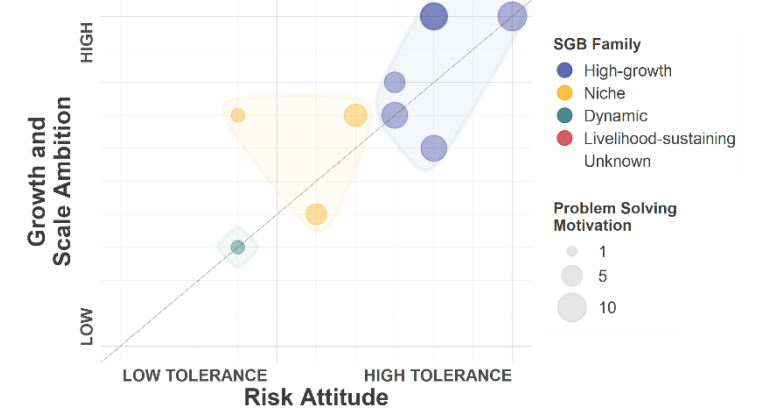
Lens 1: Investees by scale potential, innovation, SGB family, and deal size
Scale 1-10, self-reported



Lens 2: Scaled growth curves of portfolio companies
Scaled revenue, as a multiple of the first year of revenue provided



Lens 3: Investees by leadership behaviors and SGB family
Scale 1-10, self-reported



Enhance approaches meet the needs of disruptive SGBs with strong growth potential by providing equity financing (primarily), along with deep expertise, targeted technical assistance, and broad ecosystem support.

Note: 1) These graphs provide an illustrative view into a specific SGB finance provider's portfolio but variation among providers who have this same approach likely exists. 2) Market Scale Potential calculated as (Total Addressable Market*.5) + (Competition*.25) + (Growth and Scale Ambition*.25). 2) Innovation profile ranked on a scale of 1 (most traditional) to 10 most disruptive. 3) Scaled growth was determined by aligning revenues to Year 0, based on the first year of revenue available, and dividing subsequent years of revenue by the first. 4) 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 consequences of failure. 5) Not all portfolio data provided was included on every graph due to data limitations.

Source: Company websites, accessed September 2019; Omnivore, Portfolio Data (September 2019).

CATALYZE APPROACHES USE DE-RISKING MECHANISMS, SUCH AS REDEEMABLE EQUITY, TO SERVE SMALLER, RISKIER SGBS AND, TYPICALLY, EARLY-STAGE BUSINESSES

APPROACH

“CATALYZE”

DESCRIPTION

Catalyze finance providers are behind pioneering business models serving the riskiest and potentially highest impact SGBs. They bring an “impact first” attitude and blended capital to provide finance for difficult to serve populations and sectors at early stages. Unlike traditional peers, these providers use grants or concessional funding to serve early-stage high-impact businesses, with intentionally concessional returns for funders. Funding provided by more traditional investors is typically blended with grant funding to 1) provide potential or actual investees with technical assistance to help them stabilize and grow, and 2) subsidize operational costs until the firms reach scale or prove viability for investments using other approaches. Metrics such as a jobs created, underserved population needs met, and follow-on investment are particularly critical.

FINANCE GAPS TARGETED

- Grant and equity funding for very early stage ventures with a high potential for impact
- Affordable finance for businesses with high potential for impact
- **Typical investment size ranges: \$7K-\$46K USD¹**

EXAMPLES*



Social Venture Fund



Social Venture Fund

FINANCE INNOVATIONS AND SGB RISK-REDUCTION APPROACHES

NUMBER OF PROVIDERS:

NONE

FEW

MANY

1. TARGET INVESTEES			2. CAPITAL STRUCTURE		3. PRODUCTS		4. OPERATIONAL MODEL	
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High-growth ventures	Mature		Flexible; both closed and evergreen funds	Flexible; both blended finance & trad. LPs	Equity	Highly customized	Highly deal-centric operations	Provide support through 3rd party

CATALYZE APPROACHES TARGET SGBS IN ALL SEGMENTS THAT CAN GENERATE HIGH LEVELS OF SOCIAL IMPACT AND RECEIVE CONCESSIONAL FINANCE FROM A RANGE OF DONORS

WHO SUPPORTS THEM

Primary support for catalyze-approach financiers comes from foundations, bilateral and multilateral donors, and governments, which often set up specific facilities to assist these high-impact venture funders. Along with grants, the same actors may also provide technical assistance and low interest loans.

THE SGB SEGMENTS THEY SERVE

Catalyze approaches fall into two categories, depending on the SGBs they target. One category uses catalytic capital to de-risk the cost of serving Livelihood-Sustaining Enterprises and Dynamic Ventures. These are the primary targets due to their ability create jobs and because underserved groups often run these businesses. The second category primarily funds very early stage Niche Ventures and High-Growth Ventures with clear social missions and high potential to scale. These High-Growth Ventures are often ignored by other approaches because of unproven economics and/or difficulties operating in the target markets.

WHAT THEY PROVIDE

Catalyze-approach financiers provide equity and grants to early stage companies and enterprises with high social impact potential. Their technical assistance and mentoring helps their portfolio companies grow and further drives impact.

KEY PERFORMANCE DRIVERS

Products offered: Catalyze approaches typically provide more patient products, such as equity financing (without expectations of short-term exit) and longer-term mezzanine products. They bundle these financial products with intensive board and individual support to help portfolio companies resolve difficult questions, such as when to pivot business models and how to hire talent for early stage ventures.

Internal capabilities: In addition to the typical internal skills needed by every capital provider, organizations taking a catalyze approach need robust impact measurement and storytelling capabilities to demonstrably and effectively inform their funders and partners about how they catalyze change.

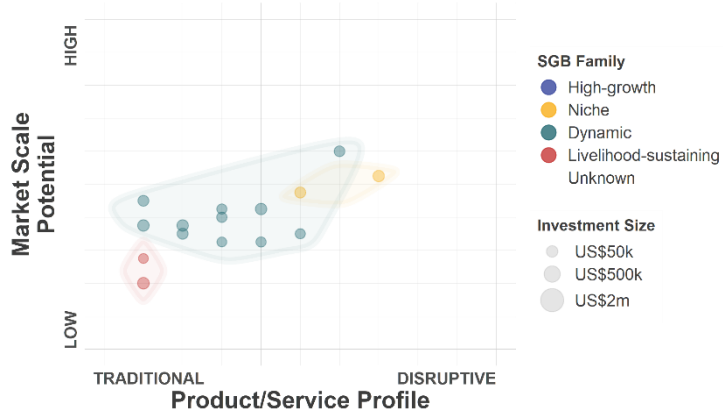
SUPPORT NEEDED

Catalyze-approach financing needs support both from donors who can provide concessional capital and from commercial investors who can provide additional funding. Catalyze approaches also require the ability to provide technical assistance (either directly and/or through partners).

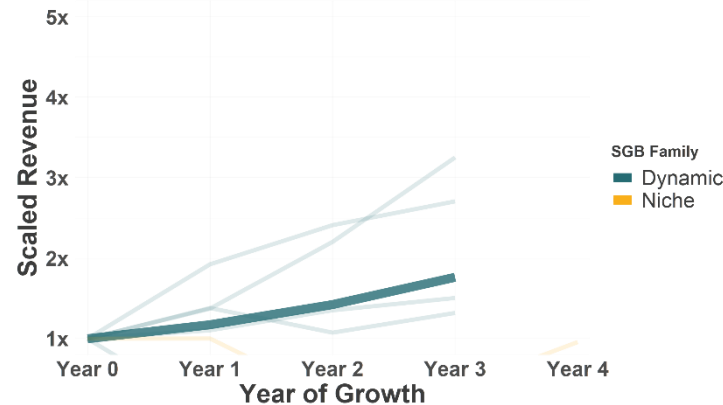
CATALYZE PROVIDER EXAMPLE: UPAYA SOCIAL VENTURES (INDIA) FOCUSES ON GENERATING HIGH-QUALITY JOBS THROUGH INVESTMENT IN SCALABLE BUT TRADITIONAL BUSINESSES

The portfolio companies of SGB finance providers with catalyze approaches, such as Upaya Social Ventures (India), are primarily traditional businesses with linear scale potential and clear social missions.

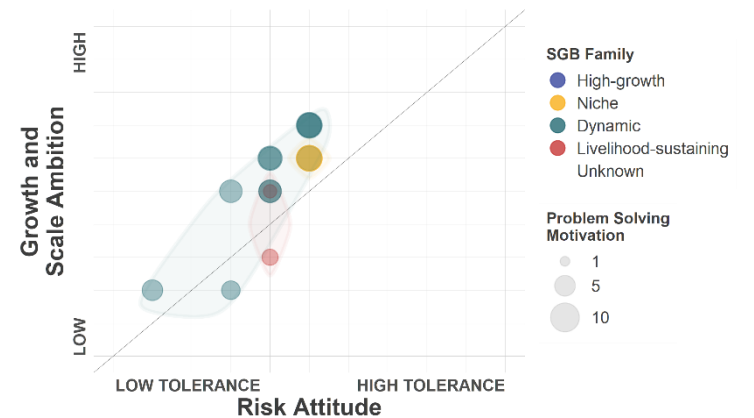
Lens 1: Investees by scale potential, innovation, SGB family, and deal size
Scale 1-10, self-reported



Lens 2: Scaled growth curves of portfolio companies
Scaled revenue, as a multiple of the first year of revenue provided



Lens 3: Investees by leadership behaviors and SGB family
Scale 1-10, self-reported



Catalyze approaches meet the needs of impactful SGBs with incremental growth trajectories by providing patient, sub-market return capital and targeted technical assistance.

Note: 1) These graphs provide an illustrative view into a specific SGB finance provider's portfolio but variation among providers who have this same approach likely exists. 2) Market Scale Potential calculated as (Total Addressable Market*.5) + (Competition*.25) + (Growth and Scale Ambition*.25). 2) Innovation profile ranked on a scale of 1 (most traditional) to 10 most disruptive. 3) Scaled growth was determined by aligning revenues to Year 0, based on the first year of revenue available, and dividing subsequent years of revenue by the first. 4) 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 consequences of failure. 5) Not all portfolio data provided was included on every graph due to data limitations.
Source: Company websites, accessed September 2019; Omnivore, Portfolio Data (September 2019).

ADAPT APPROACHES TAILOR DIFFERENT INVESTMENT PRODUCTS TO THE SPECIFIC NEEDS OF EACH SGB WHILE ALSO PROVIDING TARGETED SUPPORT

APPROACH

“ADAPT”

DESCRIPTION

Adapt approaches provide SGBs with finance tailored to their specific needs and realities. By providing mezzanine (and occasionally debt or equity) products such as royalty-based loans at terms customized to the firm’s unique market realities, Adapt approaches overcome challenges faced by traditional risk finance providers, such as reliance on exits in thin capital markets. Because of this flexibility, individual investments may look quite different from others in a portfolio, especially across geographies and sectors. Adapt approaches are united, however, by a high degree of customization of individual investments for each SGB and its market context. Many organizations using an adapt approach are first-time fund managers with less experience in traditional finance than those following other strategies.

FINANCE GAPS TARGETED

- Working capital for all segments but particularly Dynamic Enterprises
- Operating expenses, asset finance, and flexible equity-centric financing for growing businesses

- Typical investment size ranges: \$10K-\$280K USD¹**

EXAMPLES*

iungo capital

Pomona Impact

ADOBE CAPITAL

IIP INVESTISSEURS
& PARTENAIRES

NUMBER OF PROVIDERS:

NONE

FEW

MANY

FINANCE INNOVATIONS AND SGB RISK-REDUCTION APPROACHES

1. TARGET INVESTEES			2. CAPITAL STRUCTURE		3. PRODUCTS		4. OPERATIONAL MODEL	
SGB SEGMENT	SGB STAGE	SGB SECTOR	FUND STRUCTURE	LPs & RETURN EXPECTATIONS	INVESTMENT MINDSET	PRODUCT CUSTOMIZATION	STANDARDIZATION OF PROCESSES	NON-FINANCIAL SUPPORT
Livelihood sustaining	Seed	Sector agnostic	Closed fund	Blended finance (lower cost, diversified risk capital)	Debt	Standardized	Highly standardized operations	No support
Dynamic enterprises	Early		Evergreen fund	Traditional LPs (higher cost, lower risk capital)	Mezzanine	Moderately customized	Moderately standardized operations	Provide direct support
Niche ventures	Growth	Sector focused	Flexible; both closed and evergreen funds	Flexible; both blended finance & trad. LPs	Equity	Highly customized	Highly deal-centric operations	Provide support through 3rd party
High-growth ventures	Mature							

ADAPT APPROACHES TARGET HIGH-GROWTH VENTURES AND DYNAMIC ENTERPRISES AND RECEIVE SUPPORT FROM BOTH COMMERCIAL INVESTORS AND DEVELOPMENT ACTORS PROVIDING TECHNICAL SUPPORT

WHO SUPPORTS THEM

Organizations with adapt approaches seek commercial returns, so their limited partners are a mix of commercially minded investors and development actors (such as DFIs) with missions to help SGBs grow. Adapt organizations often rely on partnerships for technical assistance, business development support, and/or local investors, relationships that vary widely depending on the market.

THE SGB SEGMENTS THEY SERVE

Adapt approaches focus on investing in High-Growth Ventures, but they often pivot to predominately serving Dynamic Enterprises that already have revenues and Niche Ventures. Their portfolios are consequently very diverse.

WHAT THEY PROVIDE

The financing provided using adapt approaches generally goes to working capital that allows companies to increase production and grow sales. Because the approach aims to provide different types of products to meet different needs, funds can be used for purposes as diverse as building new manufacturing facilities or strengthening sales and marketing capabilities.

Organizations with adapt approaches can also be very “hands on” with their investees, either through direct support or through investment partners, such as business angel groups or technical assistance providers.

KEY PERFORMANCE DRIVERS

Customer segments: Due to their significant use of royalty-based loans, adapt approach providers look for companies with healthy cash flows. Such SGBs allow adapt providers to realize returns almost immediately and to finance future transactional and operational costs.

Products offered: Product and term flexibility is the essence of the adapt model. Drawing on a wide range of financial instruments across all three asset classes (debt, equity, mezzanine) helps them get deals done that others could not. At the same time, these products and product combinations must not become so complex that SGBs or potential later-stage investors cannot understand them.

Reducing risk: Spreading returns over debt products, mezzanine products, and equity products, as well as sectors, helps lower risk for investors using the adapt approach.

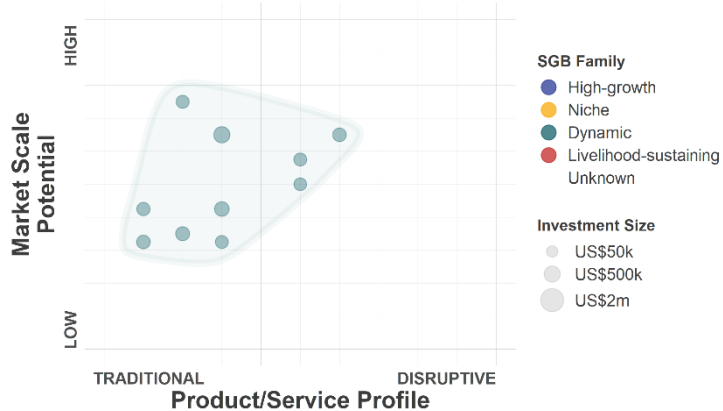
SUPPORT NEEDED

Adapt approaches need investment capital from commercial investors, but they also offer support via grants and third-party technical assistance to subsidize start-up costs and support portfolio companies.

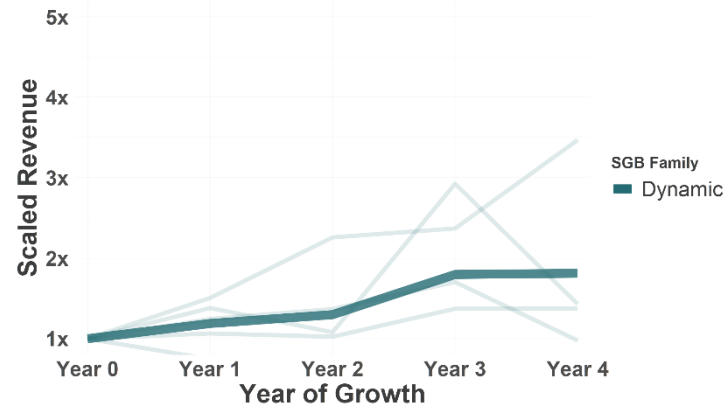
ADAPT PROVIDER EXAMPLE: IUNGO (EAST AFRICA) PROVIDES TAILORED INVESTMENT PRODUCTS AND SERVICES TO MID-SIZED DYNAMIC ENTERPRISES WITH MODERATE SCALE POTENTIAL

The portfolio companies of SGB finance providers taking an adapt approach, such as iungo capital (East Africa), cover a range of innovation profiles, scale potentials, and leadership structures.

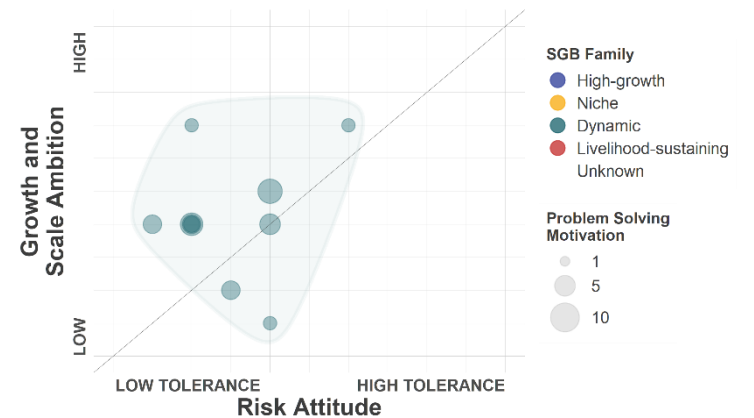
Lens 1: Investees by scale potential, innovation, SGB family, and deal size
Scale 1-10, self-reported



Lens 2: Scaled growth curves of portfolio companies
Scaled revenue, as a multiple of the first year of revenue provided



Lens 3: Investees by leadership behaviors and SGB family
Scale 1-10, self-reported



Adapt approaches customize both services and products to meet the needs of a variety of SGB types, often partnering with local actors and providing targeted business or sector support.

Note: 1) These graphs provide an illustrative view into a specific SGB finance provider's portfolio but variation among providers who have this same approach likely exists. 2) Market Scale Potential calculated as (Total Addressable Market*.5) + (Competition*.25) + (Growth and Scale Ambition*.25). 2) Innovation profile ranked on a scale of 1 (most traditional) to 10 most disruptive. 3) Scaled growth was determined by aligning revenues to Year 0, based on the first year of revenue available, and dividing subsequent years of revenue by the first. 4) 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 consequences of failure. 5) Not all portfolio data provided was included on every graph due to data limitations.
Source: Company websites, accessed September 2019; Omnivore, Portfolio Data (September 2019).

SYSTEMATIZE APPROACHES FOCUS ON PROVIDING SMALL TICKET SIZES TO A HIGH NUMBER OF SGBS USING STANDARDIZED BUT FLEXIBLE INVESTMENT PROCESSES

APPROACH

“SYSTEMATIZE”

DESCRIPTION

Systematize approaches combine standardized investment products with deep in-house expertise about market risks to provide high-volume, low-cost semi-customized solutions for SGBs. As opposed to traditional debt financiers, which look to individual attributes of a business to determine creditworthiness, Systemize approaches rely on intelligence from current and historic lending that enables them to assess risk and remove reliance on collateral. Products are primarily debt- or mezzanine-based and use “off-the-shelf” templates developed through investment repetition in specific sectors and markets. Systematize approaches can make more SGB investments per year than most other approaches (except for Digitize approaches), because of returns to deal volume.

FINANCE GAPS TARGETED

- Working capital for all segments but particularly Dynamic and Livelihood-Sustaining Enterprises
- Operating expenses for growing businesses

• **Typical investment size ranges: \$118K-\$390K USD¹**

EXAMPLES*



BPI



FINANCE INNOVATIONS AND SGB RISK-REDUCTION APPROACHES

NUMBER OF PROVIDERS:

NONE

FEW

MANY

1. TARGET INVESTEEES			2. CAPITAL STRUCTURE		3. PRODUCTS		4. OPERATIONAL MODEL	
SGB SEGMENT	SGB STAGE	SGB SECTOR	FUND STRUCTURE	LPs & RETURN EXPECTATIONS	INVESTMENT MINDSET	PRODUCT CUSTOMIZATION	STANDARDIZATION OF PROCESSES	NON-FINANCIAL SUPPORT
Livelihood sustaining	Seed	Sector agnostic	Closed fund	Blended finance (lower cost, diversified risk capital)	Debt	Standardized	Highly standardized operations	No support
Dynamic enterprises	Early							
Niche ventures	Growth	Sector focused	Evergreen fund	Traditional LPs (higher cost, lower risk capital)	Mezzanine	Moderately customized	Moderately standardized operations	Provide direct support
High-growth ventures	Mature		Flexible; both closed and evergreen funds	Flexible; both blended finance & trad. LPs	Equity	Highly customized	Highly deal-centric operations	Provide support through 3rd party

SYSTEMATIZE APPROACHES FOCUS PREDOMINATELY ON DYNAMIC ENTERPRISES AND AIM TO PROVIDE COMMERCIAL RETURNS TO THEIR LIMITED PARTNERS

WHO SUPPORTS THEM

Finance organizations taking a systematize approach seek commercial returns, so the Limited Partners behind them are a mix of commercially minded investors, government pension funds, and international development finance partners with the political objectives and/or mission to help SGBs grow.

THE SGB SEGMENTS THEY SERVE

Systematize providers typically focus on serving Dynamic Enterprises and Livelihood-Sustaining Enterprises, sectors that tend to have traditional “bread-and-butter” industries and a deep pool of unmet financing needs.

WHAT THEY PROVIDE

Systematize approaches can provide capital quickly and affordably and can target support using their extensive knowledge of specific sectors.

KEY PERFORMANCE DRIVER

Customer segments: Systematize providers can be opportunistic, but they are successful when they focus on the specific segments and sectors they know best (by definition not the fastest or most innovative companies in the market), and they can get deals done quickly. They focus mostly on serving Dynamic Ventures and Livelihood-Sustaining Ventures, given the concentration of traditional business models in these segments.

Products offered: Systematize-approach organizations have a debt mindset; that is, they tend to favor debt-centric products such as loans and debt-like mezzanine products. Their standardized products run the financing spectrum, however, because they strive to be flexible enough to cover a diverse range of needs and personal circumstances.

SUPPORT NEEDED

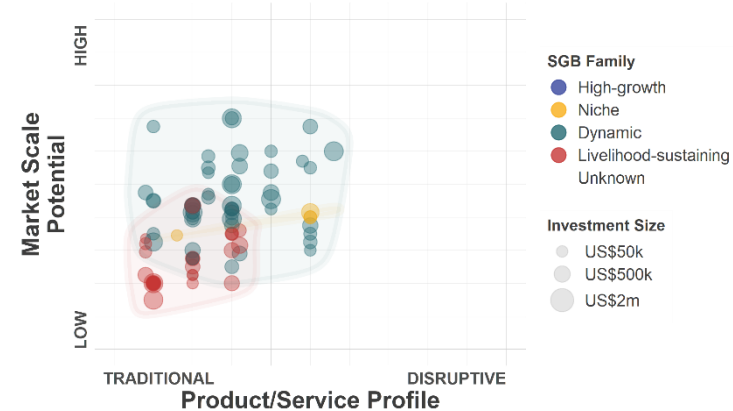
Firms with a systematizing approach require financial support when expanding into new markets, as their core competency – deep in-house expertise of common industries and standardized products – takes time to build.

SYSTEMATIZE PROVIDER EXAMPLE: BPI (AFRICA) FINANCES A HIGH VOLUME AND DIVERSE RANGE OF SGBS, STREAMLINING ITS PROCESSES TO MAINTAIN A LOW COST TO SERVE

The portfolio companies of SGB finance providers with a systematizing approach, such as BPI (Africa), are primarily traditional businesses with low- to medium-scale potential and a range of leadership behaviors.

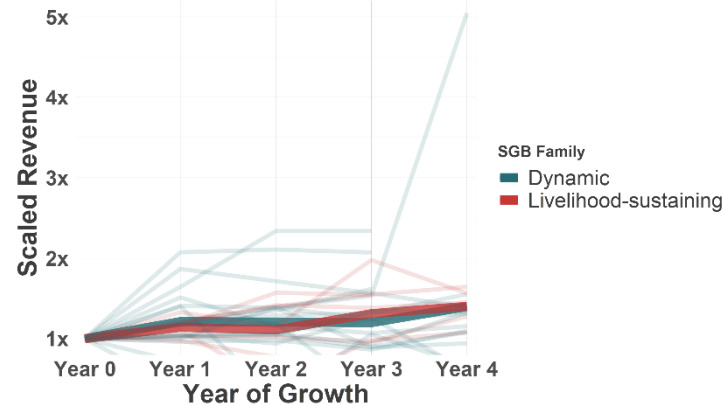
Lens 1: Investees by scale potential, innovation, SGB family, and deal size

Scale 1-10, self-reported



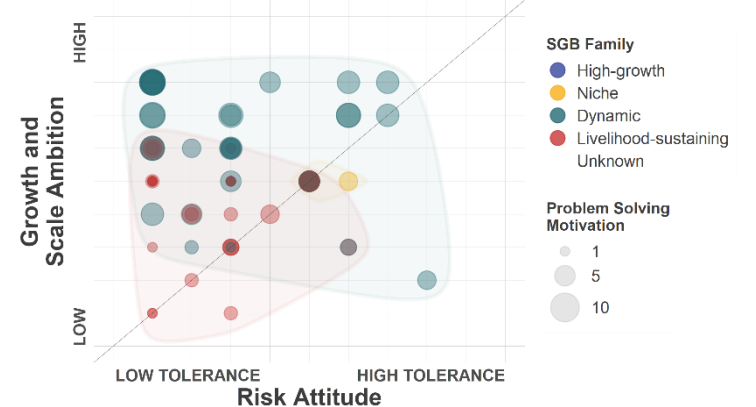
Lens 2: Scaled growth curves of portfolio companies

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



Lens 3: Investees by leadership behaviors and SGB family

Scale 1-10, self-reported



Systematized financing approaches meet the needs of traditional businesses with incremental growth by deploying standardized investment processes to provide quasi-tailored finance at low cost.

Note: 1) These graphs provide an illustrative view into a specific SGB finance provider's portfolio but variation among providers who have this same approach likely exists. 2) Market Scale Potential calculated as (Total Addressable Market*.5) + (Competition*.25) + (Growth and Scale Ambition*.25). 2) Innovation profile ranked on a scale of 1 (most traditional) to 10 most disruptive. 3) Scaled growth was determined by aligning revenues to Year 0, based on the first year of revenue available, and dividing subsequent years of revenue by the first. 4) 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 consequences of failure. 5) Not all portfolio data provided was included on every graph due to data limitations.
Source: Company websites, accessed September 2019; Omnivore, Portfolio Data (September 2019).

DIGITIZE APPROACHES DELIVER FASTER, MORE CONVENIENT FINANCE TO PREVIOUSLY UNDERSERVED SGB SEGMENTS BY DIGITIZING THE INVESTMENT PROCESS

APPROACH

“DIGITIZE”

DESCRIPTION

Digitize approaches use technology to enable radically lower cost of service and overcome constraints of traditional banks to provide secured and unsecured capital. They use data to streamline processes and drive investment decisions, including digitizing back-end processes and developing algorithms to evaluate credit-worthiness. The approach “disrupts” traditional human- and investment-committee-centric approaches to loan decisions. Models center on acquiring new customers, tailoring loan underwriting, or attracting affordable debt financing or investment.¹ Digitize finance approaches offer similar loan products, but ticket size, interest rate, and maturity can all be customized depending on SGB needs and analysis.

FINANCE GAPS TARGETED

- Working capital for Dynamic and Livelihood-sustaining Enterprises
- Short-term general loans for Dynamic and Livelihood-sustaining Enterprises

• **Typical investment size ranges: \$14K-\$29K USD²**

EXAMPLES*

semp.

SME CORNER

4G CAPITAL

FINANCE INNOVATIONS AND SGB RISK-REDUCTION APPROACHES

NUMBER OF PROVIDERS:

NONE

FEW

MANY

1. TARGET INVESTEEES			2. CAPITAL STRUCTURE		3. PRODUCTS		4. OPERATIONAL MODEL	
SGB SEGMENT	SGB STAGE	SGB SECTOR	FUND STRUCTURE	LPs & RETURN EXPECTATIONS	INVESTMENT MINDSET	PRODUCT CUSTOMIZATION	STANDARDIZATION OF PROCESSES	NON-FINANCIAL SUPPORT
Livelihood sustaining	Seed	Sector agnostic	Closed fund	Blended finance (lower cost, diversified risk capital)	Debt	Standardized	Highly standardized operations	No support
Dynamic enterprises	Early		Evergreen fund	Traditional LPs (higher cost, lower risk capital)	Mezzanine	Moderately customized	Moderately standardized operations	Provide direct support
Niche ventures	Growth	Sector focused	Flexible; both closed and evergreen funds	Flexible; both blended finance & trad. LPs	Equity	Highly customized	Highly deal-centric operations	Provide support through 3rd party
High-growth ventures	Mature							

* For this report, Sempli and SME Corner were research partners

Source: 1) 'Bridging the Small Business Credit Gap through Innovative Lending,' Accion Venture Lab (November 2016). 2) Average investment amounts are based on the data received from SGB finance provider research partners which are listed in the appendix of this report.

DIGITIZE APPROACHES FOCUS ON PROVIDING FASTER, MORE CONVENIENT FINANCE TO PREVIOUSLY UNDERSERVED SGB SEGMENTS BY DIGITIZING THE INVESTMENT PROCESS

WHO SUPPORTS THEM

Commercial investors support organizations using digitized approaches because of their high potential to scale. International development finance partners and technical assistance providers also often support early-stage businesses using the approach, given its potential to drive financial inclusion.

THE SGB SEGMENTS THEY SERVE

Financers using digitize approaches generally target Livelihood-Sustaining Enterprises and Dynamic Enterprises. Specific SGBs have generally been operating for several years, since their business metrics must be analyzed before investment decisions can be made. (Required records include bank statement, invoices from suppliers, etc.)

WHAT THEY PROVIDE

The capital deployed using the digitize approach goes mostly to working capital in the form of unsecured loan products with short tenors, although a few organizations focus on the market's upper end, offering secured loans for bigger amounts. Ticket sizes, loan amounts, and maturities can be easily adjusted to meet the SGB's needs and investment analysis; clients frequently "graduate" to better interest rates and higher loan amounts after paying back their first loan(s).

KEY PERFORMANCE DRIVERS

Cost structure: Digitizing incurs high fixed costs due to the heavy investment in data and technology. To keep marginal costs low, it is essential to distribute these costs over many customers. In fact, to achieve scale, customer acquisition costs must be low enough to offset the cost of capital and expected default rates.

Operational partners: Digitize-approach structures rely heavily on data to evaluate SGB creditworthiness, especially as many firms never interact directly with the client SGBs. While some digitize providers accept the information needed for loan applications directly from the SGBs, most work with operational partners to both collect and verify information.

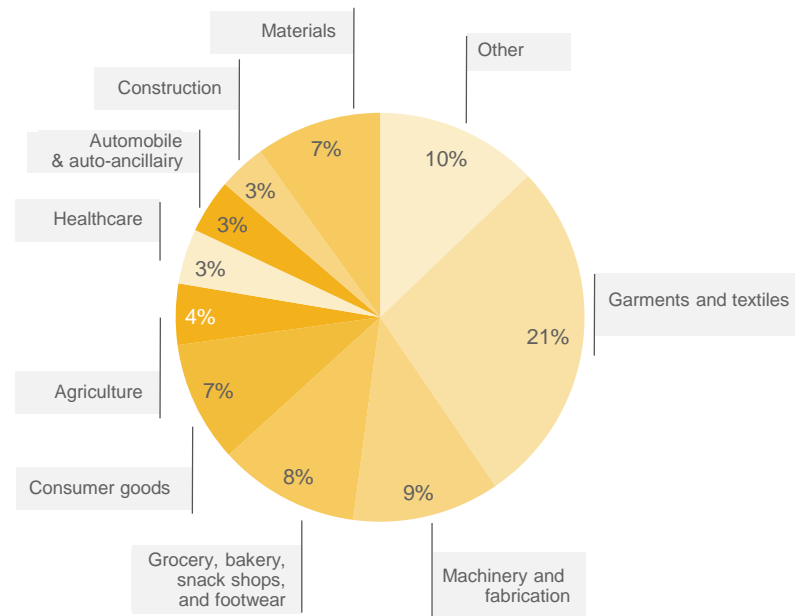
SUPPORT NEEDED

Organizations with a Digitize approach focused on driving financial inclusion for underserved segments often need grants to reach product-market fit and prove the viability of their models. They may also need support proving the social impact of their model. Moreover, more information sharing is needed to better understand which models are working and in which contexts.

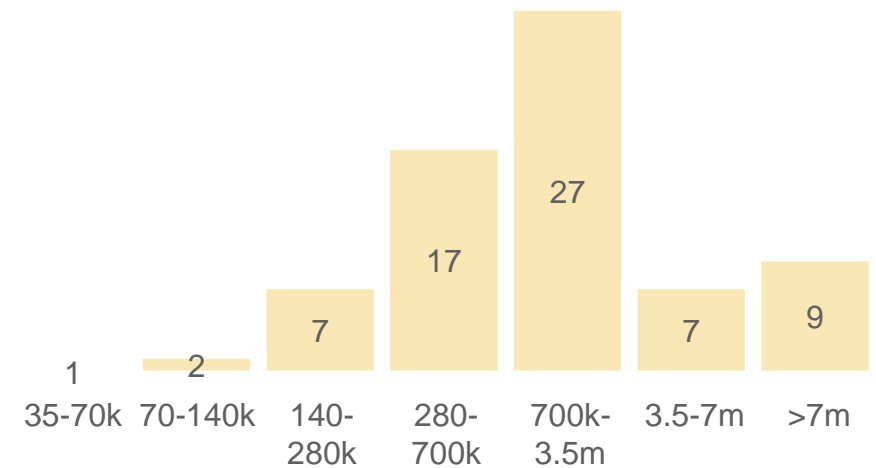
DIGITIZE PROVIDER EXAMPLE: SMECORNER (INDIA) DEPLOYS A DIGITIZED AND INCREASINGLY AUTOMATED APPROACH TO DELIVER DEBT-FINANCING AT SMALL TICKET SIZES TO TRADITIONAL SGBS

The portfolio companies of SGB finance providers with a Digitize approach such as SMECorner (India) are relatively small and work in traditional sectors.

Top SMECorner portfolio company sectors



Revenue distribution of SMECorner portfolio companies



Digitize approaches meet the financing needs of smaller, more traditional businesses by using automated decision-making to lower the cost of sourcing loans and assessing creditworthiness.

Note: 1) Organizations with Digitize approaches generally do not know their entrepreneurs personally as well as other providers. As such, they assess risk in different ways, and largely by collecting and analyzing additional information such as what is shown here. 2) These graphs provide an illustrative view into a specific SGB finance provider's portfolio but variation among providers who have this same approach exists.
Source: Company Websites, accessed September 2019; SMECorner, Portfolio Data, September 2019

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REFERENCES
AND RESEARCH
PARTICIPANTS

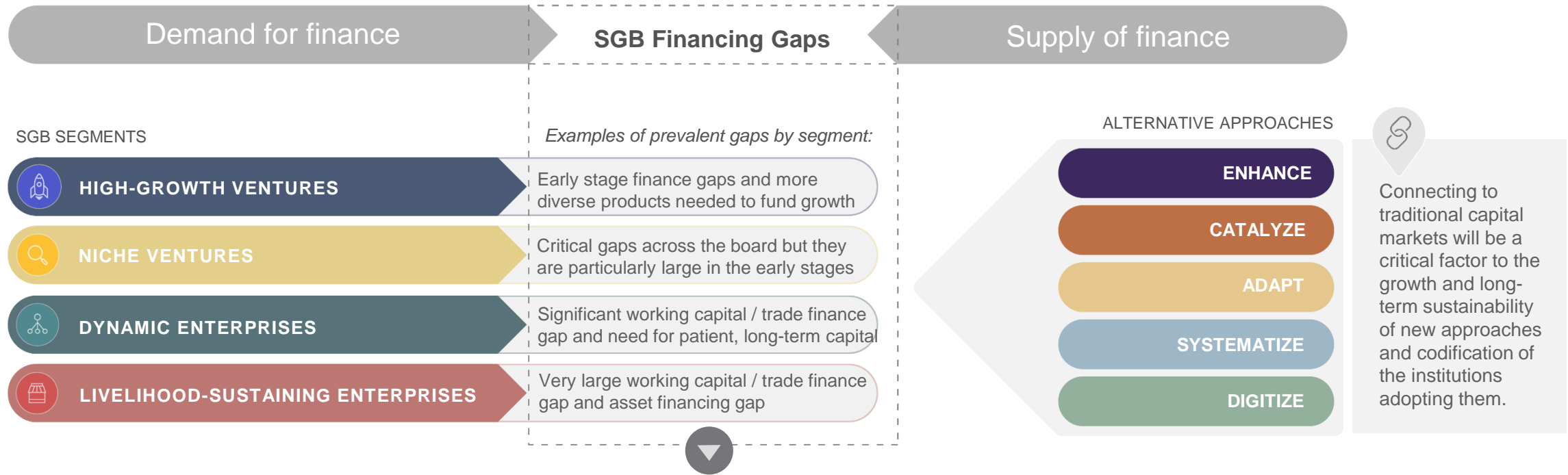
ANNEX

Recommendations for funders to support closing SGB finance gaps

- Funders have important roles to play in supporting current and future financing approaches that can help fill critical SGB finance gaps
- To support alternative SGB finance approaches funders should take different actions for each SGB segment family which should include:
 - Livelihood-sustaining Enterprises. Fund and support technical assistance programs through Catalyze and Systematize models, facilitate knowledge sharing of alternative approaches, and provide targeted grants to support the development of new digital lending products
 - Dynamic Enterprises. Provide financial support to help Adapt models become established in new markets, facilitate knowledge sharing of alternative approaches, and facilitate new partnerships.
 - Niche Ventures. Provide technical assistance to help companies demonstrate product-market fit for disruptive products, educate local investors on the value-add roles they can play, and act as matchmakers and storytellers to help connect entrepreneurs to appropriate sources of capital
 - High-growth Ventures. Support Enhance approaches by helping to share information among current players, connecting pioneers with traditional equity providers, and improving enabling environments in which specific organizations work
- To support the emergence of new finance innovations and approaches actors should invest more in sharing knowledge with the broader ecosystem, establish industry benchmarks, and support pioneering organizations

Funders have important roles to play in supporting the adoption and scaling of alternative approaches that can help fill critical SGB finance gaps

SGB FRONTIER FINANCE ARCHITECTURE



Funders, investors and other support actors can fill the SGB financing gaps by:

- 1. Drive adoption of alternative approaches (e.g. Catalyze, Enhance, etc.)**
- 2. Encourage identification of new approaches and knowledge sharing**

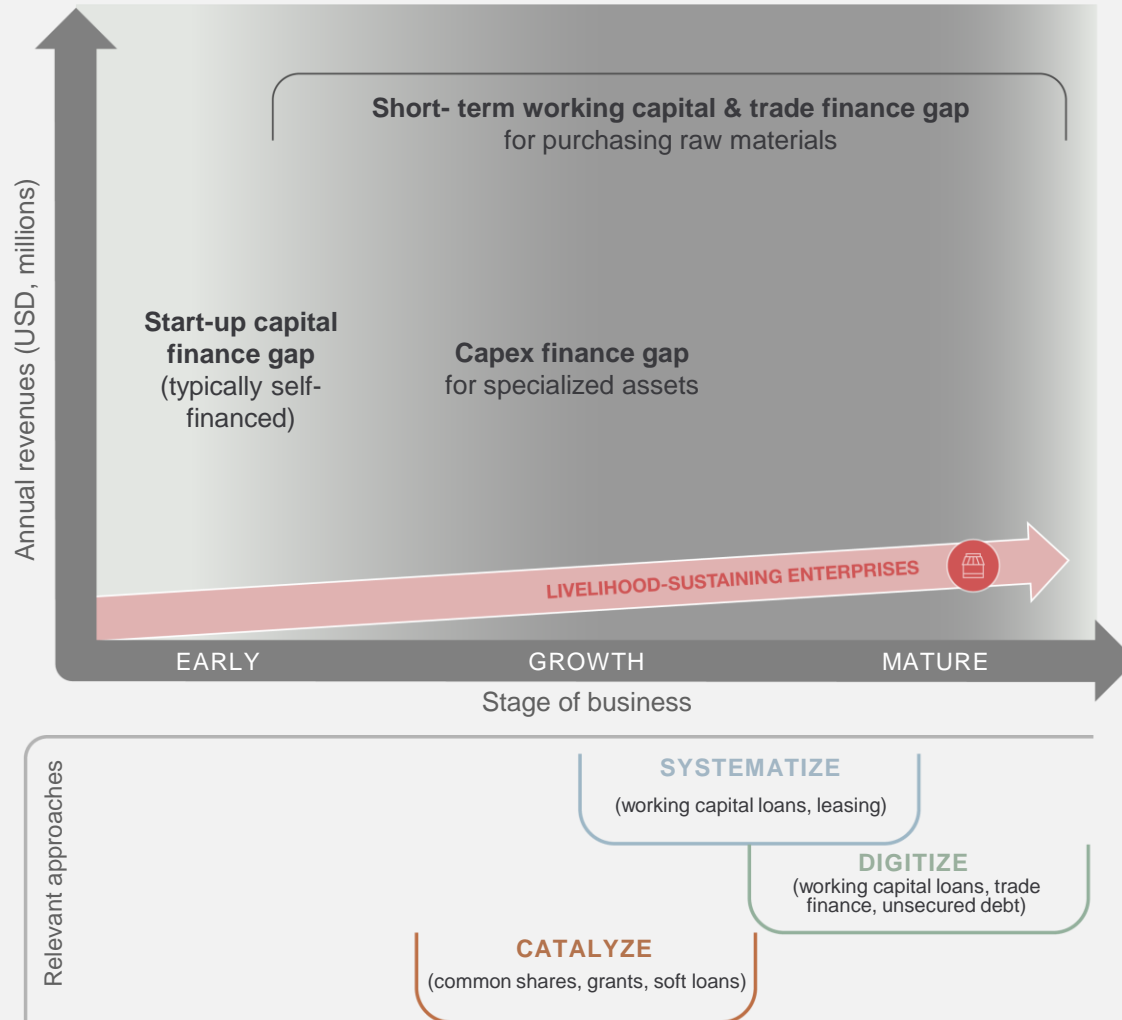


1. DRIVE ADOPTION OF ALTERNATIVE APPROACHES

LIVELIHOOD-SUSTAINING ENTERPRISES. SUPPORTING THE EMERGENCE OF NEW DIGITAL LENDING MODELS AND FACILITATING KNOWLEDGE SHARING AND PARTNERSHIPS CAN HELP ADDRESS UNMET NEEDS

LIVELIHOOD-SUSTAINING ENTERPRISES:

PRIMARY FINANCE GAPS AND RELEVANT APPROACHES BY STAGE OF BUSINESS



ACTIONS FOR FUNDERS TO SUPPORT CLOSING GAPS

- **Fund and support technical assistance programs through Catalyze and Systematize models** to help businesses become investment ready and improve performance
- **Facilitate convenings for MFIs and local commercial banks to learn about Systematize models** and how they balance deep learning with standardized debt products
- **Provide targeted R&D grants to help demonstrate the product-market fit of new Digitize data-driven lending models** that can be scaled
- **Facilitate potential partnerships between Digitize approaches and traditional banks** interested in increasing SGB lending to help build new “click-and-brick” models

SYSTEMATIZE

DIGITIZE

CATALYZE

ADAPT

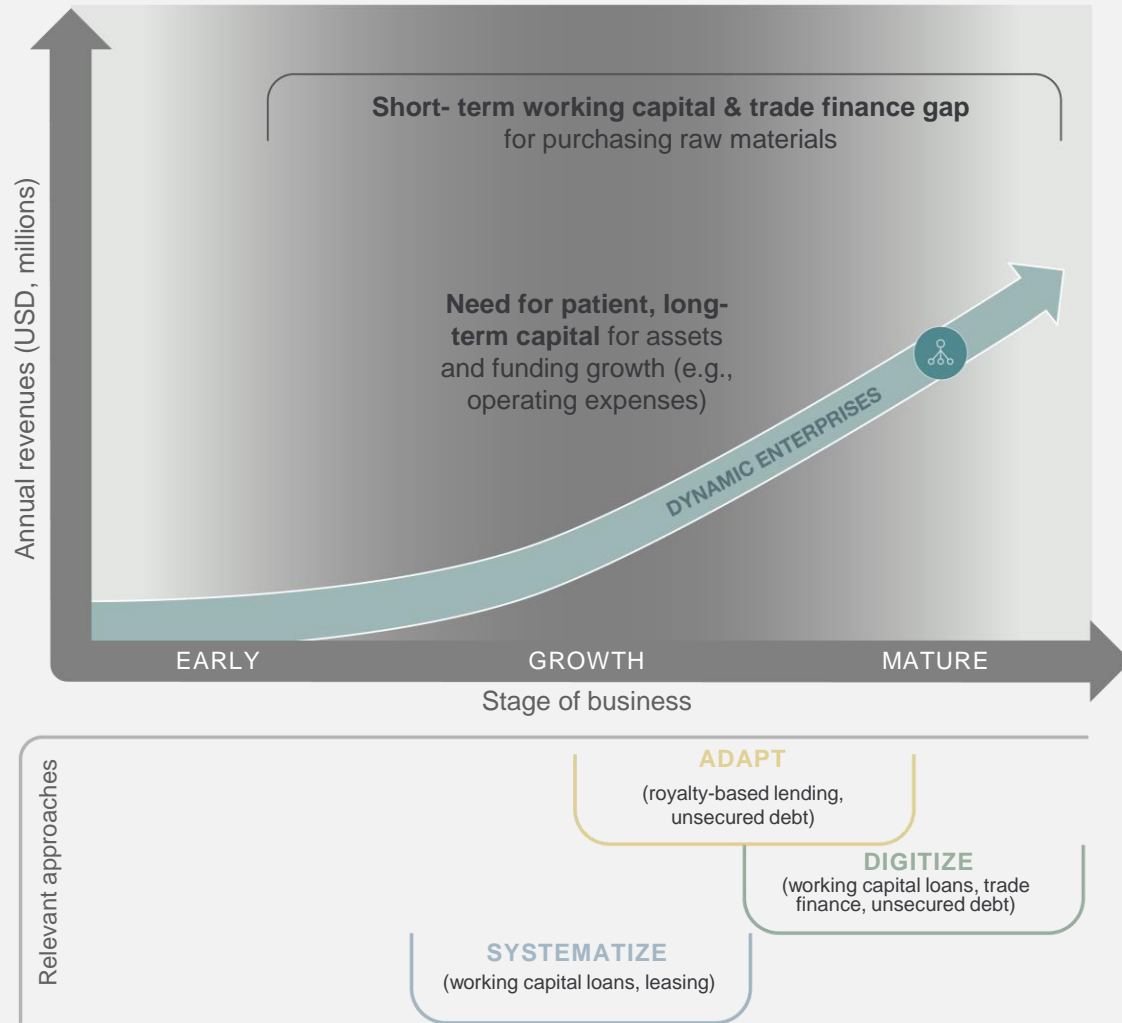
ENHANCE



1. DRIVE ADOPTION OF ALTERNATIVE APPROACHES

DYNAMIC ENTERPRISES. SUPPORTING THE GROWTH OF MEZZANINE PRODUCTS AND PROVIDERS AS WELL AS FACILITATING NEW PARTNERSHIPS BETWEEN DIGITIZE AND LOCAL BANKS CAN HELP FILL GAPS

DYNAMIC ENTERPRISES: PRIMARY FINANCE GAPS AND RELEVANT APPROACHES BY STAGE OF BUSINESS



ACTIONS FOR FUNDERS TO SUPPORT CLOSING GAPS

- Provide financial support to help **Adapt models** become more firmly rooted in new markets
- Advocate for more tax-friendly regulations on **mezzanine products** in order to drive innovation and adoption
- Facilitate convenings for local commercial banks to learn about **Systematize models** and how they balance deep learning with standardized debt products
- Expand support for **blended finance models** that provide **technical assistance** both pre- and post-investment
- Facilitate potential **partnerships** between **Digitize models** and **traditional banks** interested in increasing **SGB lending** to help build new “click-and-brick” models

SYSTEMATIZE

DIGITIZE

CATALYZE

ADAPT

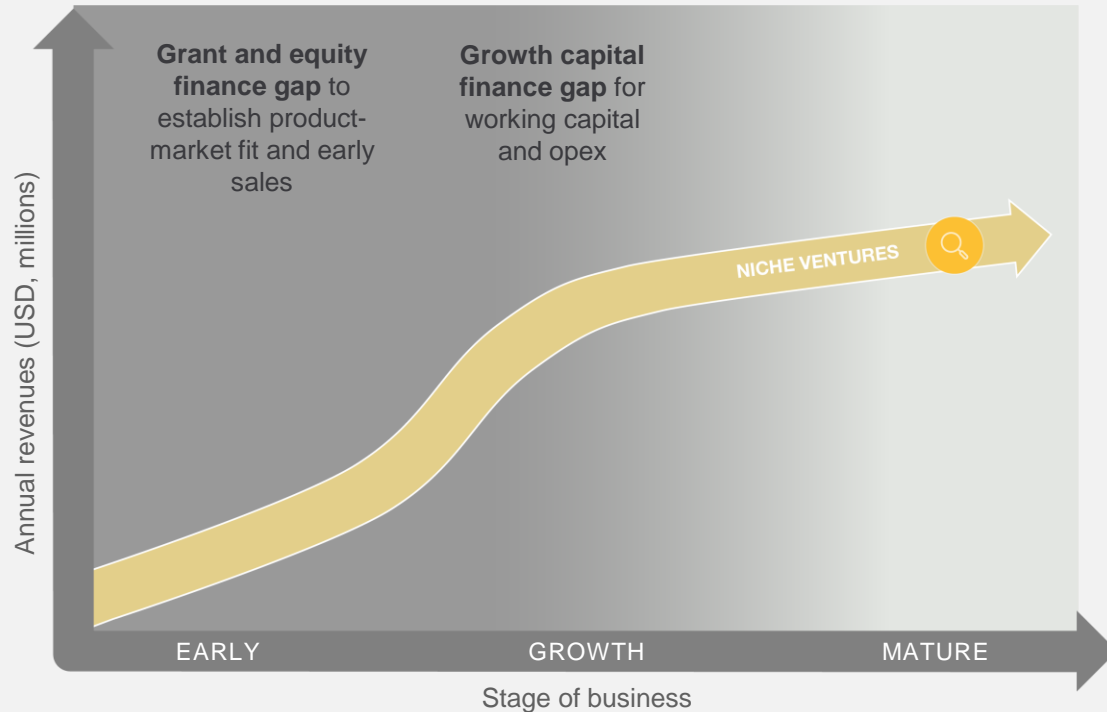
ENHANCE




1. DRIVE ADOPTION OF ALTERNATIVE APPROACHES

NICHE VENTURES. TO FILL CRITICAL GAPS FUNDERS SHOULD PROVIDE CATALYZE MODELS WITH FINANCE AND AS WELL AS CONNECT NICHE VENTURES TO DIFFERENT TYPES OF APPROPRIATE CAPITAL

NICHE VENTURES: PRIMARY FINANCE GAPS AND RELEVANT APPROACHES BY STAGE OF BUSINESS




 Larger finance gap Smaller finance gap

Relevant approaches

CATALYZE
(grants, common shares, redeemable equity)

ENHANCE
(preference shares, convertible/SAFE notes)

ADAPT
(royalty-based lending, unsecured debt)



ACTIONS FOR FUNDERS TO SUPPORT CLOSING GAPS

- **Provide concessional and innovative funding to Catalyze approaches** in the form of recoverable grants or pay-for-success convertible notes for sectors where funding is more scarce such as non-technology businesses
- **Provide technical assistance to help companies demonstrate product-market fit** for disruptive products so they can more easily get finance from traditional and alternative finance providers
- **Educate local investors on the value-add role they can play as well as the potential trade-offs between returns, impact, and risks** in order to help strengthen local finance ecosystems
- **Act as matchmakers and storytellers** to help connect entrepreneurs to appropriate sources of capital that may be hard for them to find or access on their own

SYSTEMATIZE

DIGITIZE

CATALYZE

ADAPT

ENHANCE

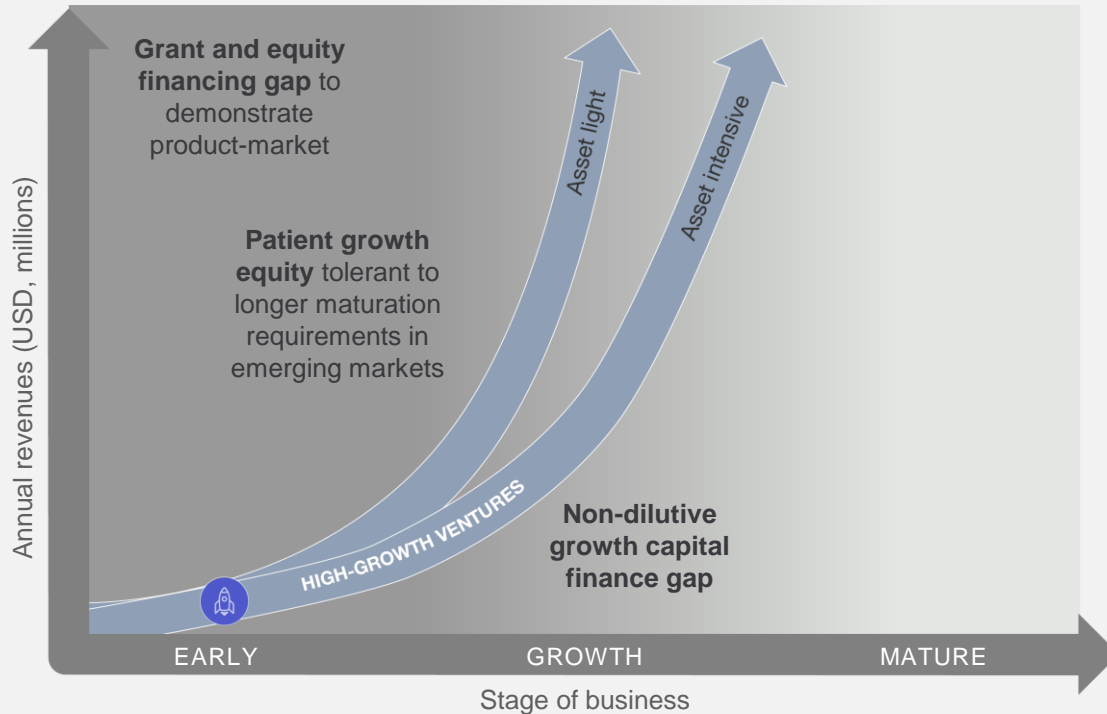


1. DRIVE ADOPTION OF ALTERNATIVE APPROACHES

HIGH-GROWTH VENTURES. SUPPORTING CATALYZE MODELS WITH FUNDING AND ENHANCE AND ADAPT APPROACHES WITH NETWORKING AND APPROACHES CAN HELP FILL CRITICAL FINANCE GAPS

HIGH-GROWTH VENTURES:

PRIMARY FINANCE GAPS AND RELEVANT APPROACHES BY STAGE OF BUSINESS



Larger finance gap
Smaller finance gap

Relevant approaches

CATALYZE
(grants, common shares)

ENHANCE
(common shares, preference shares, convertible/SAFE notes)

ADAPT
(royalty-based lending, unsecured debt)



ACTIONS FOR FUNDERS TO SUPPORT CLOSING GAPS

- Provide financial support to Catalyze models focused on identifying and providing capital to early stage businesses with high potential that are often overlooked by other investors such as firms in fragile settings and/or led by female founders
- Understand the different types of Evergreen structures and promote the adoption of relevant models for specific organizations
- Convene organizations with Enhance strategies and traditional equity players in order to share learnings on equity investing in emerging markets and tap into additional expertise and capital
- Support the growth of non-dilutive growth capital products such as self-liquidating loans as well Adapt organizations more broadly given their ability to serve multiple SGB needs
- Educate local investors on the value-add role they can play as well the potential trade-offs between returns, impact, and risks in order to help strengthen local finance ecosystems

SYSTEMATIZE DIGITIZE **CATALYZE** ADAPT ENHANCE

2. ENCOURAGE IDENTIFICATION OF NEW APPROACHES AND KNOWLEDGE SHARING

Funders can facilitate the emergence of new SGB financing models by sharing knowledge, establishing benchmarks, and supporting pioneering organizations

IDENTIFY AND SHARE PROMISING NEW SGB FINANCE APPROACHES

Use this research to **more explicitly identify, evaluate, and share additional innovative approaches that SGB finance providers are using** in emerging markets

ESTABLISH BENCHMARKS FOR FINANCIAL AND IMPACT PERFORMANCE

Understand what realistic financial and impact returns look like for different approaches in order to help diversify and drive more investment into the sector

DRIVE IMPROVEMENT IN OPERATIONAL PERFORMANCE FOR NEW MODELS

Continue to incentivize business process improvement, new technology adoption, and information sharing among for SGB finance providers in order to improve operational performance and fund economics within the industry

ACTIVELY SUPPORT PIONEERING INTERMEDIARIES AND PROVIDE INCENTIVES TO ATTRACT NEW ENTRANTS

Expand support to both help scale the impact of existing pioneer SGB finance providers and attract new SGB finance investors to the market

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**REFERENCES
AND RESEARCH
PARTICIPANTS**

ANNEX

References & Research Participants

Primary research partners and external experts consulted

Primary research partners

- Analysis of portfolio data from **11** SGB investor partners
- Interviews with **10** of these SGB investor partners:
 - **Alejandra Revueltas**, Adobe Capital
 - **Carolina Villegas**, SempI
 - **David Munnich**, Investisseurs & Partenaires (I&P)
 - **Kate Cochran**, Upaya Social Ventures
 - **Mark Khan**, Omnivore VC
 - **Mark Paper**, Business Partners International
 - **Namita Vyas**, SMECorner
 - **Rich Ambrose**, Pomona Impact
 - **Roeland Donckers**, iungo capital
 - **Ruchi Yadav**, SMECorner
 - **Samir Bhatia**, SMECorner
 - **Sachi Senoy**, Upaya Social Ventures



Expert interviews

Core external reviewers

- **Drew von Glahn**, Collaborative for Frontier Finance
- **Eelco Benink**, independent advisor and author of numerous reports on SGB finance
- **Matthew Gamser**, IFC/SME Finance Forum
- **Tom Gibson**, SEAF co-founder and independent advisor

Case studies profiled

- **Biosense**, High-growth Venture (India)
- **Horn Products**, Dynamic Enterprise (Uganda)
- **Lysa & Co.**, Dynamic Enterprise (Senegal)
- **Tamul Plates**, Niche Venture (India)
- **Cameleon Barbershop**, Livelihood-sustaining Enterprise (Peru)

Additional experts

- **Ami Dalal**, FINCA Ventures
- **Chris Walker**, Mercy Corps Ventures
- **Christine Chang**, Finnovista
- **Dan Block**, Global Innovation Fund
- **Gregor Paterson Jones**, SME investment advisor / former UNCDF
- **Guido Boyson**, GroFin
- **Jackie Hyland**, A55 (debt lending platform)

Additional experts (continued)

- **Jake Kendall**, Caribou Digital
- **Jeffrey Liebert**, CEO of Gazelle Finance
- **Jim Villanueva**, Global Partnerships
- **Joseph Crayton**, Gemini Gap
- **Lindsey Vandament**, Global Partnerships
- **Luis Alejandro Fernandez**, IDB Lab
- **Maelis Carraro**, BFA / Catalyst Fund
- **Maggie Flanagan**, Lemelson Foundation
- **Marnix Mulder**, DGGF
- **Mathew Guttentag**, ANDE
- **Miguel Angel Soriano**, IFC
- **Mike Packer**, QED Investors
- **Nicolle Richards**, Lendable
- **Richard Greenberg**, USDFC/OPIC
- **Rob Schneider**, Lemelson Foundation
- **Rob Tashima**, Village Capital
- **Robynn Steffen**, Omidyar
- **Santiago Alvarez**, Acumen Latam Capital Partners
- **Sarah Gibson**, Collaborative for Frontier Finance
- **Scott Onder**, Mercy Corps Ventures
- **Steven Grin**, Lateral Capital
- **Songbae Lee**, Calvert Impact Capital
- **Tahira Dosani**, Accion Venture Lab
- **Thomas Caffrey Osvold**, Small Foundation
- **William Fellows**, SME investment advisor

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COMMISSIONED ON BEHALF OF:



COORDINATED BY:

- **Julia Kho**, Dutch Good Growth Fund
- **Chris Jurgens**, Omidyar Network
- **Sally Walkerman**, Small Foundation
- **Nicholas Colloff**, Argidius Foundation

AUTHORED BY:

Kusi Hornberger, Greg Snyders, Mark Pedersen, Alejandra Plazas, and Kristina Kelhofer from Dalberg Advisors