



**CLOSING THE SME
FINANCE GAP:
EMPOWERING
YOUTH & WOMEN
ENTREPRENEURS
IN FRONTIER
MARKETS**

DGGF Conference Report
1 October 2019, Amsterdam



CLOSING THE SME FINANCE GAP IN FRONTIER MARKETS: WHAT WORKS?

Financing local businesses in frontier markets contributes to growing businesses, creating jobs and ultimately inclusive economic development. There is however no silver bullet in serving the different needs of the diverse SME sector. Diversity and complexity need to be embraced through context specific approaches and targeted strategies:

- Serving **young entrepreneurs** implies adopting high-risk investment strategies to deploy early-stage capital;
- Addressing the financial needs of **women entrepreneurs** requires a mindset shift all along the investment value chain;
- **Entrepreneurs operating in fragile contexts** benefit most from partnering with active hands-on investors.

Specific conclusions per break out session are included in the annex.



SCALING THE SME FINANCE OFFER IN FRONTIER MARKETS: THE ROADMAP

The SME sector with its wide range of financial needs and challenges is best served by a diverse financial ecosystem. Many appropriate solutions have been tested and are proven – the challenge is to scale up a various ecosystem. Scaling that conducive ecosystem across geographies requires:

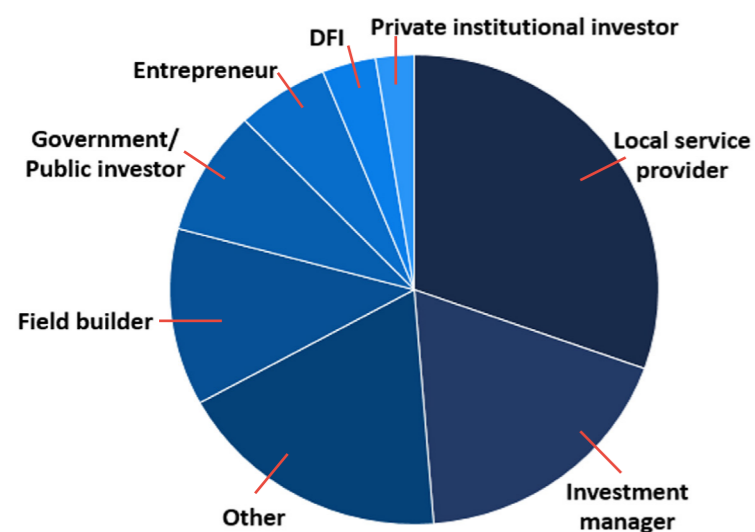
1. **Smarter scaling strategies:** solid understanding of the local ecosystem and better comprehension of the specificities of targeted SME segments leads to the appropriate finance solutions and their potential scaling pathways. More targeted strategies will enable focused learning and getting to scale faster.
2. **Appropriate capital:** the right form of capital may be seed, catalytic or blended capital - complemented with technical assistance - depending on scaling pathway and stage. Seed capital allows to fail forward and innovate. Catalytic capital helps to bridge the pioneer gap by breaking established rules of investing, demonstrating investment cases and building track record. Blended capital attracts and educates follow on investors.
3. **Bridging partnerships:** service providers, investment managers, field builders, public institutions and private investors need to single out strategic partners across the scaling pathway. Getting out of comfort zones and building well thought out partnerships along the graduation path creates the platform for scaling a conducive financial ecosystem.



Triple Jump and PwC – on behalf of the Dutch Good Growth Fund (DGGF) 'Investment Fund Local SMEs' initiative – hosted the conference "Closing the SME Finance Gap: Empowering Young & Women Entrepreneurs in Frontier Markets" on October 1st in Amsterdam.

More than 200 experts from 40 countries discussed and identified strategies that work best in closing the finance gap for young and female entrepreneurs in frontier markets - and how these solutions can be brought to scale.

Representation of participants – by stakeholder type



“The DGGF has demonstrated that investing public funds into local SME finance providers can enable business opportunities created by local entrepreneurs to contribute to inclusive economic development, even in difficult markets. But to be a successful impact broker, cooperation is key. Today PwC and Triple Jump provide us with a great platform for exchange and cooperation.”

Steven Collet, Director of the Sustainable Economic Development Department, Ministry of Foreign Affairs of the Netherlands

Serving young entrepreneurs is linked to high-risk early-stage investment strategies

Moderator: • [Andreas Zeller](#), Open Capital Advisors (OCA)

Speakers: • [Allie Burns](#), Village Capital • [Fatoumata Ba](#), Janngo Capital • [Hitoshi Ikeya](#), EME Myanmar/Ikeya Capital • [Ritu Verma](#), Ankur Capital • [Namek Zu'bi](#), Silicon Badia

Challenges to overcome:

- Low education
- Need for improved product/market fit
- Limited investment readiness of local businesses
- Local context mismatch (or applying Silicon Valley models in frontier markets)
- Lack of liquidity in frontier markets
- Misunderstanding between entrepreneurs, fund managers, investors



Approaches that work:

- ✓ **'Venture building'**: aligned incentives, talent as a service pool, value addition for market exposure
- ✓ **'Value addition'**: DD is not about yes or no, but an opportunity to improve companies structures (peer-to-peer selection has demonstrated an efficient early-stage DD tool) and de-risk investments + truly leveraging networks for getting the right expertise and context attuned solutions
- ✓ **Diversity of capital to deploy different instruments**: incl. 'self-liquidating instruments' (e.g. revenue share, convertible notes)
- ✓ **Smart use of subsidies**: with the objective to get the business in the right direction (e.g. for a fast product-market fit validation) NOT to de-risk the investment
- ✓ **Talent management**: TA to build expertise in the company as reliance on external expertise reduces and graduate programs
- ✓ **Ecosystem building**: building the capacity of entrepreneurs, investors, lawyers and other relevant stakeholders.

Reference material:

- 📖 [Scaling access to finance for early-stage Enterprises in Emerging Markets: Lessons from the Field](#), DGGF, 2019
- 📖 [Alternative Investment Strategies to Drive Inclusive Innovation](#), Village Capital, 2019

Serving women entrepreneurs requires a mindset shift

Moderator: • [Heather Mae Kipnis](#), IFC

Speakers: • [Santiago Alvarez](#), Acumen/ALEG • [Neveen Al-shawabkeh](#), Al-Mueen Marketing & distribution, Jordan • [Ashraf Esmael](#), Grofin • [Khadidiatou Nakoulima](#), NEST Senegal

Challenges to overcome:

- Much fewer fund proposals that specifically target women entrepreneurs
- 'Gender blind' mindsets



Approaches that work:

- ✓ **Improving gender diversity**: within enterprises, local financial and non-financial service providers and investors/supporters' teams;
- ✓ **Confronting bias and embedding gender awareness in daily operations**: during recruitment process and DD; use of toolkits, access relevant networks and mentors so gender becomes mainstream
- ✓ **Data-driven decision making**: track, analyze and share data
- ✓ **Changing traditional incentive schemes**: LP alignment and support to fund managers incl. via GLI trainings.

Reference material:

- 📖 [Moving toward gender balance in private equity and venture capital](#), IFC, 2019
- 📖 [Serving the financial needs of women-owned businesses in emerging markets: Perspectives from the DGGF Portfolio](#), DGGF, 2019

Serving entrepreneurs in fragile contexts demands active investors

Moderator: • [Jake Cusack](#), CrossBoundary

Speakers: • [Joseph Crayton](#), Gemini Capital Partners, Liberia • [Felix von Schubert](#), InFrontier, Afghanistan • [Hussein Nasser Eddin](#), RedCrow, Palestinian Territories

Challenges to overcome:

- Volatile market contexts
- Higher business model execution risks



Approaches that work:

- ✓ **Active investors**: in a control position
- ✓ **Top talent**: TA to build capacity of businesses' staff
- ✓ **Patient capital BUT impatient attitude**: opportunities to be seized in strained environments require pro-active and rapid action

Reference material:

- 📖 [IFC SME Ventures: Investing in Private Equity in Sub-Saharan African Fragile and Conflict-Affected Situations](#), IFC, 2019

Serving small businesses through digital finance necessitates more than just technology

Moderator: • [Jake Kendall](#), DFS Lab/Caribou Digital

Speakers: • [Ahmed Moor](#), Liwwa • [Hedwig Siewertsen](#), AGRA • [Samir Bhatia](#), SMEcorner

Challenges to overcome:

- Pure digital approaches tend to fail
- Innovation is not limited to technology but includes new business models and adaptation to users' needs



Approaches that work:

- ✓ **Combining tech and touch**: use of digital technologies coupled with human interaction
- ✓ **Adopting digital ethics**: digital finance is hugely scalable by nature, the key is to do it ethically
- ✓ **Nurturing the ecosystem**: promoting innovation towards building an enabling infrastructure (e.g. digital data, mobile payments)

Reference material:

- 📖 [Demistifying Digital Lending Series](#), Accion Venture Lab, 2018

Financing local businesses via risk reduction strategies calls for adaptability

Moderator: • Kusi Hornberger, Dalberg Advisors

Speakers: • Guido Boysen, Grofin • Roeland Donckers, iungo capital • Jeffrey Liebert, Gazelle Finance

Challenges to overcome:

- Limited investment readiness of local businesses
- Local context mismatch (or what works in one market does not necessarily work in another)
- Lack of liquidity in frontier markets
- Misunderstanding between entrepreneurs, fund managers, investors



Approaches that work:

- ✓ Bringing a differentiated offer in the market: between straight debt and pure equity, incl. self-liquidating instruments like revenue shares and royalties to build the exit from the start
- ✓ Providing more than capital: use of resources such as local angels, floating CFOs, specific tools to strengthen the chances of success of each investment
- ✓ Adopting innovative models that fit the unique risk-return profile: innovating from the 2/20 model and the <3% management fee

Reference material:

📖 [New Perspectives on Financing Small Cap SME's in Emerging Markets](#), DGGF, 2016

Building investment ready businesses via incubation and acceleration

Moderator: Rachel Crawford, Village Capital

Speakers: Ambar Amleh, Ibtikar Fund • Amine Al-Hazzaz, H7 Morocco • Roufahi Koabo, CIPMEN Niger • Misbah Naqvi, i2i Ventures Pakistan

Challenges to overcome:

- Fragile organizations often dependent on short term subsidies with different requirements
- Fragmented ecosystems
- Low level of education
- Thinking of finance before demonstrating product/market fit.



Approaches that work:

- ✓ **Incubate well:** offer targeted and high quality services by top talent to attract top local startups that will grow + incubate efficiently: the use floating/virtual CFOs + focus on corporate governance + think market access (often beyond local market) + success measured through revenue growth and job creation
- ✓ **Incubate the ecosystem:** accompany businesses to become attractive to follow on investors + engage investors and align on expectations + leverage networks for actual value addition
- ✓ **Incubate in a sustainable way:** dedicate patient capital to innovative models that drive down the costs and demonstrate the case for incubation and acceleration in frontier markets.

Nurturing the next generation of fund managers

Moderator: Sara Taylor, CDC

Speakers: Sasja Bosch, ESG Officer, PwC Netherlands • Chai Musoni, Vakayi Capital • Polo Leteka, Alitheia IDF • Ralitsa Rizvanolli, Triple Jump/DGGF • Ritu Verma, Ankur Capital

Challenges to overcome:

- No track record for a new strategy
- High risk perception makes fundraising difficult



Approaches that work:

- ✓ **Seed capital:** to build a small track record and validate the investment strategy
- ✓ **TA support:** for reporting, monitoring compliance, ESG, fund governance

