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**TALENT TO DE-RISK AND ACCELERATE
INVESTMENT (TRAIN)
PACE PARTNERSHIP
FINAL REPORT**

Contract no: AID-OAA-F-17-00035
Implemented by: Open Capital Advisors

February 2020

DISCLAIMER

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EXECUTIVE SUMMARY

This report summarizes the activities and outcomes of the USAID-supported “Talent to de-Risk and Accelerate Investment (TRAIN)” initiative. TRAIN was set up as a two-year partnership among Open Capital Advisors (Open Capital), the United States Agency for International Development (USAID), and seven investor partners. In this report, Open Capital, as TRAIN implementer, presents our lessons, observations and ideas for furthering the goal of boosting investments into high-impact Small and Growing Businesses (SGBs) in East and Southern Africa.¹

SGBs often face particularly acute challenges in raising capital. Specifically, TRAIN aimed to test the combination of a new, streamlined due diligence approach with a talent-enabled model of post-investment support to reduce investor risk.

TRAIN built on the learnings from an earlier program, the Investment Readiness Program (IRP); both TRAIN and IRP were supported through USAID’s Partnering to Accelerate Entrepreneurship (PACE) initiative, which aims to catalyze private-sector investment into early-stage enterprises and identify innovative models or approaches that help entrepreneurs bridge the pioneer gap—thus unlocking the potential of thousands of promising enterprises around the world.

This report shares learnings from TRAIN to enable more investors and ecosystem stakeholders to engage more effectively with early-stage SGBs in East and Southern Africa. Through TRAIN, we had the opportunity to work with over 1,000 SGBs across Africa, collecting extensive data on investment readiness, due diligence processes, and needs for post-investment support. Our learnings were reinforced by the successful investments made by our seven investor partners and their co-investors, who committed hundreds of hours to review opportunities, ultimately closing \$24.1 million in transactions at an average size of \$1 million, with investments as small as USD 50,000. This total greatly exceeded the TRAIN partnership objective of \$5.25 million and the overall amount raised during the PACE IRP of \$2.29 million. Following support delivered through TRAIN, three SGBs with data currently available grew their annual revenue and headcount by an average of 214 percent and 113 percent respectively. More time is required to adequately track corresponding results across the broader invested portfolio.

Our TRAIN experience also reinforces the importance of a blended finance model in supporting investment in small and early-stage businesses in Africa. Early-stage transactions below \$3 million are especially challenging, high-cost, and risky for investors. But they are also critical to create jobs, build industries, and advance African economies, representing a unique impact opportunity. We were fortunate that a number of investors expressed interest in IRP and then even greater interest in TRAIN. Investors were willing to cover some, but not all, of the cost required to make TRAIN and its outcomes possible. For this reason, USAID played a critical

¹ The [Aspen Network of Development Entrepreneurs \(ANDE\)](#) defines Small and Growing Businesses (SGBs) as commercially viable businesses with five to 250 employees that have significant potential—and ambition—for growth. SGBs typically seek growth capital from USD 20,000 to USD 2 million.

enabling role, providing matching grant funding to reduce transaction costs and make the entire partnership viable. As we look forward to future efforts to enable small and early-stage investing, we see very encouraging signs of increased willingness to pay by the private sector. Several of our private-sector TRAIN investors and co-investors, after witnessing the outcomes of this partnership, expressed willingness to contribute more significantly for similar support in the future. We were also encouraged that TRAIN demonstrated more than 10 times leverage ratio, with private capital disbursed exceeding grant funding by more than 10 times, compared to 3 times for IRP. It is important to note that leverage is largely driven by investment ticket size, with TRAIN at \$1 million average compared to IRP's \$400,000. Still, this positive trend toward long-term sustainability does not diminish the near-term importance of catalytic grant funding from USAID and other development partners. Just as catalytic funding was critical for TRAIN, we believe similar partnerships focused on small and early-stage transactions in Africa will continue to require grant support as we and other partners across the ecosystem continue to innovate on these models. To reach towards sustainability, transaction costs must be still further reduced and more investors must be 'crowded-in' to support this stage of investment. We are actively seeking partners who can continue to support this work, and we also anticipate seeing additional public-private partnerships replicating and building on the TRAIN model. Much effort remains to bridge the critical market gap of small and early-stage investing, especially in those more challenging markets, such as TRAIN's African context, where transaction costs are highest.

The TRAIN model

TRAIN aimed to address key challenges and barriers to financing SGBs at each stage of the investment process. These may be represented as five exploratory questions (Figure 1).

Figure 1: Key questions for TRAIN across the investment process



We sourced more than 1,000 businesses, casting a wide net across all types of SGBs in Eastern and Southern Africa but focused on local-founder and women-led businesses. To drive an efficient process, we provided targeted data to enable partnered investors to move quickly from this broad pipeline to a set of more attractive businesses given their criteria. In this regard, we reviewed and presented more than 290 businesses to investors, yielding a subset of 73 screened businesses

in seven different countries and 16 sectors. For these 73 businesses, we prepared two-page screening memos with the aim to enable investors to reach a quick “no” or a commitment to invest resources in due diligence on each business.

After initial screening, each investor, in partnership with Open Capital, conducted due diligence utilizing a set of Open Capital tools, templates, and processes through which we gathered information from businesses to present to investors, with findings focused on key drivers of their investment decisions. Our goal was to respond to a broad industry concern that due diligence on African SGBs is too intensive and costly, proposing to reduce this cost by streamlining the process and increasing collaboration among investors. Throughout the two-year TRAIN partnership, we refined and iterated our due diligence tools and processes, working closely with all seven of our investors on 27 due diligences on SGBs across five countries and 11 sectors. This led to 22 investments.² As an addendum to this report, we are pleased to share our due diligence tools and procedures ([available here](#)), which we anticipate will be helpful for other investors developing and growing SGB investing platforms.

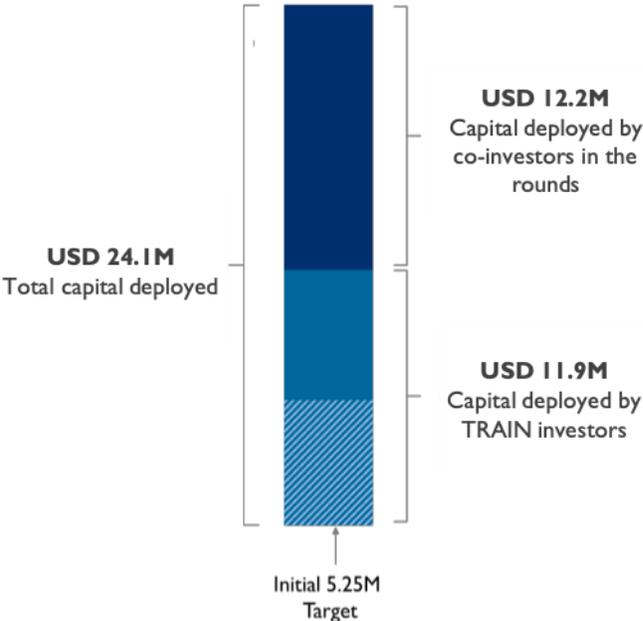
As an important final stage in our due diligence process, we worked with investors to identify appropriate financing structures to suit each SGB’s needs. Investor partners were willing to innovate and explore investment structures tailored for East and Southern African SGBs but less common elsewhere, including Simple Agreement for Future Equity (SAFE) notes, impact-driven convertible notes, and various forms of debt. In many cases, our investors set precedents for financing structures that other investors in SGBs can use in the future to effectively achieve their financial and impact goals.

An important objective of TRAIN was to test methods of de-risking investments by supporting SGBs post-transaction. During our Investment Readiness Program, investor partners often struggled to invest in SGBs because of gaps they identified during due diligence, often related to limited SGB team capacity to achieve scale. TRAIN therefore included an embedded talent model in which SGBs receiving investment could access a high-capacity Open Capital team member for three to six months to help SGBs deliver key priorities such as improving systems and processes,

² 22 investments in 18 companies, since four follow-on transactions took place during the partnership.

managing growth, and improving financial management. Four TRAIN SGBs (located in Kenya and Zambia) were supported using this model.

Figure 2: Capital deployed during TRAIN



Overall, TRAIN exceeded all capital raise targets, screening 73 SGBs and raising USD 24.1 million for SGBs across East and Southern Africa against an initial target of USD 5.25 million. Of all capital raised, USD 11.9 million came directly from the seven TRAIN investors, and an additional USD 12.2 million was raised through co-investors brought into investments in TRAIN businesses by TRAIN investor partners (Figure 2).

Many successful TRAIN investments were small, early-stage transactions, which are usually difficult to complete because of their high transaction costs. Several were in more challenging or unfamiliar countries of operation, such as Mozambique and Zambia. Aside from direct investments, our TRAIN investors also placed close to USD

15 million in Africa-focused investment funds, a decision which they largely attributed to the exposure and networks they accessed through TRAIN. This very positive and unexpected outcome was driven by the opportunity investors see across Africa.

In another key outcome, TRAIN built new relationships among investors and encouraged investor collaboration. Seven of 22 transactions had at least two TRAIN investors, and many successful transactions also included a range of co-investors from around the world, including individual angels, family offices, and impact funds. Many TRAIN investors met through the partnership and co-invested for the first time through TRAIN.

In terms of SGB revenue growth, another key outcome, effectively measuring the impact of support takes time given the need to compare revenue across multiple financial years. At time of completion, we had received data on Year-on-Year revenue growth for three TRAIN-supported businesses. These businesses doubled their revenue on average (214 percent growth), and their headcount grew by an average of 113 percent. This initial data is very encouraging, and we will continue to track overall TRAIN SGB portfolio performance where possible.

Beyond the numbers, we identified several learnings through TRAIN that we anticipate will improve the flow of capital to SGBs across Africa:

- **Peer-level collaboration** among investors enabled more efficient deals and “crowded-in” co-investors who were new to African markets. TRAIN investors readily shared sector- or

market-specific experience and resources during due diligence and leveraged their networks to attract new investors to add to or complete investment rounds. This was especially helpful for investors with less experience either in the market or with a certain financial product (e.g., structuring early-stage equity). More co-investment thereby enabled increased number of overall transactions completed.

- **Local-founder businesses** are broadly overlooked by investors, even though these SGBs often represent attractive long-term opportunities for impact and return given their close connections to local communities and the experience of their teams; such SGBs often have much longer records of operation compared to foreign-founded businesses. We and our TRAIN investors tested several approaches to support these SGBs, gathering learnings on what worked and what failed (discussed in the full report below). We anticipate future initiatives can leverage these learnings to even better target this important group of SGBs.
- **Women-led businesses** receive less investment compared to businesses led by men, and we tested approaches to provide support to close that gap. Specifically, through 10 engagements with women-led businesses that were presented to investors but not selected for further diligence during the TRAIN partnership. Based on this subset, we found that women-led businesses often need the same types of pre-investment support as do other SGBs—financial management systems, strategy development, and market research—but that different delivery techniques were helpful, including a greater focus on coaching and skill-building.

By sharing our approach, data, and tools, we aim to grow the number of investors focused on African SGBs and the number of stakeholders supporting this challenging “missing middle.” We welcome all collaboration as we pursue similar efforts in the future, especially focused on themes such as support for local-founder and women-led SGBs.

1. OVERVIEW OF THE TRAIN PARTNERSHIP

Our goals

Talent to de-Risk and Accelerate Investment (TRAIN) was a two-year partnership among Open Capital Advisors (Open Capital), USAID, and seven investor partners to address key challenges impeding early-stage investing in Africa.

TRAIN followed and built on our learnings from the previous IRP partnership, launched in October 2014 by Open Capital, USAID, and five early-stage investors to test a model for early-stage support of Small and Growing Businesses (SGBs) in East Africa. Through PACE IRP, OCA screened 222 early-stage SGBs, delivering pre-investment support to 15 and completing investments in six. Capital raised for these businesses totaled USD 2.3 million, excluding several investments completed after the project period. The key insights from IRP, as gathered from its

investor partners and reported in an external case study prepared by Convergence,³ were as follows:

- Pre-investment support is crucial and blending approaches can play an important role in this area.
- It remains challenging to source enterprises ripe—or nearly so—for commercial investment.
- Investors care about identifying and measuring impact, too—and they need support.

Several important learnings from IRP formed the bedrock for TRAIN's design. First, investors require post-investment support to reduce the risks of investing in early-stage SGBs that might not have the capacity to effectively manage invested funds immediately after disbursement. Second, due diligence processes in IRP were very lengthy and resource-intensive.

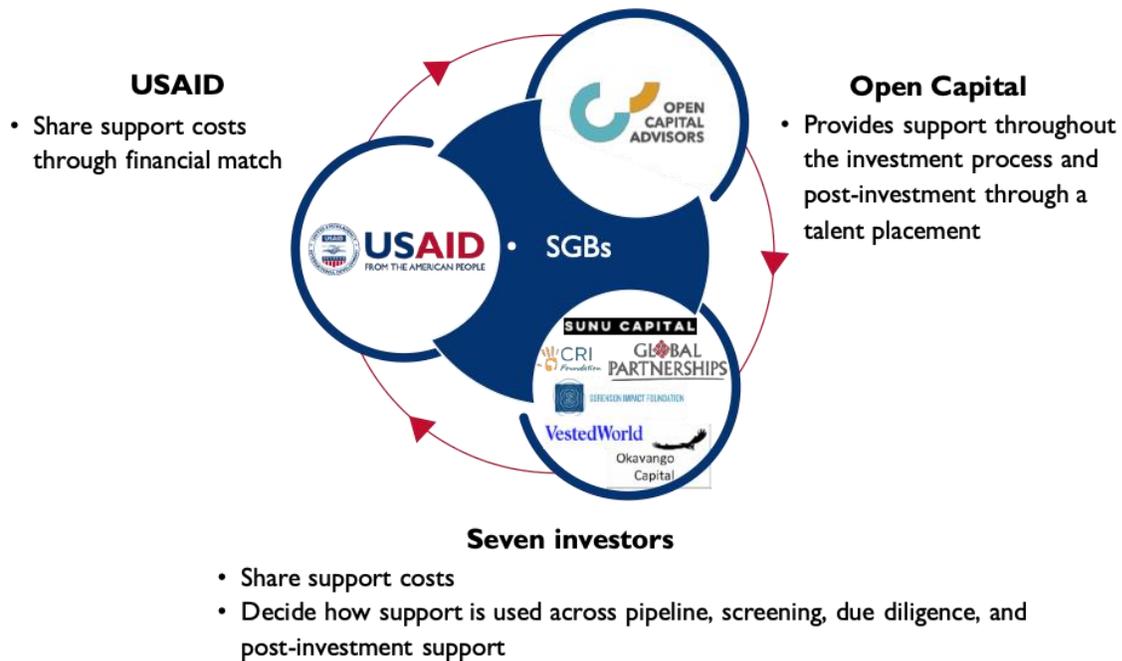
Therefore, the TRAIN partnership tested a new model of streamlined due diligence combined with innovative, talent-enabled post-investment support to reduce investor risk. The goals of the partnership were to catalyze investment into high-impact SGBs in East and Southern Africa, demonstrate how local talent can unlock investments in SGBs, and establish effective streamlined due diligence processes to reduce transaction costs.

Partnership structure

The partnership involved close collaboration among USAID, seven experienced impact investors, and Open Capital (see Figure 3, below).

³ Convergence: Blending Global Finance, "PACE Investment Readiness Program Case Study" (Toronto: Convergence, November 13, 2018), <https://convergence.finance/resource/1gR7Z7AlksKUIQ6wgYuSkm/view>.

Figure 3: Partnership structure



USAID

At USAID we take a systems-change approach to advancing entrepreneurship, working with individual entrepreneurs to help them grow, as well as partnering with investors, intermediaries, and other donors to create an enabling environment for entrepreneurial ventures to thrive. Our PACE initiative aims to catalyze private-sector investment into early-stage enterprises and identify innovative models or approaches that help entrepreneurs bridge the pioneer gap—thus unlocking the potential of thousands of promising enterprises around the world. USAID was the lead sponsor of the TRAIN partnership, providing strategic support and financial commitments for its duration. USAID strongly believes in working hand-in-hand with the private sector to design and deliver development and humanitarian programs on a larger scale. By partnering with individual entrepreneurs, investors, intermediaries, and other donors, USAID aims to address barriers to capital markets and support the journey to self-reliance across many economies.

OPEN CAPITAL ADVISORS

Open Capital is a management consulting and financial advisory firm that supports businesses, investors, development partners, and governments to advance economies and solve tough problems in African markets. Since 2010, we have led more than 500 successful engagements within the region and facilitated more than USD 600 million in capital invested. Open Capital has more than 130 full-time team members based in offices across Africa, allowing the firm to work with a wide range of local businesses and organizations. Open Capital designed and implemented TRAIN, working closely with investor partners to source SGBs across Eastern and Southern Africa, conduct streamlined due diligence, and provide post-investment support through an

embedded talent model. Open Capital also acted as an ecosystem partner to investors by facilitating industry learning sessions, providing market research, and promoting co-investment opportunities.

EARLY-STAGE IMPACT INVESTORS

Seven investors focused on SGBs across Africa joined the TRAIN partnership. Investors reviewed the investment pipeline provided by Open Capital and decided for which businesses to further screen, conduct due diligence, or provide post-investment support. They also built deep relationships with each other, often teaming to accelerate closing investment rounds. The following seven investors partnered:

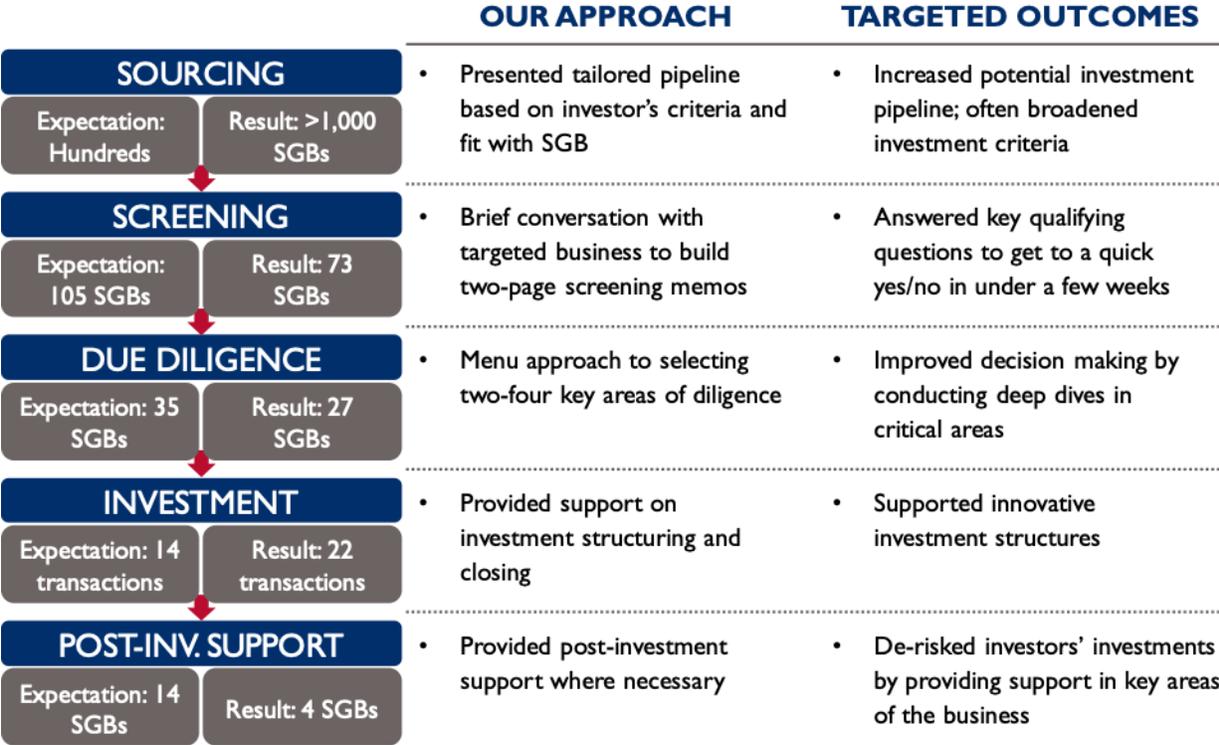
1. **CRI Foundation (entity representing an angel investor):** A U.S.-based and impact-focused family foundation looking to support early-stage companies with strategic support and seed investments.
2. **Ed and Amy Brakeman (angel investors):** A U.S.-based family investment office dedicated to deploying capital in sub-Saharan Africa across a wide range of sectors and stages.
3. **Global Partnerships – Social Venture Fund (fund):** An impact-first fund investing in early-stage social enterprises to expand opportunity for people living in poverty in Eastern Africa. The fund was created to address the “pioneer gap” by supporting early-stage social enterprises with a combination of investment capital and Board-level advisory support.
4. **Okavango Capital (fund):** An impact fund focused on addressing environmental sustainability, biodiversity conservation, climate resilience, and rural development challenges.
5. **Sorenson Impact Foundation (entity representing angel investor):** A U.S.-based family foundation investing in companies and organizations that are developing scalable solutions for underserved communities.
6. **Sunu Capital (entity representing angel investor):** An early-stage venture capital fund investing in companies that are creating a more prosperous, inclusive, and self-sustaining future across the global south.
7. **VestedWorld (fund):** A U.S.-based fund targeting early-stage companies with tremendous potential to create meaningful jobs, provide fair wages, and fuel widespread economic progress throughout their communities and regions.

TRAIN process overview and goals

TRAIN aimed to create a more effective SGB investment process across five stages, each with targeted outcomes for investors: (1) sourcing, (2) screening, (3) due diligence, (4) investment, and (5) post-investment (Figure 4). To achieve this, we created tools and processes to increase efficiency at each stage, working in collaboration with investor partners who offered regular feedback.

Two important overall goals were to enable investors to move faster to a “go/no-go” decision on whether to move forward with an investment or end discussions, reducing transaction costs for SGBs and investors, and to de-risk investments by providing the necessary talent and skills post-investment.

Figure 4: TRAIN overall process and targeted outcomes



The following sections describe each respective stage of this process in more detail, along with their respective outcomes and learnings.

2. BUSINESS SOURCING

Sourcing businesses and building pipeline for investors constrained the rate and level of activity for the remainder of the investment process. Casting a wide net, we sourced more than 1,000 businesses using broad sets of requirements to ensure that we captured not only the familiar but also the less well-known, locally founded SGBs that may not have access to international investor networks and may be less familiar with the investment process. Deal sources included our own pipeline based on past experience and relationships, as well as referrals from active investors and other industry members in our regional networks. We leveraged OCA’s broader team of more than 130 based in three country offices in East and Southern Africa, circulating TRAIN’s criteria and coordinating through the TRAIN team to capture and centralize pipeline. Local teams tapped their networks to source promising opportunities, often focusing on specific industry “deep dives”

to identify local-founder SGBs that might not have interacted with other channels. For example, our Uganda team, which has completed numerous engagements in agriculture, energy, and manufacturing, held meetings with dozens of local experts (e.g., agronomists, supply chain specialists, local angel investors) in each of these industries to identify investable regional businesses. We undertook further complementary research through publications, websites, and blogs and by participating in key incubators, accelerators, and industry events. For example, we judged the Seedstars annual demo day event in Nairobi and presented the TRAIN partnership at the annual Sankalp Africa forum.

The small and early-stage SGBs in Africa on which TRAIN focused were defined by several criteria:

- **Sectors:** Agribusiness, Conservation, Distribution & Logistics, Education/Talent, Energy, Financial Inclusion, Health & Nutrition, ICT, Water & Sanitation.
- **Geography:** East and Southern Africa region.
- **Capital required:** USD 50,000 – 2,000,000 in any capital structure.
- **Impact:** Potential for realized social impact if the business scales, including, where possible, female entrepreneurs or businesses that support women and girls. The business's social impact must be measurable, with metrics defined on an individual basis for each business.
- **Business stage:** Earlier-stage, innovative businesses, as defined broadly in terms of *track record* and *scale potential*. In terms of track record, an SGB's product or service of focus should have a track record shorter than five years in the market (even if an SGB itself has been in business longer). In terms of scale potential, SGBs should have a substantial opportunity to scale as represented by market opportunity, innovativeness of the proposed product or service, experience of the entrepreneur, proven results, or a combination of these.

The sourcing process was led by Open Capital's investor relationship managers (IRMs), who acted as dedicated resources for each investor throughout the process. IRMs leveraged local networks to catalog value chains and regions and build this knowledge into a pipeline tailored to each investor. This process relied on (1) an early market-matching process to bring investors close to the pipeline and (2) IRMs' ability to tailor that pipeline as they gained a deeper understanding of investor preferences.

As the partnership progressed, the pipeline presented to investors generally decreased in size while improving in relevance for each individual investor. Investors began to select higher proportions of proposed SGBs for additional screening and due diligence.

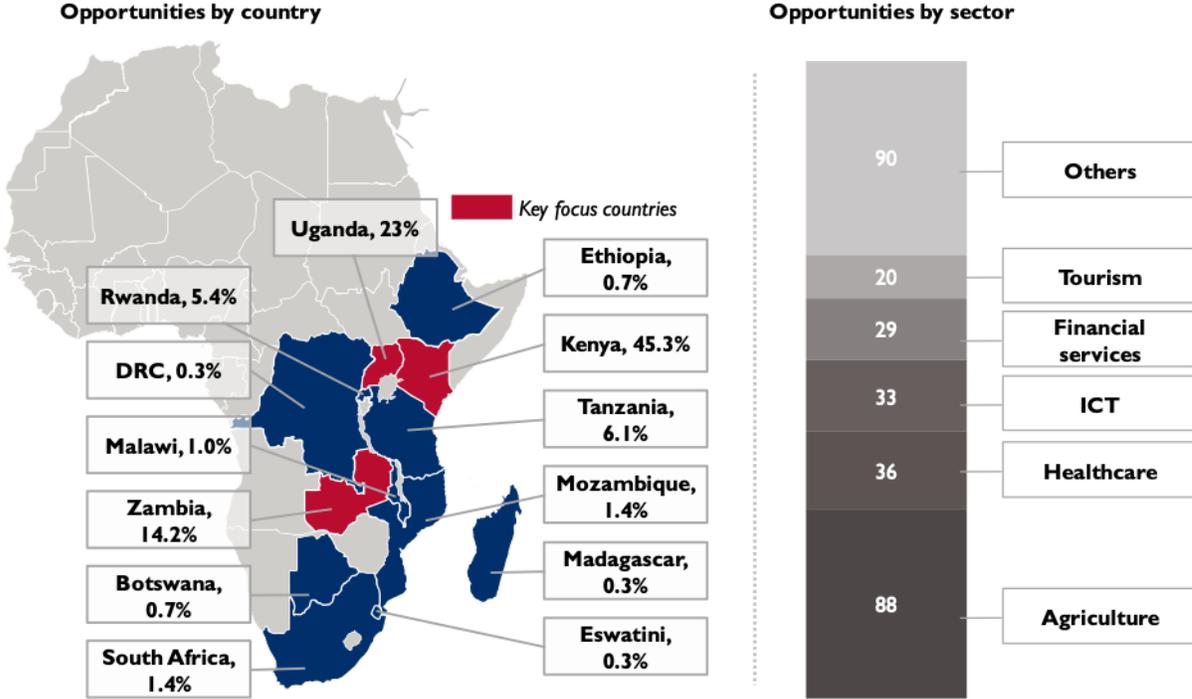
2.1 Outcomes and key finding

Open Capital's experience in more than 20 countries in Sub-Saharan Africa enabled the IRMs to source and provide more than 1,000 compelling investment opportunities for investors, demonstrating the breadth of opportunities for investment in SGBs and their need for financing.

Investors proceeded to review 296 of these opportunities across 25 sectors and 13 countries (Figure 5). Their feedback informs the learning below.

While investors expressed broad geographic and sectoral interest, their activity remained concentrated in Kenya, Uganda, Rwanda, and Zambia, countries that offer relative geopolitical stability, investor-friendly environments, a growing middle class, and a pool of skilled workers. Tanzania, which was a primary focus country of the PACE IRP, was less attractive to TRAIN investors given recent political and economic challenges there. TRAIN investors continued to have interest in Rwanda, though the country’s limited market size meant we could not identify as many opportunities there as in its larger, neighboring countries. Additionally, given the agrarian focus of many African economies, many investment opportunities (over 30 percent) were in the agricultural sector.

Figure 5: Opportunities by country and sector



Within TRAIN’s criteria, we narrowed pipeline based on investor preferences for sector, business model, and impact profile

At the start of the partnership, many investors offered broad parameters for impact and outcomes—perhaps offering a minimum investment amount or range, a few target sectors, and an impact area of focus—but were otherwise nonspecific in terms of business type, model, or country. In frequent conversations, Open Capital initially provided investors with 30 or more monthly opportunities to help refine their criteria (including sectoral and impact criteria) and guided them to further define their investment thesis by offering input on sectors, business models, and impact profiles based on our experience in the market. As investors refined their criteria based on

this information from the market, we adapted the pipeline we offered. By the end of the two-year TRAIN partnership, having gained further insight into each investor’s interest and criteria, we had narrowed and targeted the pipeline to 10–15 opportunities every month or every other month, allowing investors to focus on fewer, higher potential deals that were most relevant to their preferences in terms of sector, business model, impact profile, and transaction size.

Interest in sourcing SGB pipeline from more challenging geographies continues, even with low conversion

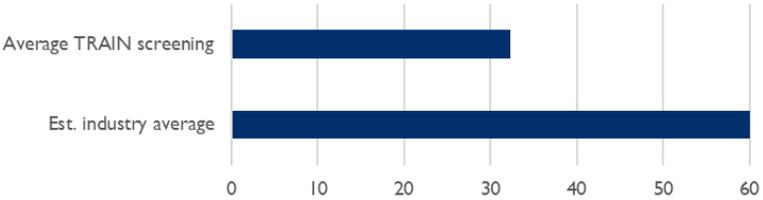
Once investors understood the benefits of TRAIN support and had honed their criteria for industry, impact profile, and investment size, many extended their field of geographic interest, requesting more information about business opportunities in new and challenging frontier markets within TRAIN’s mandate of East and Southern Africa, such as Ethiopia, Zimbabwe, Malawi, and Mozambique. These countries offered the potential to diversify investors’ portfolios and achieve especially high impact, since few other impact investors are active in those markets. Despite this interest and despite much effort, we could not identify many opportunities in these countries that met investors’ criteria, and few investments resulted due to the still-developing investment ecosystem in these frontier markets. Investors have nevertheless continued to request opportunities in these “new” geographies, even after TRAIN’s completion.

3. SCREENING BUSINESSES

The TRAIN screening process helped investors to efficiently arrive at a “go/no-go” decision (Figure 6). Even early, before more intensive due diligence, investors could often use this process to decide, for a clear majority of businesses, whether or not it made sense to proceed to due diligence and investment. This allowed investors both to better understand businesses before committing resources and to evaluate new opportunities in the pipeline for fit and potential synergies within their existing portfolios.

The screening process followed several steps. First, investors were presented a pipeline of new opportunities at least quarterly, and more typically monthly. This pipeline report included key data points (such as business description, team member biographies, revenues, and impact). We have shared the template for this pipeline report [here](#). Using this report, we narrowed down the broad pipeline quickly into the several opportunities that were most interesting to each investor. Selected businesses were then screened in greater depth, resulting in a two-page screening memo. Open Capital wrote such screening memos for our investor partners on 73 such businesses.

Figure 6: Number of days to screen a business⁴



Preparing a screening memo began with desk research and a meeting with entrepreneurs to gather information and quickly assess their capabilities. Meetings with entrepreneurs proved to be the most important and impactful aspect of the screening process. Information gathered in these meetings included the business’s market opportunity and positioning; data on current business operations, historical milestones, and previous and future capital raises; growth plans; and team composition. This process raised several challenges:

- Finding and reaching out to entrepreneurs: Early-stage entrepreneurs are busy, making it difficult to schedule a time to meet, especially for local-founder SGBs in remote or rural areas. We were as flexible as possible on timing, utilized our networks to gain “warm introductions” to entrepreneurs, and called to make initial contact instead of writing emails. Businesses in these markets are often much more responsive over the phone than on email.
- Building trust: Conversations with some entrepreneurs, particularly with local founders, required that trust be established before they would discuss sensitive, yet critical aspects of their business, such as ownership and key financial data. We built trust by emphasizing our local market presence and experience, holding in-person meetings when possible, and reinforcing our commitment to keeping conversations with entrepreneurs confidential.
- Gathering relevant external data on niche markets: For certain industries or geographies, little market data were available to compare or validate the targeted SGB. We used data gathered through previous engagements and reached out across our networks for benchmarks to ensure we had as much data as possible to apply to the assessment. Lack of data remains particularly challenging; investors could often only take comfort in whatever limited data we could assemble.

After structuring this information into a two-page screening memo, which was standard across all investors, we worked with those investors having specific requests, adding addenda as necessary to deeply analyze specific areas such as competitor landscape or market potential. Screening memos also offered a short assessment from the Open Capital team which outlined the opportunities, concerns, and risks of the business. Investors noted this assessment added significant value by presenting third-party analysis and advice.

3.1 Outcomes and key learnings

The screening process effectively increased efficiency, especially as investors built a deeper understanding of the pipeline. In many cases, investors could reach a quick “no” on investment from the screening memo alone, often within a few days of being presented the opportunity. In other cases, investors skipped the screening memo altogether because of how positively they felt about a business’s team or mission.

⁴ Estimated industry average is based on Open Capital’s consultations with investors attending the Sankalp investor gathering in February 2019 and from previous Open Capital experience. Average TRAIN screening is based on Open Capital’s time tracking for the duration of TRAIN.

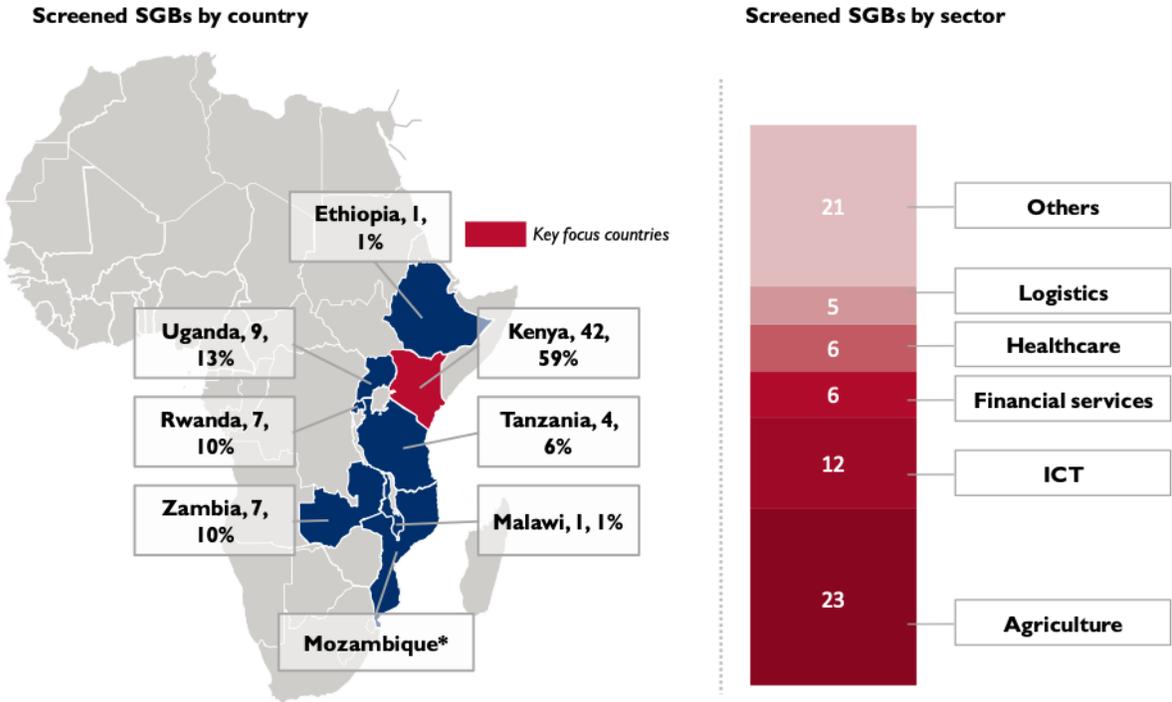
As expected, a clear majority of SGBs screened did not proceed to due diligence, which saved substantial resources. As reported by the investors, the most frequent reasons screened businesses did not proceed to due diligence were the following:

- Business too early-stage: Businesses had insufficient revenue traction to prove that their products or services had a viable market.
- Limited market potential: Investor did not believe in the long-term development of the market targeted by the business, especially when that market had not already been proven.
- Limited impact potential: Investor saw limited evidence that impact was intrinsically linked to the company's business model, limited evidence of company's ability or willingness to track this impact, or both.
- Lack of confidence in management team: Most early-stage businesses asked for substantial capital relative to their achievements to date. Investors therefore had to believe in the management team's ability to drive growth, which was often unsubstantiated by the team's prior experience.

For SGBs not proceeding to due diligence, we invested time to share investors' rationale with the business, which was usually greatly appreciated. In some cases, these unsuccessful SGBs took investor feedback into account, addressed these points, and re-approached TRAIN; several of these received renewed interest from investors that had previously passed on the opportunity. Investors' revived interest sometimes led to further due diligence, and in some cases, investment.

Figure 7 shows the businesses that interested investors by country and sector. While we presented pipeline across a wide range of countries, investors preferred to focus screening on markets with which they were more familiar or which had more attractive fundamentals. There were exceptions; for example, one investment was completed in Mozambique and one screening was completed in Malawi.

Figure 7: Screened companies by country and sector⁵



*Mozambique was screened for investment opportunities

Investors requested adaptations to the screening process over time

Over the first several months of the partnership, the Open Capital team responded to investor requests and adapted the screening process to match specific interests and criteria. These adjustments unlocked additional efficiencies in the process and our tools. For example, we added “addenda” to the two-page screening documents at the request of investors who wanted additional input before investing in an intensive due diligence process. Each addendum captured additional depth in certain areas raised by the two-page screening memo that investors considered of primary importance, most frequently a business’s competitive advantage compared to other players, unit economics, and impact plans. While writing an addendum of course added time to the screening process, we found that it nevertheless streamlined transactions by saving investor resources during later due diligence, helping investors arrive at a quicker “go/no-go” decision on the investment, or both.

Investors used TRAIN resources to consider opportunities beyond their normal investment horizons

⁵ Two screening memos were used to gain deeper insight into specific sectors and were not targeted at specific countries. “Other” sectors include energy, fintech, insurance, consumer goods, education, retail, recycling, media, manufacturing, and postal services.

Investors used some of the two-page screening memos to gain deeper insights into specific new sectors they would otherwise not have considered for investment. One investor, for example, benefited from TRAIN's support to understand new SGB opportunities in the frozen dairy and furniture sectors in Kenya.

Investors preferred to focus on more robust markets

Although TRAIN allowed investors to cast a wider net into frontier markets in sourcing businesses, investors focused on more robust markets with deeper pipeline for the screening process, as we had also seen in PACE IRP. Each country posed unique attractive characteristics and challenges for investments in early-stage businesses (Table 1).

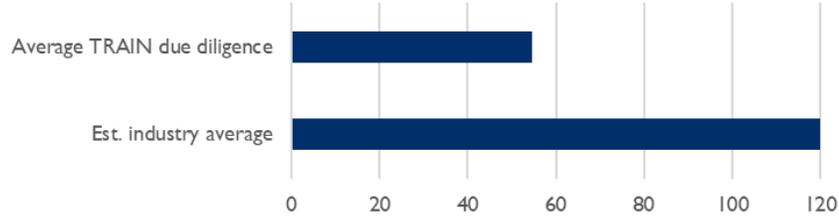
Table 1: Key country trends

Focus countries	Key characteristics
 Kenya	Remains the largest source of investment-ready SGBs but valuations are high for certain “high-visibility” businesses.
 Uganda	Attractive market with many “unexplored” opportunities, though businesses are often less investment-ready and more domestically focused.
 Zambia	Smaller economy but with emerging impact-investing opportunities, especially in agriculture and energy.
 Rwanda	Boasts high ease of doing business but a small domestic market, meaning fewer scalable opportunities.
 Tanzania	Large opportunity but recent political challenges have increased risk, making investments less attractive.
New countries	Characteristics
 Ethiopia	One of the fastest-growing economies in the region but poses a restrictive environment for foreign direct investment, especially given currency controls.
 Mozambique	A nascent investing environment with strong long-term potential but a very challenging business environment.
 Malawi	Little private-sector development creates a long-term impact opportunity that requires patient investing and incubation.
 Zimbabwe	A highly educated population, but experiences substantial governance and macroeconomic issues.

4. CONDUCTING DUE DILIGENCE

Once businesses passed the screening stage, we worked closely with investors to support a thorough but streamlined due diligence process. Our goal was to increase speed and efficiency (Figure 8),

Figure 8: Average number of days required to conduct due diligence⁶

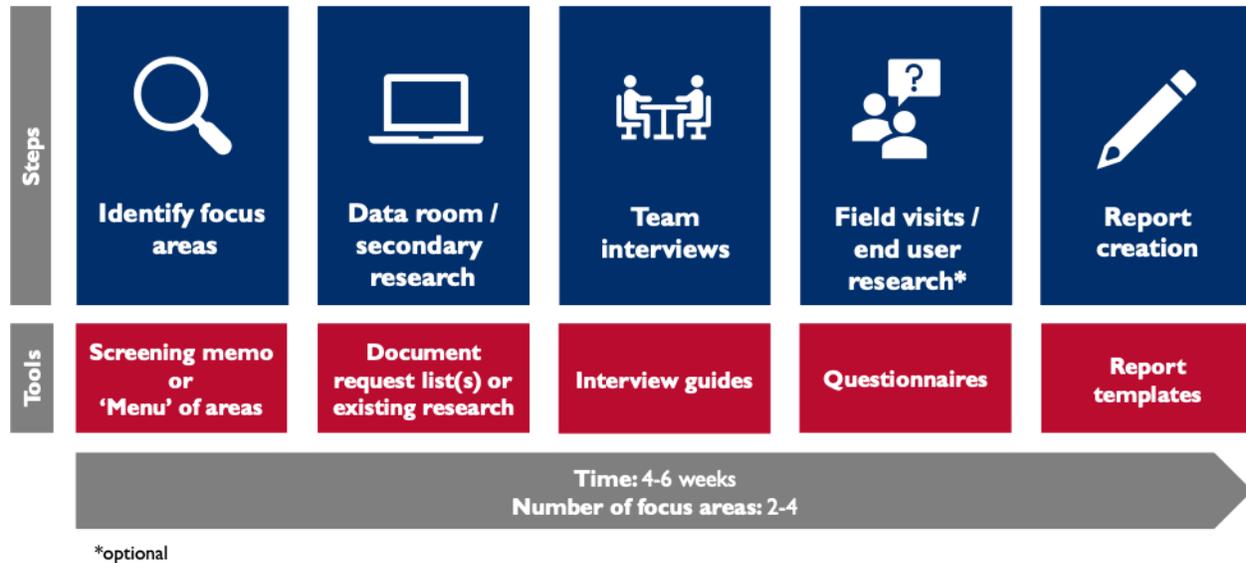


getting investors to a faster decision while still reviewing key risks. In many cases, we completed due diligence within weeks: 25 percent of TRAIN businesses completed due diligence in less than four weeks, 50 percent were finished in less than six weeks, and 80 percent were finished in less than eight weeks. In some other cases, external factors led to delay, where, for example, businesses lacked key data or where we faced difficulty establishing relationships to discuss important issues, such as growth strategy. Sometimes, investors purposefully paused their diligence processes while waiting for other transactions to complete (for example, waiting for an equity round to close before committing debt capital).

Over the two-year TRAIN partnership, we continually revised our due diligence approach through regular conversations with each investor partner, seeking to understand where efficiencies made sense and where there was concern they might compromise rigor. We began from a deep understanding of each investors' existing due diligence processes, perceptions, and preferences, alongside our previous experience with other investors. This informed our development of a "menu" approach to due diligence, matched with tools such as documents and templates. Investors picked focus areas for due diligence from this "menu" in order to narrow the traditional breadth of work performed while still maintaining deep analysis where most needed. The "menu selections" varied by investor and target company but often included a market assessment, competitive analysis, customer analysis, and a review of financials, growth plans, or both.

4.1 Outcomes and key findings

Figure 9: Due diligence process and tools



After developing the “menu” approach and tools, templates, and processes for due diligence (Figure 9), we tested the approach in 27 live due-diligence engagements spread across 11 sectors and five countries. We continuously refined these tools and procedures based on feedback from investors and businesses, which ultimately led to a process guide and suite of tools that we are sharing publicly ([available here](#)). Testing with diverse investors and real-world examples helped us to enhance the core value proposition of these tools and reinforced the need for a menu set, and not just one tool, to cater to varying investor needs and preferences. While the focus and content of each due diligence varied, two common themes were (1) the importance of understanding the market opportunity and (2) the need for comprehensive financial analysis. We structured our process to gather these two insights as effectively as possible by, for example, planning calls in advance with SGBs to set expectations and prepare data before site visits.

For companies that did not move forward in the investment process after due diligence, we delivered feedback on areas where the investors wanted to see further progress before investment, along with recommendations on how to address these weaknesses. Some investors strongly preferred to share our original due diligence reports directly with target businesses as a means to provide feedback, which is not an industry norm. We adapted by editing a separate version of the report for the company, removing any information that would be inappropriate to share. We then facilitated a meeting with the target company to discuss the findings in depth and ensure we provided adequate context for this feedback.

⁶ Estimated industry average based on Open Capital's consultations with 22 SGB-focused investors not involved in the TRAIN partnership who attended the Sankalp investor gathering in February 2019 and previous Open Capital experience. TRAIN data based on Open Capital's time tracking for the duration of TRAIN.

Gathering information remains the most complex component of due diligence for SGBs

Many of the diligence processes began with data of limited reliability or robustness, partially due to weak internal systems and controls at screened SGBs. As a result, we often had to work with raw data or co-create data with the SGB, which then required processing into meaningful information in coordination with SGB management. Diligence often focused on analyzing historical and projected financial data, given gaps in SGB management capacity to perform this analysis directly. Specific gaps varied. For example, one Zambian company had unclear cash flow movements and seasonality, which were important to understand in order to determine working capital needs. A Kenyan business was unable to attribute costs accurately, making it challenging to assess its margins and hence future profitability. These challenges not only delayed the due-diligence timeline but also sometimes decreased investors' appetite to pursue the investment, creating an important opportunity for post-investment support, as discussed in Section 6.

Local team and templated tools can yield more meaningful data from and streamline vital site visits and customer interviews

In several of our diligence processes, as is common practice, some data were gathered through site visits to review operations and talk with ground staff or end-users about the target company's operations, services, or products. Site visits afford an opportunity to test many of the claims and assumptions made by a target company's management. A local, context-sensitive team can uncover material information that review at a higher level might otherwise miss. Customer interviews sometimes could not corroborate management's assumptions about a product or services' value proposition or overall quality. For example, in one site visit to Rwanda, we found that the performance of a company's product did not meet customers' expectations. Our team, which was fluent in Kinyarwanda, built a close rapport with customers to uncover which critical aspects of the product were unsatisfactory.

To streamline site visits and interviews, we built a set of tools and templates for speed and efficiency. For example, interview guides provide a bank of questions for SGB management, and memo templates allow diligence teams to efficiently package information and analysis. Importantly, however, while tools and templates can facilitate due diligence, an experienced team must still ask the right questions, analyze and adapt information received, and manage the ambiguity that comes with the frequent lack of data in these emerging markets. Most investors also wanted to meet the management of target businesses to build their personal understanding of the company's team and local context.

Collaboration among investors builds confidence and creates efficiencies

Many of the seven partnered investors increased their level of collaboration during due diligence. Some had known each other prior to the partnership but accelerated and deepened their collaboration during TRAIN, especially at this stage. When investors shared interest in an SGB, the TRAIN team coordinated a single due diligence process; one investor used their services, even as the diligence satisfied the needs of the wider group. This added value on all sides:

investors were more likely to pursue the deal if they invested together, and businesses had to respond to only one diligence while having a larger proportion of its requested capital raise fulfilled.

As a blended diagnostic and validation exercise, due diligence can enable follow-on investments that further drive SGB growth

At the tail end of the partnership, some investors adjusted their focus to make follow-on investments in SGBs in which they had first invested through TRAIN early in the partnership. This magnified TRAIN’s impact for these SGBs and catalyzed further private investment. Towards the end of TRAIN, then, some investors used Open Capital’s due diligence services to diagnose specific areas of these TRAIN portfolio companies, with two objectives:

- Analyze a specific, targeted area where the investor believed the company needed more support before receiving further investment, defining pre-conditions for follow-on investment. For example, one investor wanted to understand how culture had evolved at an SGB following a change in leadership, clarifying any challenges with that leadership transition as a critical prerequisite to future investment. As another pre-condition, another investor wanted to understand customer journeys through various sales and marketing channels.
- Validate SGB hypotheses to justify follow-on investment. For example, one investor wanted to clarify the addressable market after an SGB decided to shift its primary market to a new geography and requested more capital to expand.

Allowing flexibility in the use of Open Capital’s services drove more investor capital into SGBs that successfully executed growth plans after their initial investments. Indeed, three out of the 18 unique TRAIN businesses received two or more separate rounds of investment during the two-year partnership.

Case study: A debt due diligence in the transportation industry

Business:	Logistics company in Kenya
Diligence focus:	Operations and financials
<p>As part of the TRAIN partnership, one of the seven partnered investors engaged Open Capital to conduct due diligence on a Kenyan logistics company, a marketplace platform providing transport and logistics solutions to customers through third-party partners across Kenya and East Africa.</p> <p>One TRAIN investor used our “menu” approach to identify that the key area of focus for their investment decision was to assess whether the company’s potential future earnings and cash flows could support repayments on their debt investment. Consequently, due diligence focused on the company’s strategic growth plans and financial health.</p> <p>Our intensive due diligence included a review of the company’s documents, including monthly financial historical data and projections, management accounts, credit policies, and operational</p>	

and strategic documents. A two-day site visit followed, during which Open Capital team members completed five interviews with various management team members and other key staff. The remainder of the process primarily focused on conducting ratio and scenario analyses on whether the company would have the necessary cash flows to service its future debt obligations.

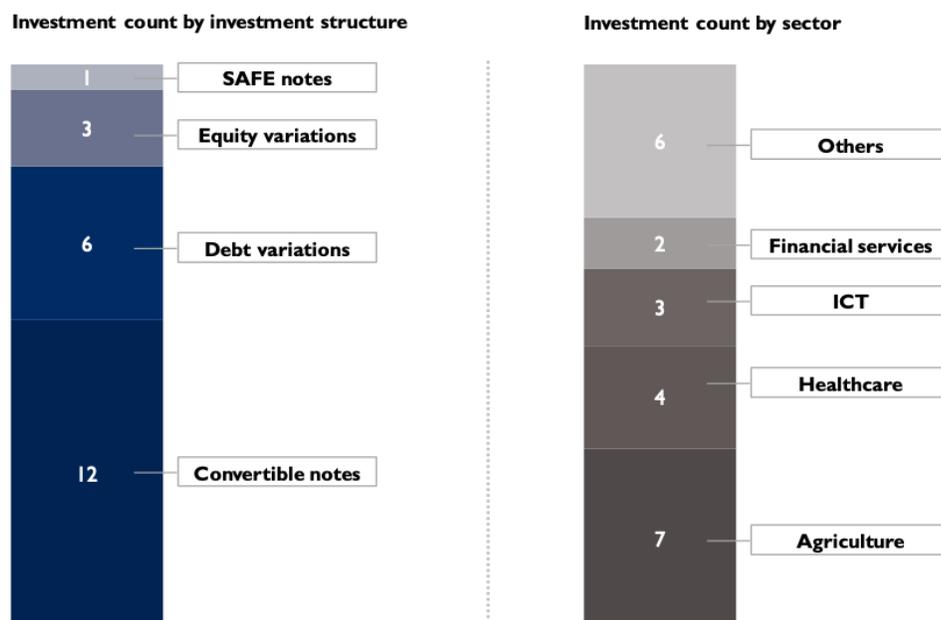
Two other investors in the TRAIN partnership expressed interest in joining either the debt or equity rounds. In order to decrease the burden on the business, we partially combined these due diligence processes in aspects such as management interviews. The business ultimately raised USD 1 million from two TRAIN investors.

5. INVESTMENTS

We were pleased that our work resulted in a much higher volume of successful investments than expected. Over the two-year TRAIN partnership, \$ 24.1 million in investment across 22 transactions were mobilized by TRAIN investors (\$ 11.9 million) and other co-investors (\$ 12.2 million), against a target of 14 transactions and \$ 5.25 million for the seven TRAIN investors. We actively encouraged co-investment, which took place in seven of the 22 transactions, demonstrating investor interest in collaboration.

These transactions were in four types of structure and nine sectors (Figure 10).

Figure 10: Investments by structure and sector⁷



⁷ Note that all investors disclosed their investment structure. Other sectors include media, recycling, WASH, education, and ICT.

Case study: Convertible notes for an emergency response provider in Kenya

Business:	Emergency response system provider in Kenya
Investment type:	Convertible notes
Capital raised:	\$ 1 million

In Kenya, as in most of Africa, injuries are responsible for nearly 10 percent of all deaths.⁸ An effective emergency response system could avert some of these deaths, as well as others related to diabetes, hypertension, and cardiovascular disease by reducing the time required to receive proper medical attention.

One company receiving capital from multiple TRAIN investors developed a cloud-based emergency response system that integrates emergency-response providers into one network to significantly reduce response times and address the lack of emergency response systems in the East African region. Unlike other companies, it owns no ambulances or other capital-intensive assets, making the model highly scalable. It even offers dispatch services to other ambulance companies that do not have dispatchers.

After conducting a full due diligence on the business's operations, growth potential, and financial health, two TRAIN investors invested in the company through convertible notes. The TRAIN investors opted for convertible notes for several reasons:

- Convertible notes are effectively seen as akin to equity, but they do not require a valuation of the company at such an early stage before the model can be proven. Negotiating a valuation with limited data might have otherwise spoiled the deal or elongated time to disbursement at a moment in its growth when the company needed capital.
- Convertible notes provide a fixed return through interest payments and offer more downside protection than an equity investment. If needed, it is easier to recoup principal through a debt-like instrument compared to equity.
- Convertible notes are an easy, fast, and uncomplicated structure that gives investors an early foot through the door, increasing the likelihood that investors will be included in the next round if the company does scale as planned. This was highly important to both investors.

With the capital invested, the company has developed and launched its product. The investment funding helped it to:

- grow its team, freeing top management time for strategic planning and business development and unlocking the benefits of longer-term strategic planning; and

⁸ Data from the World Health Organization. "Global Health Estimates 2016: Deaths by Cause, Age, Sex, by Country and by Region, 2000-2016," https://www.who.int/healthinfo/global_burden_disease/estimates/en/; and Petrie Jansen van Vuuren, "FACTSHEET: Africa's Leading Causes of Death in 2016," *Africa Check: Sorting Fact from Fiction*, August 14, 2017, last updated April 8, 2019, <https://africacheck.org/factsheets/factsheet-africas-leading-causes-death/>.

- invest in systems and processes to improve efficiency and strengthen the value proposition to its clients.

The company has since raised a larger, \$ 2.5 million investment round that included strategic and larger investors. Both the business and its investors highlighted in discussions that the first round facilitated by TRAIN was critical to the success of the round and the business.

5.1 Summary of key findings

Use of innovative investment structures

Throughout the TRAIN partnership, investors demonstrated willingness to get creative with financial structures to meet SGB needs. In this regard, we spent approximately 10 percent of our total investor support time advising on deal structuring and transaction close, helping investors to evaluate and structure new instruments. This work also serves to offer future precedents for the market. Most commonly, we offered deal structuring and transaction support to angel investors who were looking to move away from straight debt and equity investment structures. Some of these creative deal structures included revenue-sharing opportunities, Simple Agreement for Future Equity (SAFE) notes, and venture debt.

Royalty-based or revenue-sharing opportunities often interested angel investors, as these create equity-like upside (that is, more upside than debt) without the need to hold direct shares in the business, since full return on equity can only be realized upon exit.

Some transactions involved SAFE notes which, though common in Silicon Valley, are relatively new to African markets. SAFE notes convert to equity when triggered by future equity financing rounds. SAFE notes generally present more investor risk because they lack interest or a maturity date, unlike traditional convertible notes. Investors risk losing their entire capital commitment while never receiving equity, since the note may never convert if the company fails to raise further capital. For entrepreneurs, compared to traditional convertible notes, SAFE notes allow them to grow their business without the financial burden of annuity payments made to investors.

Investors also placed debt capital in early-stage businesses that are not yet profitable, which is known as venture debt. Investors historically prefer to take equity in early-stage companies, since equity offers investors some control over company strategy and how funds are used. Venture debt offers businesses sufficient funds for growth before they raise the next round of capital without diluting their valuation. However, large debt liabilities can hamper businesses' ability to raise capital in their next rounds.

Finally, some investors were interested in modifying common investment structures to tie impact more closely to commercial success. For example, one investor examined the use of an impact term sheet to guarantee that the business would not pivot away from its impact objective. This term sheet tied the valuation cap and discount rate on a convertible note to both an impact metric and revenue size. This method formally pushed the business to pursue both impact and commercial success to decrease their cost of capital.

We have not yet seen sufficient track record to establish the parameters of when such instruments work well in this market, but we consider such creative deal structures an opportunity for businesses to access funding while investors test new ways to place capital in different contexts and markets.

Value of collaboration among investors

A key objective during the TRAIN partnership was to foster and develop relationships among the investor partners and among potential co-investors who we could attract into early-stage investing in Africa. Through in-person meetings, joint calls, and introductions for individual deals, we increased investor collaboration. Four of the seven investors, all focused on early-stage businesses, actively shared pipeline amongst themselves, as their investment criteria often matched. Additionally, partnered investors viewed each other as trusted co-investors, which helped mobilize more investment into earlier stage companies by spreading out the risk. As a result, seven out of the 22 closed transactions were co-investments among TRAIN investors, demonstrating one opportunity to further expand the pool of investors willing to consider smaller and earlier-stage SGBs in sub-Saharan Africa.

6. POST-INVESTMENT EMBEDDED TALENT SUPPORT

During the PACE IRP, investors highlighted the talent and skills gap many of their portfolio companies faced post-investment as a key challenge with early-stage investing in African markets. Traditionally, investors have used project-based technical assistance to improve capacity and talent within their portfolio companies, provided either directly by the investor or by external partners. However, project-based approaches cannot provide day-to-day capacity to allow a business to begin implementing and directly training its full-time team. Addressing this need through full-time hiring can be challenging due to the difficulty of sourcing certain capabilities in local markets. For example, evidence from small and medium-sized enterprises (SMEs) that are Open Capital clients suggests that hiring full-time, CFO-level strategic planning expertise can take more than nine months. To ensure SGBs could use raised capital for growth more quickly after disbursement, we included an element of post-investment support in the partnership with the dual aim of de-risking investments and realizing each business's growth objectives. This type of intervention is a form of targeted technical assistance; a wide range of research suggests such assistance can have a significant positive impact on SGB growth compared to other interventions, especially when the business directly contributes to cover the cost of technical assistance from its own capital.⁹

6.1 Outcomes and key findings

⁹ SSG Advisors, *Theories Of Change: High-Growth Small And Medium Enterprise Development* (Washington, DC: USAID, May 2019), https://www.marketlinks.org/sites/marketlinks.org/files/theories_of_change_-_high-growth_sme_development_5.13.19.pdf.

We completed six post-investment support engagements for four companies, testing the model across diverse businesses at different stages of growth and in different industries and countries. In each case, we embedded an Open Capital team member in the business full-time for a period of three months, with the goal of providing capacity and building skills in a specific function, concluding with extensive training of SGB staff to ensure continuity. Each business identified specific roles in collaboration with their TRAIN investors. We were very encouraged by the impact of post-investment support on the SGBs with which we worked. For example, one business reported that the OCA associate integrated into their team significantly improved the CEO's visibility of the company's financial position by streamlining financial processes, improving firm-wide financial management practices (including the introduction of strong financial controls), and supporting fundraising by developing a comprehensive financial model that was well-received by the company's board and investors. The business found that TRAIN's embedded talent model was a more effective form of technical assistance than other approaches they had seen in the market.

Before [the embedded analyst] came in, we had in place outsourced accountants in different countries, but I had limited visibility into the details of the financial data. [The analyst] came and cleaned up a lot of inefficiencies, enabled me to have a deeper understanding of all the cost centers of our business, and was able to do reporting at the level I needed to make business decisions. [...]

[The analyst] has been an active member in our monthly revenue forecast setting meetings and also actively involved in budgeting and cost analysis. She has helped support the team in driving towards revenue goals and in our fundraising, which will fuel our growth and expansion for years to come.

CEO of TRAIN-supported company receiving post-investment support

However, despite positive outcomes for these four TRAIN SGBs, we did not achieve our goal of post-investment support for every TRAIN investment (14 SGBs, that is, did not receive support). This was partly due to timing. At the end of the two-year TRAIN partnership, we had still-ongoing discussions with four TRAIN businesses regarding scopes for post-investment support that may be launched separately, after TRAIN is complete. In numerous conversations with TRAIN investors, we identified several common themes for why some businesses did not receive post-investment support:

- The design of the partnership assumed businesses would use part of their investment proceeds immediately after disbursement to fund the cost of post-investment support. In practice, businesses frequently delayed post-investment support to prioritize what they perceived as more urgent initiatives with immediate growth impact, such as capital

expenditure into productive assets or investments in inventory. In some cases, businesses were able to hire for key roles more quickly than expected because they began the recruiting process alongside investor diligence. This was interesting in itself: in practice, the *availability* of post-investment support may have created the de-risking mechanism we anticipated (having exceeded our original investment target by over 500 percent), even if it was not needed in all cases.

- Several TRAIN businesses moved to hire full-time roles immediately to fill gaps and so reported not requiring post-investment support. In four cases, these positions remained unfilled, and two of these businesses re-approached TRAIN for support at the tail end of the partnership. As noted above, and as several TRAIN investors mentioned, the availability of this support helped investors feel more comfortable in taking risks on businesses with gaps in capacity.
- Two investors wanted to very actively and directly support invested businesses, providing considerable time in this regard. Post-investment talent support similar to the TRAIN design was, in these cases, provided directly by the investor; we had not anticipated at the outset that some investors might wish to do so. Other investors, meanwhile, did not have the available capacity or interest to offer such support, and their invested businesses were therefore more interested in Open Capital’s post-investment embedded talent model.
- In some cases, and primarily for businesses led by expatriate founders, SGBs were able to access free MBA fellows that provided the same type of post-investment support we had proposed to fill with local Open Capital team members.

The scope of post-investment support for the four businesses supported and the four additional businesses with whom we are holding scope discussions all focused on similar themes, despite being crafted by businesses differing in size, stage, and industry. The most important theme was to strengthen financial systems to enable accurate and efficient budgeting, on-going reporting to investors, or both. In any such case, our support focused on identifying needed systems and processes and then implementing and training others in the organization to continue their execution.

Case study: Embedded support improved financial management at an e-commerce platform

Business name:	e-Commerce platform for healthcare products in Kenya and Rwanda
Investment type:	Convertible note
Support focus:	Financial management

One of our associates was embedded in an e-commerce platform built specifically to sell women's health, personal care, and beauty products in Kenya and Rwanda. Its vision is to remove the obstacles women face in accessing necessary health and hygiene products such as sanitary pads, contraceptives, and pregnancy tests and to enable last-mile distribution of these products to women in low-income rural areas. Through either a smartphone or a standard feature phone, women can confidentially order such products and receive direct delivery.

After raising capital in two funding rounds from three of the seven TRAIN investors, the company engaged with Open Capital to embed an associate within its team to:

- strengthen financial systems by creating new accounting policies and reporting standards; and
- build a financial model and assess the implications of growth plans for revenues and expenses.

With this support, the company's strategic and financial position significantly improved. Before the engagement, the company had no finance department, frequently saw delays in its payroll processes, and lacked budgets altogether. The Open Capital associate introduced a payroll system to mitigate delays and keep employees motivated and designed a budgeting system to help track expenses and avoid unnecessary spending. The associate is now leading the financial aspects of the business's next capital raise, developing the investment structure and providing complex financial analysis to the board and interested investors.

Embedded talent proved effective when utilized

In all examples where TRAIN businesses were supported through the embedded talent model, outcomes and client feedback was positive. The embedded support enabled these businesses to efficiently utilize new investment capital, identify new market opportunities, streamline operations, and achieve their desired scale more quickly. For investors, embedded support de-risked their corresponding investments by adding immediate capacity to business's teams to support growth.

Flexibility required in timing embedded talent post-investment

As highlighted above, we are still in discussions with four TRAIN businesses regarding post-investment support, despite the formal end of the TRAIN partnership. This suggests that businesses require flexibility in deciding when and for how long to deploy embedded talent post-investment, given competing priorities and efforts to hire full-time roles immediately after capital disbursement. For example, we are now deploying embedded support for a TRAIN business more than a year after a TRAIN investor first closed an investment. Concerning duration, one business extended the support period from three to 12 months, partially due to challenges hiring full-time staff to replace the embedded talent for the long term. Overall, we have learned that post-investment support does not always immediately follow an investment round or last for a predefined length of time.

Embedded support does not suit all SGBs and must be available both pre- and post-investment

While embedded talent support can help solve talent challenges and realize growth plans, it is not the right fit for all SGBs, and immediately after disbursement is not always the right timing. Some SGBs led by founders with deep financial and operational experience could cover their early gaps in talent and capacity, while others needed time post-investment to solidify their growth strategy before they could effectively use embedded support.

Investors proposed that pre-investment support using the same embedded talent model might also be valuable for SGBs—especially those with local founders, who often lack experience raising capital and whose businesses tend to have less established budgeting and reporting processes than investors expect. For instance, one investor highlighted a need for pre-investment support at a Zambian logistics company which was unfamiliar with aspects of the capital raise process, specifically the typical demands of due diligence concerning historical financial records and use of funds. In this case, the investor was interested in the business, which targeted a real need in the market and was led by a competent and savvy local entrepreneur. However, the entrepreneur’s financial management systems lacked sophistication, leading the investor to decline to invest. Given early evidence of the value of embedded talent for small and early-stage businesses, Open Capital intends to integrate this model into other forms of business and investor support, including testing this model pre-investment (as we have through Open Capital’s Arcadia initiative). We still need to build a deeper understanding of the economics of this approach, since pre-investment businesses typically lack the cash flow required to self-fund this support.

7. THEMATIC LEARNINGS FROM TRAIN PARTNERSHIP

7.1 Women-led businesses

One core TRAIN objective was to provide support to and better understand the needs of women-led SGBs, which face an estimated \$ 300 billion credit gap globally.¹⁰ We offer some findings from TRAIN below concerning how to bridge this investment gap.

We integrated support for women-led businesses into the TRAIN partnership in order to examine why such businesses attract less investment. We selected ten women-led businesses from a pool of those not selected by TRAIN investors after the screening process. We then provided up to 10 days of support to help these businesses prepare for investment and coached the female entrepreneurs on how to more effectively approach investors in the future. Our coaching focused on strategic and tactical planning combined with mentoring, as evidence shows that generalized business training is less effective for female entrepreneurs than this combination.¹¹ For this

¹⁰ Women’s Global Development and Prosperity Initiative (WNGDP), “Women Succeeding as Entrepreneurs,” August 8, 2019, <https://www.whitehouse.gov/wgdp/women-succeeding-entrepreneurs/>.

¹¹ Xavier Cirera and Qursum Qasim, “Supporting Growth-Oriented Women Entrepreneurs: A Review of the Evidence and Key Challenges,” Innovation, Technology & Entrepreneurship Policy Note No. 5, World Bank, Washington, DC,

reason, we offered specific deliverables regarding growth strategies, such as product design or market research and expansion planning, complemented by coaching calls or meetings to walk through our approach and build entrepreneurs’ capacity to tackle this work independently going forward. Feedback to Open Capital noted the particular effectiveness of this mentorship and skills-building approach for female entrepreneurs. From the perspective of content alone, the business challenges for which female entrepreneurs most needed our support were very similar to all other TRAIN SGBs: financial modeling, strategy and planning, and market research, in addition to investment-readiness support regarding how to effectively approach investors. Broadly, we conclude from this evidence that differentiation in how we delivered support to women-led businesses was very helpful, even as the business needs and content delivered were similar.

Our support of these ten women-led businesses enabled these entrepreneurs to (1) use our coaching and market research as key inputs into refining their growth strategies, (2) begin implementing our recommendations for growth strategies, and (3) begin new outreach to investors using financial analyses and investor materials that we helped them to develop.

Case Study: Coaching a woman-led water filter manufacturer in market research

<p>Business name: Water filter hardware manufacturer Business stage: Revenue, pre-profit Support focus: Sales and marketing</p>
<p>An Open Capital team was deployed to a Uganda-based water filter company to develop an outreach and implementation plan to diversify their product and customer profiles to reach more urban corporate clients.</p> <p>We aligned with the founder and management team that the business needed support to:</p> <ul style="list-style-type: none"> ● demonstrate their scalability in Uganda to potential investors; ● define the value proposition to the new market segment; ● develop marketing strategy for the new market segment; ● define key responsibilities so the team lead could execute the expansion plan; ● understand market perception of their product in order to improve its design; and ● define ways to position their brand in the new market segment and design strategies to create customer awareness relative to competitors. <p>We identified and interviewed four potential clients from different sectors of the new market segment to help define their needs, gather feedback on product design, and understand the baseline level of brand awareness. Based on insights from these interviews, we then coached the CEO and the Director of Sales and Marketing to define the business’s value proposition and develop an outreach strategy for the new market segment. We also provided additional coaching to help develop the job description and key performance indicators for the new business segment’s team lead.</p>

September 2014, <http://documents.worldbank.org/curated/en/301891468327585460/pdf/92210-REPLACEMENT-Supporting-Growth-Oriented-Women-Entrepreneurs-A-Review-of-the-Evidence-and-Key-Challenge.pdf>.

7.2 Businesses with local founders

One of TRAIN's core objectives was to cast a wider net to reach the pool of local founder-led businesses that are often not reached by incubators, accelerators, or awards and rarely highlighted by the international press. Nevertheless, in Open Capital's experience, these businesses are often highly attractive to support in the long-term, since their teams have deep operating experience in local ecosystems and long-term incentives to drive successful and sustainable growth. We therefore invested additional effort in our screening process, using our local market presence to source pipeline beyond the typical impact investor networks in a successful attempt to identify local founder-led businesses. Forty-seven percent of SGBs that investors chose to receive two-page screening memos were led by local founders.

But these businesses can be and were more challenging to support, for several reasons. For example, some founders had little venture or operational experience, making it difficult for them to establish strong controls and processes before investment. Others had little experience with receiving external capital, which raised issues concerning governance and the effective deployment of capital. Many only had family members on their boards and were skeptical of external involvement. Despite this, many partnered investors believed that supporting local entrepreneurs is the key to sustainable economic growth and job creation.

We began to see increasing investor requests for locally led businesses in the second year of the partnership. Investors expressed concern that the vast majority of companies receiving investment through TRAIN were founded and run by expatriates, despite the large pipeline of locally founded businesses. To date, only 11percent of companies receiving investment through TRAIN (two of 18 SGBs) have at least one African co-founder, despite 47 percent of screened businesses matching this description.

More exploration is needed for how to address the investment gap for local founder-led businesses, since these represent the vast majority of SMEs in any African country. Several TRAIN investors have already expressed willingness to contribute to future partnerships more explicitly focused on this type of business, and OCA is evaluating different approaches to leverage TRAIN's learnings in designing such a partnership. Possibilities include activating local angel networks to support local founders and offer consolidated pipeline for foreign capital, training to familiarize local founders with the investment process and expectations, and implementing loss-sharing structures to incentivize private-sector investment. Other African markets could offer examples for how to overcome this gap in the TRAIN focus countries. For example, in Ethiopia, Nigeria, and Ghana, most impact investment is directed to local founders.

7.3 Value of peer-level investor collaboration

One aspect of the TRAIN partnership that TRAIN investors found most valuable was the high level of peer collaboration that the partnership created and encouraged, enabling more efficient deals and crowding-in co-investors new to African markets. For example, a third of completed TRAIN transactions involved two or more TRAIN investors, and co-investors contributed to nearly all TRAIN-supported deals. TRAIN investors were readily willing to share sector or market

experience and resources, during due diligences, for example, and to leverage their networks to bring in new investors to add to or complete investment rounds. Throughout the partnership, we held regular calls with investors where we both shared ongoing learnings and opened the floor for investors to discuss their pipelines and share opportunities for co-investment or other collaboration.

To encourage collaboration and peer learning among other investors across the ecosystem, we hosted an investor breakfast during the Sankalp Africa Summit in Nairobi in February 2019. Twenty-seven local and international investors, including five TRAIN investors, attended this event. Some of these investors had many years of experience, while others were newer to the ecosystem. We shared an overview of the TRAIN investment process and our key learnings to facilitate deeper discussions around current investment trends and challenges.

One topic capturing attending investors' interest was our streamlined due diligence process and related learnings. They were keen to understand our experience to that date with the process, how we captured all the key information needed to make an investment decision, and how they might be able to replicate our process to reduce their own transaction costs. Investors also recognized the talent gap in investee companies and were encouraged by TRAIN's post-investment support model. Of particular shared interest was how embedded talent approaches could be used to increase investment in local-founder businesses, which, investors acknowledged, have been harder to source and finance.

One immediate outcome from the breakfast was an expression of interest from non-TRAIN investors to receive TRAIN-style support and to collaborate with TRAIN investors. Specific areas of interest include: (1) pipeline generation, especially for women-led and local-founder businesses, (2) support for screening and due diligence, and (3) embedded talent support, both before and after investment. We are currently encouraging collaboration on a deal-by-deal basis and investigating how we might extend TRAIN-like support to other investors in the future, especially if we see increased investor willingness to pay for such services.

8. CONCLUSION AND NEXT STEPS

The ecosystem of early-stage investment in East and Southern Africa has experienced substantial growth, with a number of new investors committing capital and ecosystem initiatives offering new areas of support. According to some reports, start-up funding across the continent more than doubled from 2017 to 2018.¹² Many gaps nevertheless remain, and transaction costs can be prohibitively high, especially for investors targeting local founder-led or rural-based SGBs. In partnership with USAID and through USAID's PACE initiative, Open Capital tested an innovative approach to supporting SGBs, the "Investment Readiness Program" (IRP), which succeeded in

¹² Cyril Collon and Tidjane Dème, "2018 Was a Monumental Year for African Tech Start-ups, with US\$ 1.163 Billion Raised in Equity Funding, a 108 percent YoY Growth," Partech Partners, March 22, 2019, <https://partechpartners.com/news/2018-was-monumental-year-african-tech-start-ups-us1163b-raised-equity/>; and Yomi Kazeem, "Startup Investment in Africa Jumped to Record Levels in 2018 as Later Stage Rounds Rose," *Quartz Africa*, January 11, 2019, <https://qz.com/africa/1520173/african-startups-funding-in-2018-broke-records/>.

closing \$ 2.3 million in SGB transactions in East Africa between 2014 and 2017. Based on the learnings from IRP, Open Capital developed TRAIN, also in partnership with USAID's PACE initiative, to continue to address the SGB financing gap by adopting several new approaches to streamline and improve the SGB investment process.

TRAIN's results far exceeded its original targets and the results realized by IRP. In two years, TRAIN successfully achieved \$ 24.1 million in investment at an average round size of \$ 1 million, four times its \$5.2 million target. TRAIN also demonstrates that the due diligence process for SGBs in Africa can be substantially streamlined. TRAIN reduced transaction costs by shortening the average due diligence period to 53 days against an estimated average of 120 days among SGB-focused investors in Africa, though we realize many external factors drive and influence this data.¹³ Working closely with our investor partners, we developed detailed due diligence tools which we are now sharing publicly along with this report. Our post-investment embedded support model received very positive feedback from the businesses and investors who used it, though support was deployed in six instances for four businesses, compared to our goal of fourteen. This compares to much wider adoption outside of the TRAIN program, likely driven by lack of flexibility within TRAIN to utilize embedded support at different periods of time, including before investment, along with other learnings noted above. TRAIN also represents a step forward towards long-term sustainability, realizing a leverage ratio of private capital raised to grants deployed more than 10 times, compared to IRP's roughly threefold leverage ratio, though this was largely influenced by larger average transaction sizes for TRAIN (~\$1M in TRAIN vs. \$400K for IRP).

While TRAIN successfully raised more than \$ 24 million in capital for African SGBs, it only scratched the surface of the "missing middle" of needed capital for small and early-stage business financing in Africa. Most Africa-focused investors target investment sizes well over \$ 5 million, whereas most African SMEs demand capital well below this amount. While many new and emerging investors seek to focus on this missing middle, high transaction costs remain a barrier and investments in this segment remain exceptionally risky, even using TRAIN's tools and approaches. We anticipate the results of TRAIN and the public-facing tools we have shared can serve as a useful precedent for others pursuing interventions in this space and that more initiatives will emerge globally to address this important area of economic development. We also hope this report can inform other stakeholders as they design new interventions to address areas of consistent need:

- Local-founder businesses require focused support, and further study will be required of the approaches and capacity-building models that are most effective for these businesses, such as embedded talent models and peer learning. While we believe TRAIN offers advances in this area, further testing is needed of models to de-risk investments in local-founder businesses and shape technical assistance interventions to support their specific needs, as discussed in Section 7.2.

¹³ Estimated industry average data based on Open Capital's consultations with 22 SGB-focused investors not involved in the TRAIN partnership who attended the Sankalp investor gathering in February 2019, along with previous Open Capital experience.

- Based on the 10 women-led businesses we advised, TRAIN added to our understanding of effective approaches to support women-led businesses, as discussed in Section 7.1. Broadening understanding across the ecosystem of how to tailor support to women-led SGBs will require larger, more sustained, and carefully targeted efforts.
- New groups of investors, especially local angel investors, must be “crowded-in” so they can gain experience in impact investing while contributing their local knowledge and expertise. We have observed great interest that must be mobilized through future partnerships combining private and philanthropic capital.

Building robust capital markets is an essential part of increasing self-reliance in Africa, and the capital-raising challenges of SGBs, especially those requiring smaller investments, cannot be ignored. We look forward to a continuing global dialogue on how SGB-focused investing can reach scale and to continuing TRAIN’s momentum across future partnerships and initiatives.