INVESTMENT VEHICLE INNOVATIONS

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VEHICLE:
TRADE CREDIT FOR RURAL SMES

The Vehicle

Trade credit financing for rural small and medium enterprises (SMEs) involves lending against purchase agreements between buyers and suppliers, thereby providing working capital that is well-timed to the harvest cycle. Investees that need this kind of financing include cooperatives and private enterprises that aggregate smallholder farmers and connect them to markets. Smallholder organizations very often fall into what is known as the "missing middle"—too large for microfinance, but too small for traditional bank loans. There is significant social and environmental upside to investing in these businesses given the role they play in supporting rural communities, which make up 75% of the worlds' poor (those living under US$2 a day). The World Bank estimates that growth in the agriculture sector is twice as effective at reducing poverty as growth in other sectors. These businesses provide stable access to markets, promote sustainable agricultural practices, build infrastructure and offer social services.

Key Companies

State bodies have historically provided much of this financing but, in response to governments' divestment in recent decades, private companies and NGOs have increasingly sought to fill the financing gap. Root Capital, RaboBank, OikoCredit, and ResponsAbility are among the leading financial institutions focused on smallholder agriculture. These organisations are all part of the Council on Smallholder Agriculture Finance.

Future of the Innovation

Several of the world's most pressing challenges—from the need to feed a growing planet, to the mounting unpredictability of weather patterns resulting from climate change—speak to the urgency in meeting this market failure. Relief agencies, NGOs and state institutions need to work together to address these challenges at scale, and private capital channelled through vehicles such as trade credit shows promise in increasing the amount of funding available to rural businesses. Further innovation is required in areas such as client sourcing and due diligence, to lower the cost of servicing rural SMEs. Additional products also may become more readily available for this target clientele, including credit guarantees, hedging options and crop insurance.

CASE: ROOT CAPITAL

rootcapital®

Root Capital is a non-profit agricultural lender that provides financing and capacity building to small and growing agricultural businesses operating in poor rural areas of Africa, Asia, and Latin America. The firm envisions a thriving financial market serving agricultural businesses that generate long-term social, economic and environmental sustainability for small-scale farmers and their communities around the world.

COMPANY PROFILE	INVESTOR PROFILE
Company: Root Capital **Year founded:** 1999 **Website:** www.rootcapital.org **Legal structure/ownership:** US-based nonprofit organisation **Industry segment:** Small and growing agricultural businesses **Business model:** Short- and long-term financing to agricultural businesses, coupled with grant-funded capacity building services **Countries:** More than 30 countries including Colombia, Ghana, Kenya, Mexico, Nicaragua, Peru, Senegal **Customers:** Small and growing agricultural businesses that build sustainable livelihoods for smallholder farmers and their communities; Root Capital currently has US$125 million assets under management (2014)	**Investor profile:** Development finance institutions, corporations, foundations, religious institutions, pension funds, and high net worth individuals **Investment type:** Debt **Investment size:** Minimum US$25,000 **Term of investment:** 1-5 year notes **Investment return:** 0-2.75% **Risk:** Root Capital's clients are faced with all of the risks associated with agriculture, such as lack of professional management and collateral

VEHICLE:
DIASPORA FUNDING PLATFORMS

The Vehicle

Global remittances from individuals in foreign countries to their home communities are not a new phenomenon: by 2015, they are projected to represent US$534 billion of foreign capital inflows. The desire to invest back home clearly exists among diaspora. However, other than direct remittances sent to family members, diaspora are confronted by multiple barriers in directing capital to their home countries, such as lack of information, transparency, and legal issues. Diaspora funding platforms provide a means for diaspora or long-term expatriates in a foreign country to invest for impact in their home countries. Diaspora funding platforms, typically set up as online portals, provide effective and efficient avenues to connect diaspora to investment opportunities, providing a structured, transparent and reliable way for diaspora to invest in worthy ventures back home.

Key Companies

Dedicated diaspora investment platforms are still in the early stages of development and most are in pilot phase. Homestrings is the most recognised example, while Ovamba (a Homestrings partner) and MyC4 target diaspora investors. The Calvert Foundation is currently in the early stages of piloting its diaspora bonds, with pilots currently launched in India and Latin America/Caribbean. Other supporting players include Developing Markets Associates, African Diaspora Marketplace, and the International Diaspora Engagement Alliance.

Future of the Innovation

In the African context, the opportunities for diaspora investment growth are vast, with almost 140 million Africans living outside of the continent. Remittances are the second largest source of foreign capital inflows after foreign direct investment (FDI). In 2010, 2.6% of African gross domestic product (GDP) was due to such remittances. If proven effective, transparent channels and platforms for investment in emerging market home countries are likely to grow as more diaspora utilise them for impact investment in their home countries.

CASE: HOMESTRINGS

HOMESTRINGS
COME MAKE A DIFFERENCE BACK HOME

Homestrings is a user-driven online investment platform that facilitates diaspora and other impact investing in emerging markets. Homestrings provides investors with investment opportunities in their home countries while living abroad. Homestrings has pre-selected funds, bonds and projects that meet strict selection criteria for investment. Investments target productive areas in the community of the investor's choice and cover a range of sectors including infrastructure, health care, education, real estate, telecoms, transportation and small enterprise financing.

COMPANY PROFILE

Company: Homestrings Ltd.

Year founded: 2011

Website: www.homestrings.com

Legal structure/ownership: Private, for-profit company within a larger group of companies, Gravitas Capital Advisors

Industry segment: Homestrings supports investment into productive industries within a community (such as telecommunications, real-estate, infrastructure, and health care)

Business model: Homestrings hosts an interactive web portal which connects individual and institutional investors to targeted investments. Homestrings charges an annual fee of 1% for administration and a 10% performance fee

Countries: Emerging markets of Africa, India, Asia and Latin America (mostly African countries)

Customers: Diaspora communities; as of 2013, US$25 million has been mobilised

INVESTOR PROFILE

Investor profile: Qualified individuals or institutional investors (net worth >US$1 million or 3 years' consecutive income >US$250,000)

Investment type: Debt and equity, including funds, public and private bonds, projects and public-private partnerships

Investment size: Minimum investment of US$1000

Investment date: Ongoing

Investment return: 20-30% plus returns with dividends over 5-7 years

Risk: As with any investment there is a risk of losing money and investors are advised to perform investment and country-level due diligence prior to investment

VEHICLE:
PEER-TO-PEER LENDING

The Vehicle

Peer-to-peer lending (P2P lending) is an alternative financial service that involves lending money to peers, or unrelated individuals, without the intermediary assistance of a bank or financial institution. Most peer-to-peer loans are unsecured and provide borrowers with better terms than they typically would get elsewhere. P2P lending services operate online marketplaces which bring together lenders and borrowers, as well as provide additional services to facilitate lending, such as credit verifications, lending models and payment processing. Interest rates and repayment terms are set by various methods, including reverse auction. P2P lending companies typically charge fees on loans to generate revenue, while lenders generate income through interest.

Key Companies

The first notable company operating a P2P lending model was Zopa in the United Kingdom, which was founded in 2005. This was followed in 2006 by Prosper and Lending Club in the US. In Africa, P2P lenders include Prodigy Finance and Lendico. Zidisha is the first global P2P lender, and is managed by a nonprofit organization in the US.

Future of the Innovation

The P2P lending model continues to evolve, including the emergence of oversight by regulatory agencies. In the United States, P2P lenders have been required to register as securities, which has tightened the market to a certain degree. However, the formalisation of the practice has also allowed for an increase in liquidity for investors. Prosper and Lending Club, for example, have formed partnerships to create a secondary market for the notes associated with their loans. Additional trends in P2P lending are the entrance of traditional banks as investors and the set-up of provision funds which safeguard lenders from borrower default.

CASE: RAINFIN

RainFin was launched in 2012 in Cape Town, as South Africa's first P2P lending marketplace. RainFin's goal is to reduce the costs of traditional lending. RainFin provides an online lending marketplace that connects borrowers and investors directly with the aim of providing cheaper credit for borrowers and better returns for investors. Lenders have transparent access to a range of borrower profiles and options that have been assigned a risk rating and potential return. Borrowers are also provided with a transparent service and access to multiple investors. RainFin takes care of borrower credit checks and ensures identity privacy.

COMPANY PROFILE

Company: Rainfin

Year founded: 2012

Website: www.rainfin.com

Legal structure/ownership: Private company partly owned by Barclays Africa Group Ltd.

Industry segment: Financial services, including business and consumer loans

Business model: Borrowers and lenders are connected directly via an online marketplace for a small fee

Countries: South Africa

Customers: South African citizens over 21 years. For business loans, the company must be registered and have South African directors; In 2014, the number of borrowers registering on the site was an average of 350 per day, with 10% passing the screening test; 18 new loans with a value of ZAR400,000 are listed daily

INVESTOR PROFILE

Investor profile: Individuals and institutions

Investment type: Facilitation of consumer and business loans to borrowers

Investment size: Minimum investment of ZAR 100, with no maximum investment

Investment date: 1–48 months

Investment return: Varies, with higher potential returns due to increased risks; Interest rates range from 5-32%

Risk: As most loans are unsecured, there is no guarantee that borrowers will not default; historical default rates have been 1-5% depending on the category of borrower

VEHICLE:
BLENDED FINANCE

The Vehicle

Blended finance is a development finance model combining concessionary loans or grants, usually provided by the public sector, and private investment to attract more private capital towards projects or geographies that would otherwise be perceived as too risky for private investors. It creates public-private partnerships that add to the much-needed pool of development finance targeting social, environmental and health related objectives. Investment of this kind aims to achieve commercial sustainability and market-rate returns. The goals of blended finance include bringing more private capital for economic development, turning impactful projects into commercially viable ones by subsidising the critical early stage phase, and creating economic stability by strengthening the private sector and enhancing the use of aid.

Key Companies

The blended finance space comprises a variety of institutions (like the IFC's Blended Finance Unit), bi-lateral funds (such as the Danish Climate Investment Fund) and private investment vehicles (such as the fund of funds approach employed by Sarona Asset Management). As the name would suggest, this area brings together public-private partnerships from an array of actors.

Future of the Innovation

Blended finance as a practice has significant room for scalability, which will help to legitimise the approach and bring more private funders on board. A possible risk is that private investors could be perceived as being subsidised by donor grants, particularly if underlying projects and overall funds do not achieve targeted financial and impact returns. As blended finance gains ground, it could become a solution for attracting additional much-needed capital to frontier markets.

CASE: SARONA FRONTIER MARKETS FUND 2 ("SFMF 2")

SARONA

The Sarona Frontier Markets Fund 2 is a fund of funds focused on small and medium enterprise (SME) investment in frontier and emerging markets. The Canadian government has provided first-loss capital while OPIC provided a US government guarantee to support Sarona's initiative by allowing the Fund to raise debt at US treasury rates. Sarona is targeting countries with a GDP per capita below $12,000 with the dual goal of generating attractive financial returns for its investors and creating "*growth that matters*".

COMPANY PROFILE

Company: Sarona Asset Management

Year founded: 2010. Final close of "SFMF 2" in 2014

Website: www.saronafund.com

Legal structure/ownership: Private equity fund of funds formed as a Cayman Islands limited partnership

Sector exposure: Generalist fund investing in the SME, asset-light sectors in frontier markets (healthcare, consumer goods, education, etc.)

Business model: Sarona leverages local knowledge by investing in existing fund managers who have a strong development impact and are based in frontier markets.

Countries: Frontier & emerging markets in Africa, Asia, Latin America and Eastern Europe

Reach: "SFMF 2" closed at US$150 million; The fund is aiming to impact about 150 companies across 30 countries and the communities in which they operate: suppliers, employees and clients.

INVESTOR PROFILE

Investor profile: Diverse, from institutional investors to high-net-worth individuals to foundations

Investment type: Private equity investment in private equity funds

Investment size: Ticket size in funds: US$8-12 mm.

Term of fund: 12 years

Target investment return: 300-500 bps above listed markets

Risk: Blended finance aids in risk mitigation; Risk is managed through careful selection and diversification.

VEHICLE: CROWDFUNDING

The Vehicle

Crowdfunding is the practice of funding a project or idea by raising capital from a large number of people, usually through online platforms. The contemporary concept of crowdfunding grew out of the open-source, crowdsourcing phenomenon, which allows programmers to come together to build and share code. While the concept of crowdfunding has, in various forms, been around for centuries, online platforms for crowdfunding have allowed people and companies to source funding from much wider and disparate communities. Crowdfunding business models vary, from communities donating to churches to politicians who crowdfund their next election campaign. Each model also varies in terms of repayment: some models utilise “rewards” (products or services) as compensation, while others use interest-bearing or equity structures to compensate investors.

Key Companies

The world’s largest funding platforms are Kickstarter and Indiegogo, along with Seedrs and Crowdfunder, all founded between 2007-2011. In Africa, crowdfunding platforms include Kiva, an international platform, and Thundafund and StartMe, both based in South Africa. JumpStart Africa is a US-based platform that is focused on African investments, and is preparing to launch soon.

Future of the Innovation

The crowdfunding industry has seen a phenomenal increase in recent years and now encompasses a multi-billion dollar industry. In the United States, the Jumpstart Our Business Startups (JOBS) Act was signed into law in 2012, opening up the early stage equity marketplace to individual investors, an arena that was once only reserved for accredited (high net worth) investors. This act highlights the importance that different players, from government to business, are placing on crowdfunding platforms and how barriers to inclusion are being lowered. Major businesses are now incorporating crowdfunding into their programming, from Reddit allowing its users to crowdfund projects on its website, to online giants, such as Amazon, incorporating retail versions of crowdfunding to allow multiple people to pay for items.

CASE: THUNDAFUND

Thundafund

Thundafund was founded by Patrick Schofield in 2013 as an online channel through which creative entrepreneurs can access capital and establish an initial market for their products and services. Thundafund combines financing with business mentorship, giving businesses the support to create an online proposal that is compelling and effective. Each project offers “in-kind” rewards to financial backers, usually in the form of products or services and must reach specified milestones to achieve funding goals.

COMPANY PROFILE	INVESTOR PROFILE
Company: Thundafund Pty Ltd **Year founded:** 2013 **Website:** www.thundafund.com **Legal structure/ownership:** Private company **Industry segment:** Early stage finance for startups **Business model:** Thundafund provides a channel for early stage financing and market-testing, as well as business mentorship services, for creative start-ups **Countries:** South Africa, planning expansion to a multi-currency platform in order to focus on broader Africa **Customers:** Creative entrepreneurs; Thundafund has launched 201 projects, of which 137 have successfully raised financing, raising more than ZAR 5 million since founding	**Investors:** People interested in innovation, social impact and entrepreneurship **Investment type:** “Rewards-based”, investors are able to access products and services based on tiers; an equity-based venture capital model is intended in future **Investment size:** Average ZAR 200,000+ in funds raised per successful project; individual investments are ZAR 250-300 each **Investment date:** Ongoing **Investment return:** Product and service “rewards” are stipulated by the entrepreneur and are usually delivered within 3 months of investment date **Risk:** Prototype products or services may not roll out or may be under-produced

VEHICLE:
SOCIAL IMPACT INSURANCE

The Vehicle

Social impact insurance is a type of insurance which seeks to utilise risk management and risk mitigation principles to underwrite risks attached to social impact projects or social impact organisations. It aims to provide risk mitigation products to these organisations that (i) enhance their credit worthiness so as to attract more funding; (ii) accelerate or stabilise funding flows; and/or (iii) protect people, processes and assets within these organisations against challenges that may otherwise hamper success to the detriment of society. Social impact insurance increases the ability of funders to fund projects where the risk is unknown or exceptionally high by utilising risk mitigation tools and ultimately insurance to increase predictability of outcomes. This also allows social enterprises to insure themselves against shocks such as delayed government payments. Social impact insurance therefore acts as a catalyst to ensure the timely availability of capital for social impact projects.

Key Companies

HUGinsure was launched in 2013 as the world's first social impact insurance platform. Other key players in this space include government programmes, such as the USAID Development Credit Authority, which uses risk sharing methods to assist in getting local private capital available to projects which may not usually have access to funding. The United Nations launched the Pledge Guarantee for Health, another example of a public-private partnership within the social impact financing industry with a focus on the availability of health commodities.

Future of the Innovation

Social impact insurance is still in its nascence. According to a 2009 Monitor Institute Report, an estimated US$500 billion to US$1 trillion in capital will be allocated to the social impact value chain over the years to come. Social impact insurance will assist with the steady flow of capital from funders to beneficiaries as it will provide the required risk-mitigating products to enhance the credit-worthiness of organizations who aim to make a positive social impact and it will also ensure that the capital becomes available as and when required. It therefore fills a necessary gap in the impact investment industry which leave ample scope for expansion.

CASE: HUGINSURE

HUGinsure was founded by D. Capital Partners and the Hollard Insurance Group. This joint initiative is the first of its kind where different disciplines have joined forces to create a new sector and work in collaboration with various market players, such as Munich Re, AON and the Lloyd's market in London. HUGinsure is committed to being a "specialist insurance entity utilizing risk management strategies for social impact investments." The aim is to provide bespoke insurance products for social investments.

COMPANY PROFILE

Company: HUGinsure (HUG= Humanitarian Universal Guarantee)

Year founded: 2013

Website: www.huginsure.com

Legal structure/ownership: Pty, jointly owned by D. Capital Partners and Hollard Insurance

Industry segment: Specialist insurance underwriting

Business model: Provides bespoke cover at an affordable premium to ensure the distribution of funds from donors or finance institutions to organisations who implement social impact projects

Countries: Global

Customers: NGOs, social enterprises, local communities, governments, donors, and financial intermediaries such as banks and micro-finance institutions

INVESTOR PROFILE

Investor profile: Investment by joint venture owners, but aims to expand to include institutional and impact investors

Investment type: Equity

Investment size: Not available at this stage

Investment date: Not available at this stage

Investment return: 0-10% returns expected depending on source of capital

Risk: Utilises a specialist risk model to measure and manage the risk involved with funding streams to social impact organizations. The determined risk will be reflected in the premium to be paid for the products

VEHICLE:
BUSINESS INCUBATORS

The Vehicle

Business incubators (sometimes called “accelerators”) seek to assist entrepreneurs and early-stage enterprises to survive the start-up phase and to develop into operationally and financially self-sustaining businesses. Business incubators generally offer access to funding, networking opportunities, business and technical assistance and access to facilities. Business incubation aims to ensure that these businesses develop into competitive and successful businesses, contributing positively to an emerging economy. Incubators are founded and operated by diverse actors, including private businesses, development institutions, academic institutions, non-profit organisations, government bodies and private individuals.

Key Companies

Business incubators have been in existence since the 1950’s, and it is currently estimated that there are more than 7,000 business incubators globally. In Africa, South Africa leads with an estimated 51 business incubators in operation, out of an estimated 90 incubators Africa-wide (other estimates count up to 200 incubators in Africa). Notable African business incubators are South Africa’s The Innovation Hub which focuses on technology-intensive start-ups and RaizCorp, which provides business support to entrepreneurs and links them to corporate supply chains; Kenya’s iHub, which is a platform to integrate technology companies and investors; and Nigeria’s Co Creation Hub, a “pre-incubation” space designed to accelerate social tech ventures.

Future of the Innovation

The incubator space remains quite nascent in Africa, and those in operation vary widely in their model and services. Incubators seeking to run for-profit, equity-based models face considerable challenges, as sourcing fundable start-ups with exit opportunities proves difficult. Other revenue models, including co-working spaces, technical assistance and business mentorship, can use fee revenue and donor funding to achieve sustainability. Overall, there is a significant need for further research to identify the strengths and weaknesses of various models, and ensure application of best practices across the sector.

CASE: AWETHU PROJECT

AWETHU·PROJECT
Introduce Your Ambition to Opportunity

Awethu Project was founded in 2009 by Yusuf Randera-Rees. Awethu identifies entrepreneurs from structurally-excluded groups in South Africa and partners with them in order to start small, medium and micro enterprises (SMMEs) with the aim to be competitive with the best in the world. Awethu identifies promising entrepreneurs and business ideas separately, then flexibly matches people with ideas (both startups and acquisitions) and funding based on perceived capability and interest. Awethu then pairs each venture with a professional manager and back office support, which accelerates the entrepreneur through launch and growth.

COMPANY PROFILE	INVESTOR PROFILE
Company: Awethu Project **Year founded:** 2009 **Website:** www.awethuproject.co.za **Legal structure/ownership:** Private company **Industry segment:** Awethu incubates projects across a variety of industries **Business model:** Awethu links entrepreneurs and businesses to funding and training on a for-profit basis, using a combination of fees, loans and equity stakes to create value **Countries:** South Africa (Johannesburg). Exploring national and continental expansion in the medium term **Customers:** Aim is to develop 1500 entrepreneurs by 2017; over 600 entrepreneurs supported to date	**Investor profile:** Institutional investors. Investors are able to maximize black economic empowerment (BEE) points through enterprise and supplier development programs, achieve social impact and gain financial returns **Investment type:** Equity and debt **Investment size:** Varies; Awethu has raised ZAR 180 million to date **Investment date:** Ongoing **Investment return:** Varies; in its grant-funded micro-business funds, returns are not targeted; in its commercially-funded SME venture capital and private equity funds, 30%+ returns are targeted **Risk:** Key risks relate to people (the entrepreneurs and Awethu team), ideas, deal structures, and execution

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