

BUILDING EARLY STAGE FUNDS IN EMERGING MARKETS AND DEVELOPING COUNTRIES

INSIGHTS AND LEARNINGS FROM THE MARKET PLACE

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Introduction and Overview

Context: Early-Stage Enterprises and their Financing Challenge

Early-Stage Enterprises and their Financing Challenge

Early-stage enterprises represent an important part of the economies of emerging markets and development countries. A sub-set within the broader group of SMEs, early-stage enterprises – particularly those with higher growth potential – are significant contributors to economic growth and important drivers of innovation and economic diversification. Growth potential early-stage enterprises start small but over time have the potential to significantly increase revenue, create new jobs, spur business and industry innovation and contribute significantly to economic development and growth. According to a study by the World Bank on High-Growth Firms in Developing Countries, 20% of firms account for 80% of new sales and new jobs.

Early-stage enterprises in regions such as are typically young firms/start-ups that are pre or early-revenue. Although age is often a determinant of whether enterprises are at an early-stage of development, firms that have been established for several years but have under-developed business models or have not tapped their high growth potential could also be classified as “early-stage”.

Early-stage enterprises in emerging markets of Sub-Saharan Africa (SSA), Middle East and North Africa (MENA), and South Asia operate in various industries and sectors. A large proportion operate in digital/ICT sectors where a novel/disruptive technology or product enables these young firms to have fewer barriers to scale and therefore rapidly grow. However early-stage enterprises also operate in new and frontier sectors such as those that are green economy. These innovative young firms are developing business models and technologies (such as off-grid energy solutions, energy efficiency products, climate-resilient agricultural technologies) that are helping propel these new industries and sector develop.

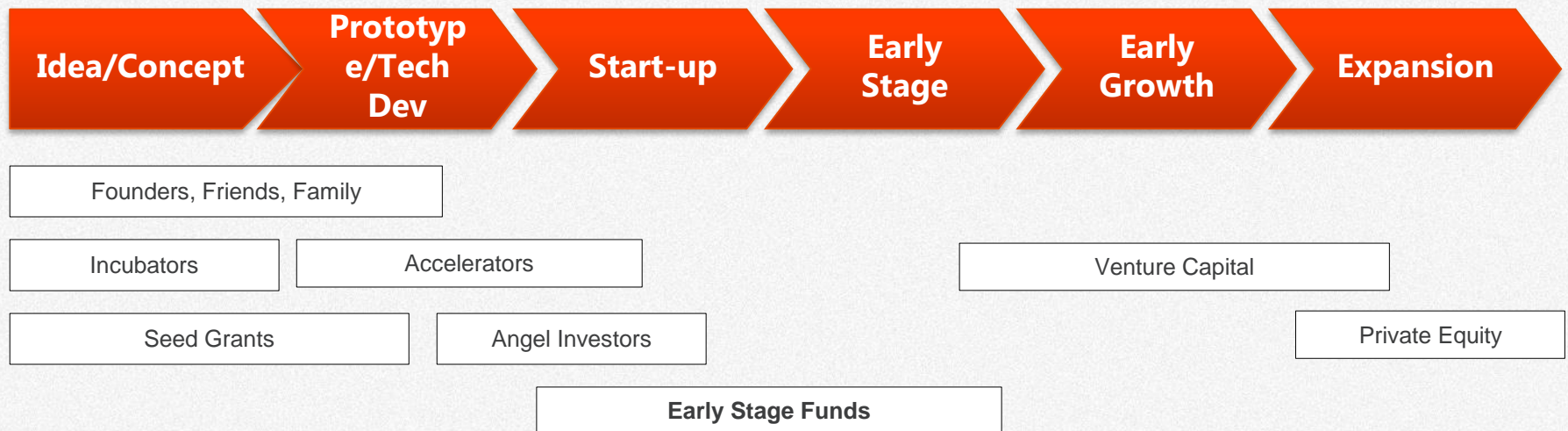
However, a key challenge faced by early-stage enterprises is insufficient access to finance. They are often deemed “too big for microfinance, too risky for banks and too small for venture capital funds”. Although such firms are able to get started through self funding (“founders, friends and families”) or seed funding from accelerators, incubators and other start-up funding initiatives, they are often unable to tap their critical financing needs to enable them to develop their business models and build growth momentum. In emerging markets, such firms are therefore trapped in the so called “valley of death”.

These challenge is further amplified in frontier sectors such as those developing climate mitigation and climate adaptive technologies. These businesses and their underlying business models are less proven, and the industries and markets in which they operate are less developed. These characteristics amplify the actual and perceived risk of investing in these businesses, and thereby create an even greater challenge for early-stage enterprises operating in climate technology or other frontier sectors to raise capital.

Early-Stage Funds: An Overview

Early-Stage Funds and why they matter

Early Stage Funds (ESFs) are a vital component of the early-stage finance value-chain, aiming to address the capital gap for early-stage enterprises in between the start-up financing (self funding or from start-up support programs) and later-stage financiers (venture capital firms, private equity, and banks). They typically provide small forms of capital (typically between \$50K - \$500K in equity or equity like instruments) couple with management support to help stimulate the development and growth of early-stage enterprises.



Early Stage Fund characteristics

Target enterprises	Start-ups (pre revenue or early-revenue) as well “early” stage firms with under-developed business models and growth potential
Risk	High risk; equity-like risk
Investment vehicle / structure	Limited Life (“Closed ended”) Funds or Open-ended investment vehicles
Instruments	Equity or equity light/quasi equity
Geography	Emerging Markets and Developing Countries (SSA, MENA, SA, LAC, SEA)
Investment range	Typically \$50-500k
Fund Size	Typically \$5M to \$20M

ESFs manage small pools of capital, often between \$5M and \$20M and fund early stage SMEs that are in the early stage of revenue, cash flows and business growth. Given these characteristics, ESFs play a unique role in entrepreneurial and financing ecosystems – they take high risk to nurture companies to the point at which later stage capital providers can take them forward to scale. Because of ESFs, early-stage businesses can access a source of value-added capital without a fully validated business model and a long track record.

In developed markets, ESFs (sometimes called “micro VCs”) have been around for a while. In emerging markets and developing countries, they are a relatively new phenomenon in young but growing entrepreneurial ecosystems, with most ESFs being less than 8-10 years old. These ESFs are learning from the experiences of ESFs in developed markets, but given they are pioneers in the markets in which they are operating, they are also innovating with an investment approach and methodology adapted to their market context.

Although ESFs can be specialized and focus on individual sectors, often they are sector agnostic and invest across a variety of industries and sectors.

Scope and Methodology

This brief provides analytical insights and learnings on the design and development of early-stage funds (ESFs) in emerging markets and developing countries which typically serve as the first round of institutional capital into early-stage enterprises. It draws upon learnings from the wider markets of ESFs operating in developing countries (including those supported by the World Bank and the IFC).

The brief is organized into 3 sections:

- **Nature, structure and approach** of ESFs and investment vehicles in emerging markets and developing countries. This section looks at the different types of ESFs that are emerging, their investment focus, thesis and model, the types of companies they invest in, how they are organized and structured, how they raise capital, the backgrounds and affiliations of their management teams, and how they support their portfolio companies. The research reviews the activities of 25 active early-stage funds in emerging markets (with the majority in Sub-Saharan Africa, and a few operating in MENA and South Asia). These ESFs invest across multiple sectors including climate-technology, digital and innovation centric industries and markets.
- **Challenges** faced by such funds in both getting established and being sustainable/viable over the course of their duration.
- **Types of interventions** needed to support the developments of such funds through different stages of their development

The insights and learnings captured in this brief are based on primary research (including interviews and data collection) from 25 early-stage fund managers operating in Sub-Saharan Africa, MENA and South Asia. The individual interviews and data collections were supplemented by insights from an ESF manager 2 day workshop in Nairobi in January 2020 which was organized by the Collaborative for Frontier Finance, a multi-stakeholder initiative set-up by the World Bank's Climate Technology Program, the Omidyar Network and the Dutch Good Growth Fund (DGGF). Although not exhaustive, these primary research findings provide a snapshot and shed interesting light on the nature and approach on ESFs in emerging markets and developing countries as well as the challenges they face.

Primary research findings were supplemented by the literature on early-stage funds in developed and emerging markets.

Nature, Structure and Approach of Early-Stage Funds

Snapshot of Early-Stage Funds Reviewed

ESF Survey Data Findings (n = 25)	
Average Current Fund Size (Asset Under Management or AUM)	\$ 6.5M
Average Aspired Fund Size	\$26M
Average Deal Size	\$325K
Average year ESF established	2016

As mentioned earlier, ESFs in emerging markets and developing economies are a relatively new phenomenon with the overwhelming majority less than 10 years old, and a significant emergence in the past 5 years.

For the ESF funds reviewed for this brief, most were in the early-stages of their development and were either full operational and investing, or had recently commenced operations (having made a few investments and raised some capital from fund investors:

- 80% of the ESFs were established less than 5 years.
- Most had raised some capital – typically between \$5-10M – with a goal to fully capitalize their funds in the \$20-25M range (with a few outliers that aimed to raise \$50M funds).
- All the ESFs interviewed did small-ticket deals, typically in the \$50-500K range, with an average deal size of \$325K.

Fund Manager Backgrounds and Motivations

ESF Survey Data Findings (n = 25)	
% of ESFs with first time fund managers	90%
% of ESF managers with finance/investing backgrounds	62%
% of ESF managers with entrepreneurial backgrounds	40%
% of ESF managers with consulting/advisory backgrounds	60%
% of ESF managers located in country/region of investment	84%

Backgrounds - Early-Stage Funds in emerging markets (including those interviewed for this brief) often are first-time fund managers (i.e. setting up and managing their first funds), although a significant percentage of them have invested before in start-ups and early-stage firms. Prior background of the ESF managers have included entrepreneurs, investment bankers, management consultants, and legal professionals, and some have come from industry (particularly digital/IT).

For the ESF managers interviewed, several had previously worked with entrepreneurs in an advisory capacity either by running an accelerator program or direct business advisory/consulting services through which they built a network and pipeline to set-up their own funds.

Locations - ESF managers are more and more located in the markets (countries/regions) where their funds are investing. This is driven by the need to have “boots on the ground” – in building stronger local networks and sourcing better quality deal-flow, ability to more effectively support portfolio companies, and to help reduce ESF operational costs. A smaller percentage of ESFs may operate from a remote location (either in the US or Europe for example) and investing in emerging markets globally.

Motivation – Motivations for setting up ESFs were mixed. Some ESF managers saw an opportunity to capture an untapped investment opportunity in the entrepreneurial eco-system that other investor groups had foregone. In other cases, ESF managers were driven more by an impact objective, either by addressing the early-stage financing gap or by aiming to support certain types of early-stage businesses.

Investment Strategy and Thesis

ESF Survey Data Findings (n = 25)	
% of ESFs investing in tech start-ups	74%
% of ESFs investing in moderate growth SMEs	56%
% of ESFs investing across sectors	60%
% of ESFs investing in select sectors	40%

Types of Enterprises targeted for Investment - ESFs mostly target enterprises with strong growth potential. In general, these can be classified into two broad categories:

- [High-Growth Tech Start-ups](#) - The more typical category of firms that ESFs target are tech/tech enabled start-ups (either pre revenue or early-revenue) which are typically replicating/adapting a proven tech based business model from a mature market. A smaller percentage of start-ups that receive investment are developing new technologies with potential global applications. Like with early-stage funds and VCs in developed markets, ESFs with such an investment thesis expect a small percentage of their portfolio companies to be the “winners” that will generate the bulk of their portfolio returns.
- [Moderate Growth Businesses](#) – A second category also target firms with growth potential but the business models are not necessarily digital/tech based. Instead they are bringing about a different kind of process/business model innovation to capture an untapped domestic and/or regional market in a more traditional industry. Such businesses may have been operating for a few years but have an underdeveloped business model or are making a significant pivot in their business model when the ESF invests in them

Of the ESFs interviewed for this brief, some invested in both categories of enterprises.

Sector focus – ESFs are typically sector agnostic, investing across sectors. In some cases, ESF may target specific sectors either because they have an impact objective alongside an investment lens, or because they are driven by a specialist industry experience from the ESF managers.

Business Models and Fund Structures

ESF Survey Data Findings (n = 25)	
% of closed ended ESFs	50%
% of open ended ESFs	50%

Fund Structures – ESFs interviewed for this brief were organized in two general structures:

- **'Closed End' Limited Life Funds** – The more typical structure is that of the 'closed end' limited life fund (with durations 7-15 years) similar to the norm in the VC/PE industry. Investors in such funds are 'limited partners' (LPs) with the ESF manager acting as the 'general partner' of the ESF. The ESF manager is compensated in the traditional VC mechanism, earning a fee to manage the fund as well as 'carried interest' on the residual profits of the fund. The typical fee earned is between 2-3%, with carried interest of 20%.
- **'Open-ended' Permanent Capital Vehicles** – An alternative structure that have emerged in emerging markets is that of an open-ended/evergreen fund/investment company where there is no end to the life of the fund (hence 'open-ended'). Although such a fund structure is still not the norm, a few ESF managers – particularly those investing in moderate growth SMEs - have pioneered this approach because the closed end/LLF is seen to not be a good fit for the asset class/types of enterprises being targeted for investment.

Key Challenges faced by Early-Stage Funds

Overview of Challenges

Although there has been the development of ESFs – as part of the development of entrepreneurial eco-systems - across various emerging markets and developing countries, overall this space is still very young and unproven, and faces key challenges that currently inhibit its further development.

- **Fundraising** remains a major pain-point as the universe of fund-level investors – either domestically and internationally – is very limited for the ESF space, either because of the asset-class risk, transaction costs (owing to small fund sizes) or “cultural” issues particularly for institutional investors.
- **Know-how/Experience** - ESF managers may not have the entire range of experience to successfully build and manage a profitable and viable early-stage fund, particularly given the risk of the start-up/early-stage asset class and the cost structure of the ESF.
- **ESF Business Models** - Building a cost-effective and efficient business model is a particular challenge, mainly because of the intensive nature of sourcing, structuring and managing investments:
 - Prospective investees are often not **investment ready**
 - **Deal structuring** process can be long and costly
 - Portfolio companies require considerable hand-holding and **post-investment support**
- **Path to exit** often remains unclear.

Fundraising

The universe of 'fund level' investors willing to invest in ESFs is very limited

Fund Development



Although several of the ESFs interviewed for this brief have successfully raised funding to build-out their funds, overall fundraising has proven to be one of the biggest challenges for ESFs. In general, there are very few 'fund level' investors (or limited partners) that have an appetite to invest in the "riskiest" part of the venture capital curve: with a more expensive business model; much riskier asset class, and a lack of understanding on how ESFs actually function. Fundraising is particularly challenging in the earliest stage of ESF development when they're 'warehousing' a few investments to build a track record that can attract larger institutional investors.

Domestic investors such as high-net worth individuals (HNWIs) or corporate/financial institutions have typically been the main source of capital for ESFs, particularly in their early-stages of development. However the ability to raise money from HNWIs is based on personal networks and past experience working together. Raising capital from new HNWIs may take a considerable period of time (i.e. 2 years) raising the transaction costs for the ESF manager (given that HNWI investment amounts are typically small e.g. \$50K - \$300K). Domestic corporates/financial institutions also require a considerable courting period and may have interests not necessarily aligned with the investment thesis/strategy of the ESF.

Development Finance Institutions (DFIs) that invest in PE/VC funds typically do not invest in ESFs. Key reasons for this include: i) the smaller ESF fund sizes that raise the transaction costs for DFIs (who generally invest in funds that are \$50M or greater in size); ii) concern about the asset-class risk and cost-structure of ESFs. There may be also cultural and process issues at DFIs - a lengthier and more bureaucratic process and a relatively risk averse orientation - that prevent/inhibit ESF managers to tap into this source of capital.

Fund Manager Know-How / Experience

ESF managers may not have the full range of experience to successfully build and manage funds, and have a challenging time attracting and retaining talent.

Know-how/experience



Fund Manager Experience/Know-how

Although several ESF managers (including those interviewed for this brief) have some experience in investing, they often come from a different background, other as entrepreneurs, accelerator/incubator managers, business consultants, or having worked in a start-up. While these experiences can bring considerable value to ESF development, most ESFs managers are often first-time fund managers with gaps in terms of the full range of fund management experience, from fundraising/investor relations to sourcing, structuring, managing, and exiting investments.

Recruiting and retaining talent

Recruiting and retention of fund team is also a challenge. ESFs are competing for the few individuals in emerging markets that have the requisite skills to invest in companies. Because they manage less money, are so early in a company's growth that the upside is unclear or very far off, and management fees are low (tied to small fund sizes), top talent is hard to attract. A number of stakeholders have noted that the challenge in recruiting talent is linked to deal size - bigger funds and banks can pay more, and do bigger "sexier" deals. Commercial incentives focus on returns to the funds - the smaller deal size and the longer the time horizon, the less interesting it will be to younger talent. Although this may not be true of all ESFs (e.g. those that are pure tech and investing in only hyper-growth start-ups), it is a factor affecting ESFs that are investing in a more diverse set of early-stage businesses.

Business Model: Deal Flow

Prospective investee firms are often not 'investment ready' and ESFs often have to spend considerable time and resources at the pre-investment stage with prospective firms, thereby creating significant pressure on the ESF cost structure and efficiency.

Challenges

Cost and efficiency

- Origination, screening, and due diligence are costly

Investment Readiness

- Companies are often not investment ready and in some cases significant resources are spent pre-investment to get them ready
- There are few other organizations that provide investment readiness, and those that do, do not always do a good job

Deal Cycle



Although ESF managers interviewed indicated that they were able to build a solid pipeline of promising firms they can consider, often these early-stage firms are not 'investment ready' – in terms of demonstrating traction in their business model and target market penetration; and the institutional set-up of the firm (particularly in terms of financial management and governance).

These gaps are often serviced by 'upstream' actors in the eco-system – such as incubators, accelerators - that may improve the company's books and business model to a point where capital makes sense and the risk around it is clear. However, these gaps continue to exist as the pre-investment support provided in the market isn't linked up to what they want (or it's not good quality), or the grant funding to pay for pre-investment is hard to find / takes a long time to raise / is inefficient to manage and report against. These observations have also been validated by studies indicating that acceleration programs may increase an investment readiness score but not necessarily lead to more funding.

Instead, several of the ESFs interviewed often conduct the pre-investment work as part of the investment process (and the cost / time is baked into diligence). This is a challenge because a) fund teams are thin, b) it eats up time that otherwise would go into sourcing / post investment TA, and c) increases fund costs / management costs.

Some of the ESFs partnered with or built their own incubators and accelerators to address this issue, but there remains strong demand in a formal pre-investment TA process.

Business Model: Deal Structuring

Once the ESF decides to invest, it can still take considerable time and energy until the deal is closed.

Challenges

Deal terms

- Entrepreneurs may not have a good understanding of common deal terms and what it means to take an equity investor on board
- Negotiation (e.g. around valuation) can be costly
- Difficulty of deal closing depends on the geography, especially if local lawyers are unfamiliar with VC

Deal Structuring



ESF managers interviewed indicated that because entrepreneurs often are raising equity capital for the first time, they may be unaware of the intricacies of term sheets and this can cause delays or even the falling apart of deals. In many cases the sticking points are related to the entrepreneurs perception that the capital is expensive or that they are asked to give up too much control over the company. In order to avoid this disruption at a late stage in the deal process, some investors opt to set standard terms that are communicated clearly from the outset and don't vary by company. This works best for companies that are pre-revenue. When the company already has some market traction the terms of the deal typically do need to be customized. In this case convertible debt can help postpone the negotiation of valuation.

In some countries regulations are very unfavorable for ESFs and local lawyers may not be well equipped to handle equity or convertible investments. In Palestine, for example, companies cannot issue preference shares or stock options and investors cannot invest using convertible notes. In other frontier markets stock option vesting for employees cannot be enforced. Local lawyers are unfamiliar with VC related legal provisions and in some cases have talked entrepreneurs out of taking equity investments because they were unfamiliar.

Business Model: Post-investment Support

ESF have to invest considerable time and resources to support their investee companies, but are limited in their ability to optimize support without additional funding

Challenges

Cost and Efficiency

- Significant and costly post-investment work required

Post-investment



ESFs need to invest significant time and energy into their portfolio companies after they invest. This is both an opportunity and a challenge. Because companies are at such an early stage they have not yet solved a lot of fundamental business administration problems from systems and processes to HR to strategy and business model refinement. Helping the businesses progress in these areas requires time, effort, and money, and further stretches the tight budgets of ESFs. However, when post-investment technical assistance is effective, it can significantly increase the ROI for the fund by accelerating the companies' growth trajectories, raising the odds of a successful exit, and increasing the valuation potential of the business.

Almost all of the ESFs interviewed commit significant time and energy to post-investment technical assistance. However they often lack the bandwidth/skill-set to provide optimal support to their portfolio companies. Some ESFs have built a dedicated resource pool – such as shared CFOs for portfolio companies, or senior industry/market advisors – but often through external grant funding beyond the core fund pool.

Follow-on Capital and Exits

There can still be a funding gap between ESFs and the next stage of investors, and exiting and investment can take a long time.

Challenges

Follow-on Capital

- Not enough follow-on investors (there is still a funding gap after VESFs)
- Companies struggle with working capital after seed stage

Exits

- Exit paths are poorly defined and unproven
- Exits are still rare

Exits



Follow-on capital is very scarce

The capital that ESFs provide to their investees provides them with a certain runway after which they need to go out and raise the next round. Although a dollar of capital may go further in frontier markets, most companies are not yet ready for growth capital by the time they run out of cash and according to fund managers they are at risk of again “falling off the cliff” and into the “valley of death” that separates very early stage investors and growth investors. Because the survival of portfolio companies at that stage is vital to the ESF’s performance and to avoid dilution of their stakes many funds will make follow-on investments from their investment capital. A related challenge is the lack of available funding mechanisms for working capital. Debt is typically the most suitable instrument to provide this, but most ESFs are not set up to provide debt and commercial banks are hesitant to lend to young businesses.

Exiting the investment

Exits are still rare in the ESF segment and many fund managers have only a vague sense of how they achieve liquidity events for their equity investments. Recognizing that it can take a long time to exit an investment made at the very early stage, some ESFs have started to look to alternative structures such as evergreen/’open ended’ funds (which do not have a defined period of duration and are hence ‘open-ended’).

Potential Mechanisms to Support Early-Stage Funds

Rationale for Supporting Early-Stage Funds

In developed countries, ESFs are an integral part of the early-stage capital markets and are seen as a key component in a well functioning finance eco-system for young growth-oriented ventures. ESFs are however a relatively new phenomenon in emerging markets and developing countries. Although an important part of the financing curve for early-stage enterprises – bridging the gap between start-up funding programs and more mainstream venture capital – they are an under-developed and un-proven category of financing in terms of being fully sustainable. Given the early-stage of ESFs as a category of financing in an emerging/developing market context, they face key challenges (from fundraising and talent/skill-sets to under-developed investment models) that in the near-term prevent them from become fully sustainable and a more developed financing category for enterprises.

In instances where entrepreneurship field builders (including government and donors) intend to support the ESFs in order enable the development of the overall early-stage finance eco-system they can consider a few areas of intervention:

- Funding ESFs through various mechanisms
- Building know-how and learning of ESF managers to build capacity as well as to educate the wider stakeholder community that supports/funds ESFs
- Shared Service programs as part of the early-stage finance eco-systems in developing countries that can reduce transaction costs and improve efficiencies for implementing ESFs

Funding and Financial Support



Given difficult ESF fund economics and the fact that ESFs operate in frontier markets and sometimes in frontier sectors and are an inherently risky asset class, 'fund level investors' are hesitant to invest in ESFs. Different types of funding facilities can address three major funding pain points for ESFs: ESF capitalization, co-investment and follow-on capital for ESF portfolio companies, and pre-and post-investment technical assistance facilities.

ESF Fundraising

ESF funding can be supported in the following ways:

- **“Warehousing”** Facility for new ESFs - with an initial pool of investment capital and seed operational funding - to enable ESFs to get off the ground and build a track record that can attract additional LPs.
- **“Fund of Funds”** to capitalize ESFs – Once an ESF has successfully ‘warehoused’ a few deals, a fund of funds could take an anchor LP position (providing 20-50%) of the ESF’s capital pool to enable fund capitalization.
- A **first loss facility** could de-risk LPs by providing partial loss insurance. A variation of this that has been successful in Israel is a return-booster as part of which a percentage of the returns that would be due to the concessionary layer of capital in stead get distributed to the other LPs thus further improving the risk/return ratio.

Follow-on Capital

The lack of follow-on funding can lead to even promising enterprises perishing in the valley of death. To help bridge the gap funding for follow-on investments could be provided in the shape of:

- An **early venture debt facility** could accomplish two goals:
 - Support businesses in need of working capital which is difficult to raise from other sources. This is particularly important to business models that involve lending or consumer financing
 - Provide bridge financing while companies (prepare to) raise their next round of capital.
- Funding for **follow-on side car vehicles** designed specifically to make follow-on investments in existing portfolio companies.

Technical Assistance

Almost all ESFs rely on external funding for their ability to provide pre- or post-investment technical assistance (TA), but additional and more appropriately structured funding is needed:

- **Pre-investment TA** facilities are still rare, but have the potential to allow investors to work with companies on specific problem areas prior to investing.
- **Post-investment TA** funding is more common, but typically structured as one-off grant funding to individual fund managers. A facility that uses repayable funding to support multiple ESFs might be more efficient.

Knowledge and Learning



The importance of minimizing operating costs and developing innovative ways to manage fund economics naturally suggests that there may be value in initiatives around knowledge and learning. If such initiatives can help ESFs generate higher returns at lower costs, more capital may flow to the segment. Relatively inexpensive initiatives to achieve this could be building the capacity of ESF managers and their teams by promoting the exchange of best practices and peer collaboration as well as by offering more traditional training formats.

Peer to Peer Learning

An effective way to foster practical knowledge transfer is through peer-to-peer learning, where ESF managers working on similar challenges and related investment models can share their practices with one another. A **peer to peer learning community** could bring together fund managers to share insights and best practices around how to invest in specific sectors, how to streamline fund operations, or how to approach fundraising.

Training

Given the difficulties fund managers spoke about in hiring qualified team members, many saw value in

- **Class or cohort-based trainings** for fund managers, investment officers, and analysts. By allowing funds to hire less experienced staff and sending them to trainings, this initiative could provide both a knowledge benefit as well as an economic benefit, since funds could avoid paying for experience. Interviewees also thought that there was value in the networking effects that in-person trainings can generate.

LP Education

Many LPs are unfamiliar with the challenges and opportunities that are specific to very early stage investing and investors thought it might be useful to have an **awareness raising and education campaign** targeting potential LPs. Such a campaign could make the case for accepting higher management fees at ESFs and highlight the important benefit of building better pipeline for later stage funds.

Shared Services



Shared services could help funds reduce some of their fixed costs. Some funds already offer shared services to their portfolio companies and managers could see themselves sharing services with other GPs as well. Other fund managers were more skeptical and thought that such services might be difficult to operationalize given the low density of VESFs across the world.

Back office services

The need to ruthlessly minimize cost and find operational efficiencies suggests that sharing certain back office functions might be appealing to fund managers. Functions that could be outsourced this way could include financial and impact reporting and communications. There is already an existing initiative between Vilcap, OCA, and short list to create a shared service around the talent challenge faced by portfolio companies. Legal services may be more difficult to share, since different jurisdictions are subject to different laws and regulations.

Post-investment TA

Post-investment TA function could be shared among several VESFs if they were located in the same country or region.

Performance benchmarks

Sharing performance data among VESFs could allow portfolio managers to benchmark their companies to an industry standard across a variety of important KPIs and could also help investment officers benchmark potential investees.

Annexes

Annex 1: Data on Early-Stage Fund Managers

Fund Name	Geography	Maturity	Year Established	Vehicle Structure	Current AUM	Target Fund Size	Target Company Type	Deal Size	Instruments
Accion Venture Lab	Global	Operational	2012	Company	\$14M	\$14M	Tech	\$100-500K	Equity/convertibles
	Africa	Operational	2014	LLF	\$750K	\$5M	Tech & SMEs	\$75-100K	Convertibles
ADAP	Africa	Operational	2014	LLF	\$750K	\$5M	Tech & SMEs	\$75-100K	Convertibles
Africa Tech Ventures	E. Africa	Operational	2016	LLF	\$20M	\$50M	Tech	\$200K-\$5M	Equity
Ankur Capital	India	Operational	2011	LLF	\$8M	\$8M	Tech	\$75K-\$1M	Equity
Beyond Capital	E. Africa	Operational	2014	Non-profit	\$2M		Tech & SMEs	\$25-200K	Convertible
Chinook Capital	W. Africa	Start-up		PCV	\$1M		Tech	\$50-250K	Equity/Q. Equity
Comoe Capital	Ivory Coast	Operational	2018	PCV	\$8M	\$8M	SMEs	\$100-500K	Equity
Growth Capital	Nigeria	Operational	2016	LLF	\$1M	\$20M	Tech	\$50-250K	Equity/Convertibles
I2i Ventures	Pakistan	Start-up	2018	LLF	\$1M	\$15M	Tech	\$50-500K	Equity/Convertibles
Ibtikar	Palestine	Operational	2016	LLF	\$10.5M	\$10.5M	Tech	\$300-500K	Equity/Convertibles
Kampani	Global	Operational	2015	PCV	\$3M	\$8M	SMEs	\$100-500K	Equity/Q. Equity
Kenya Climate Ven	Kenya	Start-up	2016	PCV	\$5M	\$10M	Tech & SMES	\$300-600K	Convertible/Equity
Menterra	India	Operational	2015	LLF	\$8M	\$50M	Tech & SMEs	\$500K	Equity
Mercy Corps	Global	Operational	2016	PCV	\$3M	\$8M	Tech & SMEs	\$50-500K	Equity
Miarakap	Madagascar	Operational	2018	PCV	\$4M	TBD	SMEs	\$50-500K	Equity/Convertibles
Microtraction	Nigeria	Start-up	2019	LLF	\$500K	\$1M	Tech	\$16K	Equity
Outlierz	Morocco	Start-up	2018	LLF	\$4M	\$20M	Tech	<\$250K	Equity/Convertibles
Secha Capital	S. Africa	Operational	2017	PCV	\$6M	\$6M	SMEs	\$300K	Equity
Teranga Capital	Senegal	Operational	2016	PCV	\$7M	\$7M	SMEs	\$250K	Equity/Convertibles
TruValu	Global	Operational	2014	PCV	\$6M	\$10M	SMEs	\$100K	Equity/Debt
Uberis Capital	SE Asia	Start-up	2015	LLF	\$7.5M	\$50M	Tech & SMEs	\$500K-\$1M	Convertible/Equity
Vested World	Kenya	Operational	2017	PCV	\$8M	\$25M	Tech & SMEs	\$500K-\$1M	Convertible/Equity
Wangara	Ghana	Start-up	2018	PCV	\$2M	\$10M	SMEs	\$50-500K	Convertible/Equity

Annex 2: References and Relevant Readings

- *Best Practices in Creating a Venture Capital Eco-system* – Lerner, Josh, Ann Leamon, Susana Garcia Robles
- *Can Government Interventions Make Firms More Investment Ready? A Randomized Experiment in the Western Balkans* – Cusolito, Ana, Ernest Dautovic, David McKenzie (2017)
- *Closing the Gap: Finance Pathways for Serving the Missing Middles* - Dalberg Advisors, Dutch Good Growth Fund, Omidyar Network (2019)
- *Early-Stage Financing in Green Sectors in Sub-Saharan Africa* – World Bank (2019)
- *High Growth Firms: Facts, Fiction and Policy Outcomes for Emerging Economies* – Goswami Arti, Denis Medvedev, Ellen Olafsen (2019)
- *Impact of Early-Stage Equity Funds in Latin America* – Lerner, Josh and James Tighe, Steve Dew, Valdimir Bosiljevac, Ann Leamon, Sandro Diez- Amigo, Susana Garcia Robles (2016)
- *Scaling Access to Finance for Early-Stage Enterprises in Emerging Markets: Lessons from the Field*– Dutch Good Growth Fund (2018)
- *The Missing Middles: Segmenting Enterprises to Better Understand their Financing Needs* - Dalberg Advisors, Dutch Good Growth Fund, Omidyar Network (2019)
- *Why an Equity-Only Investment Strategy Overlooks Many Promising Entrepreneurs* - Village Capital (2017)