LOCAL CAPITAL

The key to the emergence of African women fund managers

CRITERION INSTITUTE

WOMEN IN AFRICAN INVESTMENTS

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About the Partners

African Crowdfunding Association

The African Crowdfunding Association (ACfA) is an industry association for the crowdfunding industry in Africa that operates as a self-regulatory organisation (SRO) that promotes transparency and good governance in the crowdfunding industry. Operational since 2018, ACfA has a pan-African mission to develop and foster crowdfunding as a formalised development finance tool to broaden SME access to finance. ACfA works to harmonise crowdfunding regulations across Africa and aims to provide industry data and research, facilitate policy dialogue and drive adoption of crowdfunding across the ecosystem.

Lelapa- African Fintech Advisory

Lelapa is an impact agency that hosts groundbreaking programmes within the African investment space. Its flagship projects include the development of African regulatory frameworks for investment crowdfunding, and the Women in African Investments Group, a pan-African professional network supporting systems change for gender-equitable capital markets.

Women in African Investments (WAI)

Women in African Investments Group (WAI Group), founded in 2017 by Elizabeth Howard, is a network of over 270 senior female investment professionals and ecosystem builders who are shaping the investment industry in Africa. The WAI Group supports peer learning, networking and influences the industry towards deploying more capital to both women fund managers and women-owned businesses in Africa. The network has a wealth of experience from its members - institutional investors, fund managers, alternative investors, angel networks and market builders - on the barriers and enablers of growth for women-owned businesses in Africa.

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ANDE is a global network of organisations that nurture small and growing businesses – particularly those operating in the Global South. They believe that supporting entrepreneurial ecosystems will help uplift economies through job creation and innovation. ANDE is especially interested in impact investing, such as gender-lens and climate finance. Amongst other activities, they publish and curate a range of resources, including tools, guides, and reports. https://andeglobal.org/

The Criterion Institute is a nonprofit organisation with a mission to develop innovative financial solutions to support gender equity. It has worked with various stakeholders, such as governments, civil society organisations, and investors. The Criterion Institute develops tools, articles, reports, and a plethora of other resources to support their development. https://www.criterioninstitute.org/

2X Global is an organisation that works to close the gap in financing between men and women. Its members include a range of organisations from across the world. Through leveraging their network, 2X Global accounts for billions of US dollars' worth of gender-lens investing. https://www.2xglobal.org/

In partnership with Canada

The Local Fund Mangers

This research would not be possible without the numerous contributions from women local capital providers. We acknowledge the time taken and the willingness to provide candid reflections on the topics at hand. We are indebted to the broader WAI Group members for enriching our thinking on a continual basis and collectively shifting narratives in favour of women.

Key Insights

1 Mobilising capital from individual investors is a widespread practice in the SME investment[1] ecosystem and is catalytic for women's participation in the African investment industry. Local capital pools also enable the type of investment models that are relevant for women-led SMEs in the transforming middle[2].

2 We identify six channels through which local capital mobilisation supports the emergence of women-led funds: 1) career transitions from SME advisory to investments; 2) investment track record building; 3) wealth and asset building for fund manager capital commitments; 4) testing investment model innovations; 5) career transitions between traditional funds and alternative vehicles[3]; 6) reconciling an investment career with personal values and family commitments.

3 The structures through which local capital is pooled differ significantly from traditional fund structures. To distinguish them, we introduce two terms: "Red Circle" for traditional funds that are compatible with institutional funding[4], and "Green House" for investment models that are not.

4 When Green House intermediaries such as angel networks, crowdfunded funds and invoice financing platforms mobilise local capital, they are able to offer patient risk capital[5] to SMEs on terms that are not available at banks or Red Circle funds. These features include local currency, flexible instruments and small investment ticket sizes.

5 Green House intermediaries combine local legal structures, lean operations and embedded technology to maintain low transaction costs on small-sized deals. However, in most cases there is some level of subsidisation of the costs related to SME investment-readiness and investor relations.

6 There are almost no bespoke regulatory frameworks in Africa that support the local capital mobilisation use-cases of Green House intermediaries. As a result, they take steps to avoid licencing regimes that are prohibitively expensive and ineffective. However, the lack of standards and norms impedes long-term sustainability and scale

1 SME investment ecosystem refers to investments in small and medium-sized businesses and for the purposes of this report includes investments in early-stage start-ups.SME investment ecosystem refers to investments in small and medium-sized businesses and for the purposes of this report includes investments in early-stage start-ups.

2 The transforming middle loosely refers to small businesses who create jobs and impact but whose capital needs are chronically underserved due to being "in the middle" of bank finance and private equity.

3 Alternative vehicles in the context of this report refers to investment models that fall outside of traditional models such as private equity.

4 Institutional funding in the African context refers largely to development finance institutions, international financial institutions and pension funds

5 Patient risk capital refers to investments that enable companies to growth over a medium to long period by reinvesting revenues and profits into the business instead into, for example, interest repayments.

Key Recommendations

1 The mobilisation of local capital from individuals should be a strategic area of study and work for initiatives targeting gender equality in access to capital for both fund managers and entrepreneurs in Africa.

2 Local capital strategies should be integrated into programmes whose impact outcomes include: a deeper pipeline of candidates for DFI gender lens commitments, a broader set of SME investment models in the market, greater volumes of risk capital for women-led SMEs and new pathways for female talent to enter and remain in the investment industry.

3 Legal reforms, tax incentives and enabling capital markets regulations are essential for local capital to play its catalytic role fully, as is the case in developed markets. This cannot be left only to government agencies in the current context of austerity. Grant-making organisations must therefore embrace the long-term work required to yield results at national, regional and pan-African policy levels.

4 Local investment - crowdfunding regulations should be carefully crafted to incentivise Green House intermediaries to move away from relationship-based operations toward structured investment products for local and diaspora retail investors.

5 Market support organisations should increase technical assistance to willing African regulators and in parallel leverage grassroots investor networks as a collaborative platform for public-private dialogue. This is necessary to convey the cost-sensitivity of Green House intermediaries to regulators and achieve frameworks that can be broadly adopted without compromising on financial inclusion of SMEs.

6 Where tax incentives for local individual investors are not politically feasible, catalytic financiers should design de-risking mechanisms which are operationally simple for intermediaries to implement.

7 Working groups between African peer regulators should be prioritised with the goal of regulatory harmonisation. If necessary, grant-making organisations should fund this work given the importance of harmonisation for the business model sustainability of Green House intermediaries.

Acronyms and abbreviations

AUM	Assets under management
DFI	Development Finance Institution
FoF	Fund of Funds
FTFM	First-time Fund Manager
FUM	Funds under management
GLI	Gender Lens Investing
GP	General Partner
HNWI	High Net Worth Individuals
LP	Limited Partner
SME	Small or Medium-sized Enterprise

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Glossary

Angel investor is term used to describe an individual participant in syndicates or crowdfunded investments. Angel investors may be "accredited" or equivalent, or they may be retail investors. The categorisation of angel investors depends on the regulations that apply in the relevant jurisdiction.

Assets under management (AUM) is the total market value of the investments managed by a person or entity on behalf of investors.

Blended finance refers to the use of concessional finance in combination with commercial finance in order to fund projects that would not ordinarily qualify for investment on purely commercial criteria.

Co-investment refers to the participation of at least two investors, whether individuals or organisations, into a deal. The co-investors usually have minority stakes, that is, less than 50% of the equity, in the investee.

Collective Saving Schemes- a scheme in which a group of people agree to contribute a fixed amount of money to a common pool at regular intervals. This can consist of family, friends, or community members who pool their resources with the aim of achieving a common financial goal such as large purchases, investments, or expenses like funerals and religious celebrations. The pooled funds are usually distributed to one member of the group per period, determined by a pre-agreed schedule or through a lottery or other selection methods. Members can access the money for various purposes as decided collectively by the group.

Concessionary capital- For the purposes of this report, this term refers to investments that are made with an expectation that financial returns will be below market returns.

Deal Economics- Deal economics relates to the costs of a transaction and an analysis of how the costs compare to the size of the investment, the expected returns and ongoing costs of investment.

Development Finance Institution (DFI)- specialised development banks or subsidiaries set up to support private sector development in developing countries. They are usually majority-owned by national governments and source their capital from national or international development funds or benefit from government guarantees. This ensures their creditworthiness, which enables them to raise large amounts of money on international capital markets and provide financing on competitive terms.

Emerging fund manager- a fund manager that may be defined by either managing assets below a certain threshold, or having launched a certain number of funds (usually less than 3) or leading an investment fund that is majority owned by those traditionally under-represented in industry, such as women and people of colour.

First-time Fund Manager- A first-time fund manager is any person who is raising a fund for the first time. The majority of first-time fund managers have a long track record of leading deals and investments and honing their craft, or have built careers at large, established firms before spinning off to launch their own fund.

Fund of Funds- Fund of funds, an investment vehicle that holds shares in other funds rather than in individual securities or private assets. A portfolio that contains different underlying portfolios of other funds.

Gender Lens Investing- A strategy or approach to investing that takes into consideration gender-based factors across the investment process to advance gender equality.

General Partner- An individual or a group of individuals who are responsible for managing a venture capital fund. The GPs are experienced professionals with expertise in investment management, business development and entrepreneurship

Institutional investor- Organisations with substantial capital with a goal of earning returns over a period of time. This category includes pension funds, endowments, foundations and corporates.

Investment Crowdfunding- A regulated form of investment that enables retail investors to buy shares in or lend money to start-ups and SMEs. Investment crowdfunding also involves the public marketing of deals and the use of an online platform to process transactions. In some African jurisdictions, investment crowdfunding regulations permit investors to purchase interests in agricultural commodities, physical assets and real estate in addition to start-ups and SMEs.

Investment Crowdfunding Intermediary - a designation in some jurisdictions in Africa for the person or entity that obtains a licence from the regulator in order to prepare companies to raise capital using investment crowdfunding. The intermediary typically provides the same services as those of a fund manager - deal sourcing, due diligence, investment-readiness, transaction processing and investor relations.

Investment vehicle- a legal structure in which investment funds and assets are held on behalf of investors.

Limited Partner- entities or individuals who contribute capital to an investment vehicle that is managed by a General Partner. The LPs are passive investors and are not involved in the day-to-day operations of the fund. Their liability is limited to the amount of capital they commit to the fund.

Local capital providers- Local capital providers (LCPs) are part of the growing private capital landscape. LCPs are funds or other investment vehicles that defined by the fact that they are usually incorporated locally, founded and led by local individuals and provide smaller ticket, growth-oriented impact capital into small businesses. They are often the first formal investors in local start-ups and SMEs. and often provide capital in local currency. This term was coined by the Collaborative for Frontier Finance. (CFF Definition)

Local currency investments- Investments made in the currency of the country in which the start-up or SME operates instead of in hard currency (for example, US dollar or Euro).

Mezzanine finance- This term refers to investment instruments that have features of both debt and equity, such as revenue-share agreements, uncollateralized or flexible loans and equity instruments with self-liquidating features.

Risk capital- For the purposes of this report, this term refers to equity and equity-like investment instruments as well as uncollateralized debt or venture debt. Microfinance and traditional bank loans are not considered risk capital.

Small and growing businesses (SGBs)- Small and growing businesses (SGBs) are defined by ANDE as commercially viable businesses with five to 250 employees that have significant potential and ambition for growth. SGBs typically seek risk capital from $20,000 to $2 million.

Small and Medium-sized Enterprise- Small and medium-sized enterprises are defined in local laws according to various revenue and employee number bands, typically from one to 100 employees and from $10,000 to $1million in revenue.

Syndication- An unregulated investment method in which funds are pooled from private individual investors, typically accredited or sophisticated investors, into a vehicle whose sole purpose is to invest in a private company. No marketing or direct solicitation is permitted. Individual investors become aware of opportunities through their private networks.

Track record- In the context of this report, a track record outlines a fund manager or individual investor's past investment performance.

Transforming middle- SGBs are often called the "missing middle" because few investment models are tailored to their needs. They are too big for microfinance, too small for private equity, too risky and uncollateralized for commercial banks, and lack the steep growth trajectory that venture capital seeks. Additionally, because SGBs require small amounts of capital to grow, the cost of conducting the transaction is often disproportionately high relative to the size of the investment. The term "transforming middle" was coined by Nicholas Colloff to recognise their integral role in addressing poverty and unemployment; in promoting inclusive growth and building resilience in the face of macroeconomic shocks.

Underserved market segment- For the purposes of this report this term refers to SMEs with risk capital requirements between $100 000 and $1million. Such SMEs are referred to elsewhere as the "missing middle" or "small and growing businesses".

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INTRODUCTION

Introduction

The African fund management industry today exhibits stubbornly high gender inequality. Only a handful of funds led by women in Sub-Saharan Africa have successfully raised capital from development finance institutions (DFIs)[6] or international financial institutions (IFIs). One often cited reason is that women lack the required investment track record. A track record demonstrates that the fund manager has successfully entered and exited a deal - ideally with commercial returns to show for it - and hence that a DFI can trust the fund manager to manage its capital.

The issue of track record was the point of departure for the present research project. We sought to understand how female fund managers were building the required track record in the challenging conditions that characterise African markets. Insights from the Women in African Investments (WAI) Group, a network of over 270 members, showed that many women were crowding in capital from local individual investors - both retail and high net worth- to do their first deals. However, little was known about this process despite the importance of track record in reducing gender inequalities in capital allocation.

The lack of information is in part a consequence of the culture within the institutional investment industry. Given that DFIs, whose backing remains essential for most funds in Africa, are largely prohibited from backing first-time funds[7], new fund managers might feel pressured to act like 'insiders' at industry gatherings and downplay aspects of their fundraising journey to prospective limited partners (LPs). Unlike entrepreneurial culture, the investment world does not glorify lean beginnings or 'hustle' narratives.

However, in reality, most women lack the personal capital or family endowments to do the kind of deals that will be representative of their future fund portfolio. In addition to funding the track record deals, most women must self-finance the fundraising journey itself which can take several years. WAI members report having taken five to ten years to reach final close[8]. The result is an arduous journey which, combined with the very low odds of fundraising success for first-time funds and in particular those led by women, leads to a high dropout rate. This in turn discourages younger women in the ranks of private equity firms from launching their own funds.

1 DFIs are specialised development banks or subsidiaries set up to support private sector development in developing countries. They are usually majority-owned by national governments and source their capital from national or international development funds or benefit from government guarantees.

7 A first-time fund is managed by a person who is raising a fund for the first time. First-time fund managers usually have extensive deal and investment management experience, but not fund management experience.

8 Final close means that the fund reached its targeted amount of funds and hence could close its fundraising process.

In researching the track record issue further, we uncovered other valuable insights about the role of local capital mobilisation in supporting the emergence of women-led investment vehicles in Africa through creating new pathways for women to enter and, equally importantly, for women to remain in investment decision-making roles. For this report, local capital mobilisation means the pooling of relatively small amounts of capital from individual investors for the purposes of investing in start-ups and small businesses.

There is a plethora of terms that describe this activity in developed markets which reflects the evolution and democratisation of capital markets in the digital age (syndication, private placements, angel investing, investment-crowdfunding...). In African markets the concept is well known across the continent (susu, tontine, stokvel, chama...) with digitisation being more present in savings and remittances use-cases than in capital markets. This is largely due to a lack of modern regulatory frameworks.

Our research builds on the evidence that women's participation in diverse fund structures within and outside of the institutional capital universe is fundamental not only for equality in access to capital, but to the overall resilience of African capital markets. Indeed, in 2021 we published a report entitled "*Fund Design: Building for the underserved African market with a Gender lens*" following a high-level facilitated dialogue between major development finance institutions and emerging fund managers in Africa - almost all of them women.

The dialogue was important for gender lens investment actors in that it illustrated how the design of a fund can limit its ability to make investments in women-led businesses. Indeed, while many women-led SMEs in Africa require large investments to scale, there is dearth of patient capital at smaller-sized tickets. This affects women entrepreneurs in job-creating sectors such as consumer goods, food and agribusinesses, healthcare and education. This is consistent with the data collected by Briter Bridges on publicly announced fundraising rounds between 2019 and 2023 in Kenya, Nigeria and South Africa (see figures 1 and 2). The only sector in which women-led start-ups raised the lion's share of capital was Personal Care.

By and large, mainstream fund models are not designed to make investments into the type of SMEs that are most often founded by women. This presents a challenge for the women-led funds who view these SMEs as ideal targets for gender lens investment (GLI) strategies: they must often choose between a fund model that works for DFIs or one that works for women-led SMEs.

This has implications for other stakeholders, too. For example, if interventions to reduce gender inequalities at the level of the fund manager are focused solely on fund structures that are compatible with DFI funding, two issues may arise: firstly, the ability of these funds to invest in women-led SMEs will be limited; and secondly, capital that has been earmarked for women fund managers may end up flowing to longstanding traditional funds who 'bring on' a female partner, because the pipeline of women-led, DFI-compatible funds remains extremely limited due to the barriers mentioned above.

This research enables us to ask new questions: how might we support a broader set of pathways that enable more African women to accede to investment allocation and decision-making roles? How might we promote the formation of local capital pools given their importance for women investors and women entrepreneurs? How should African capital markets regulatory frameworks be designed to enable local capital providers to implement investment models that work for African entrepreneurs where others have failed?

Figure 1: Share (%) of funding volume across top 10 products

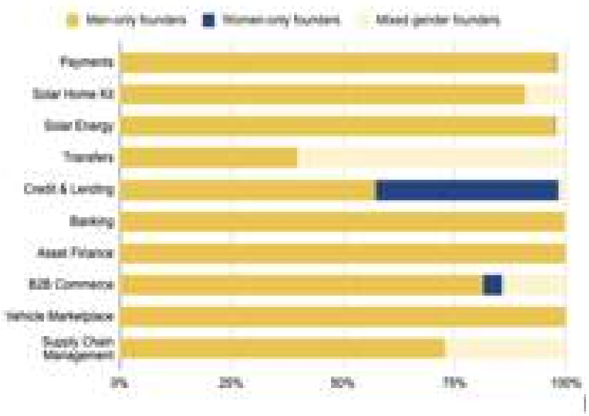
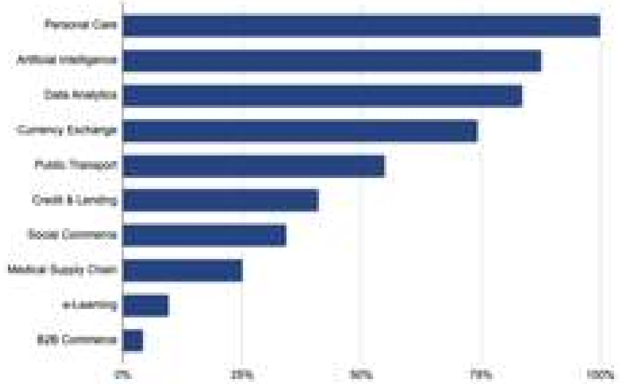


Figure 2: Top funded products by volume to female-only startups



METHODOLOGY

Methodology

Our research methodology reflects two principles: firstly, we believe that the most relevant insights for this field of work come from structured conversations between peers rather than surveys or interviews led by consultants who may lack established relationships and some level of shared personal experience. We sought to understand the individual motivations and trade-offs behind women's career choices in the African investment industry as these shed light on the more subtle ways in which the prevailing system does not work for women. The WAI Group's 2023 Impact Report contains insights about the root causes of systemic gender-based inequalities in the investment industry and the difficulties in voicing these in the context of unequal power dynamics.

Secondly, we believe in applying a systems-change approach to research. This means that we start by understanding the system that we are trying to change and then work backwards from those insights towards designing an intervention that addresses root causes. It also means connecting the dots between our work and the initiatives of other stakeholder groups and sharing what we learn with them.

The WAI Group benefits from working relationships with pan-African industry networks such as 2X Global, the Early-Stage Capital Providers network of the Collaborative for Frontier Finance, the Advancing Women in Investing network, the African Business Angel Network, the African Angel Academy and the African Crowdfunding Association

The methodology and structure of our interviews took into account the collective insights above. The reciprocal value of this type of research to the interviewees themselves is key. These women are chronically under-resourced and over-solicited; as such it is important that our methodology speak directly to their needs and that this knowledge product serves as a tool for them to articulate certain realities to stakeholders.

We combined desktop research with virtual and in-person interviews in Abidjan, Dakar, Accra, Nairobi and Cape Town. We leveraged our peer relationships with women capital allocators in the WAI Group and interviewed eighteen women and seven men from a diverse range of investment models described in Table 1. The figure below gives a snapshot of the identified interviewed structures. More details on each of the structures can be found in Annex 1.

Table 1: Interviewee List

Name	Investment Vehicle	Country	Interview Details
Adam Osman	Inspira	Ghana	Virtual
Aissatou Le Blond	M&A Ventures	Senegal	In-person: Dakar
Ama Diallo	ADIAF	Senegal	In-person: Dakar
Christelle Kupa	Uhusiano Capital	DRC	Virtual
Diago Dieye	Khuwaylid Capital	Senegal	In-person: Dakar
Djibril Doumba	Comoé Capital	Côte D'Ivoire	In-person: Abidjan
Esther Ndeti	Uncap	Kenya	In-person: Nairobi
Evelyne Dioh	WIC Capital	Senegal	In-person: Dakar
Fridah Ntarangwi	ZidiCircle and Zidi Coop	Netherlands	Virtual
Joe Kinvi	HoaQ	Ireland	In-person (Cape Town)
Kenneth Legesi and Nabiirah Nambooze	Ortus Africa Capital	Uganda	Virtual
Koumba Diallo	WIC Abidjan and Comoé Capital	Côte D'Ivoire	In-person: Abidjan
Lelemba Phiri	Empress Fund	Southern Africa	Virtual
Marième Diop	Dakar Angel Network	Pan-African	In-person: Dakar
Martin Jaravaza	Tacama Consulting	South Africa	Virtual
Mia Von Koschitsky-Kimani	Future Africa	Pan-African	In-person: Cape Town
Njeri Muhia	FrontEnd Ventures	Kenya	In-person: Nairobi
Richard Yeboah and Susanne Roelofsen	Orange Sparks	Ghana / Netherlands	In-person: Cape Town
Salome Ndunda and Teddy Onserio	Haba Capital	Kenya	In-person: Nairobi
Sarah Ngamau	AFvest	Kenya	In-person: Nairobi
Susan Roelofson	CEO Africa / CEO Angels / Susika Africa	Ghana	Virtual

INSIGHTS

Insights

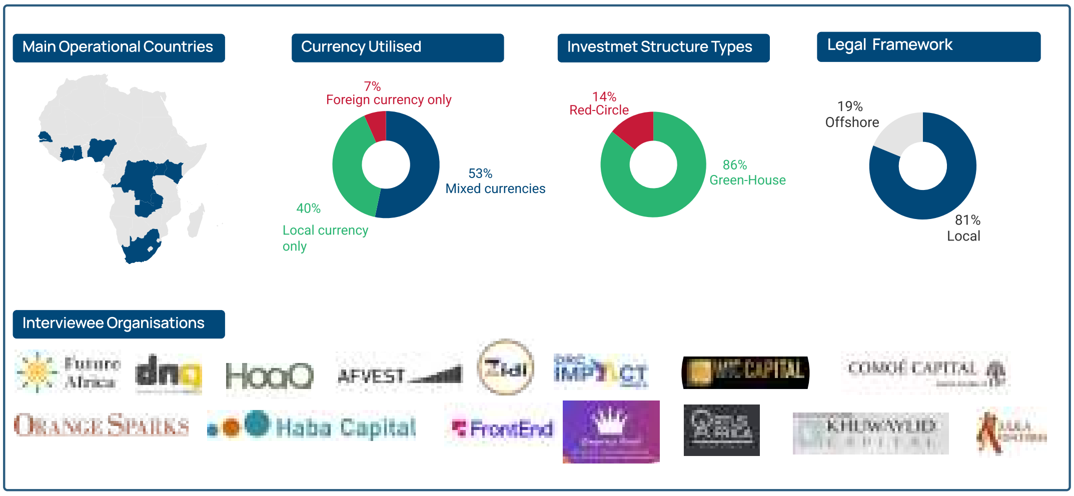
1 Mobilising capital from individual investors is a widespread practice in the SME investment[9] ecosystem and is catalytic for women's participation in the African investment industry. Local capital pools also enable the type of investment models that are relevant for women-led SMEs in the transforming middle[10]

Our first insight is drawn from the breadth and diversity of individuals who responded to our call for interviews. Much early-stage investment activity happens "under the radar" in private circles of varying sizes. While we expected to find many women running alternative funds and vehicles, we were surprised by the number of women working in traditional funds who said that they invested in their personal capacities too. They were interested in the kind of businesses that had attracted them to the industry in the first place, but which their fund could not consider investing in.

Private investor groups typically coalesce around an individual who has managed to establish themself as a trusted, competent intermediary on behalf of passive retail investors. Individuals typically combine a strong personal motivation with financial acumen, deal-flow and social capital to form an investor group; organisations that play the same role would be, for example, an accelerator or incubator that has formed an informal "sidecar" fund to cater to investor appetite for its "incubatees".

The evolution from an initial investor group to a semi-formal or formal investment vehicle relies on a few factors: the original rationale for the group and the "fit" of the investment offering with the group members' profiles. When groups are formed as a purpose-oriented community with some element of social activity, the investment activities are defined more according to group preferences rather than demand-side factors. When groups are formed opportunistically, for example to fund an exciting deal, they will remain active if the deal lead is able to sustain deal-flow and absorb ongoing administrative costs. We explore in sections below how these groups are catalytic for women's participation in the investment industry.

Figure 3: Snapshot of Interviewed Structures



9 SME investment ecosystem refers to investments in small and medium-sized businesses and for the purposes of this report includes investments in early-stage start-ups

10 The transforming middle loosely refers to small businesses who create jobs and impact but whose capital needs are chronically underserved due to being "in the middle" of bank finance and private equity.

2 We identify six channels through which local capital mobilisation supports the emergence of women-led funds.

Insights from the WAI Group consistently reveal the significant difficulties that women face in forging a career as a fund manager in Africa. The WAI Group Impact Report of 2023 lays out a theory of change for grassroots networks of women to build an industry that is more accommodating of women. This research points to local capital mobilisation as an important tool of that work and we identify six channels for its use:

a) Industry entry points: women mobilise local capital when they seek to move from ecosystem and advisory roles into the investment industry.

This channel is important to build the pipeline of women-led funds and vehicles. For example, Ortus Africa started as a management consulting and advisory firm supporting Ugandan entrepreneurs to grow and scale through research and technical assistance. The logical next step for many of these firms is to fundraise for their SME clients. Ortus began lending their own money to SMEs and then opened up to other individual investors using debt and equity.

b) Track record: women mobilise local capital to build their investment track record in order to become eligible for institutional capital.

This channel is perhaps the most visible to stakeholders as it is well known that most funds led by women are first-time funds and consequently it is the lack of track record that is most often cited as a barrier to fundraising. Women have successfully built their track record by crowding in capital from individuals on a deal by deal basis.

For example, Lelemba Phiri, co-founder and General Partner at ATG Samata, a $100M fund, built her track record with the Empress Fund, a network of angel investors. Despite the challenges of working without the support of a deal team and administrative back-office, her track record includes five exits[11]

Lelemba Phiri
Empress Fund

During her time as Managing Director at Zoona, a fintech that operated in five African markets, Lelemba was inspired by both the entrepreneurial spirit of Zoona's women agents who operated more efficiently and with a cautious but higher and more sustainable rate than men. She also witnessed the women's ability to create positive and powerful multiplier effects within their communities. She was equally frustrated by the lack of representation in the local entrepreneur space, when she knew many entrepreneurial women in her own networks. This led her to start a local fund, Empress Fund, which primarily invested in women-led and women-serving businesses and was funded by pooling local individual investor funds. Empress Fund incrementally grew through her personal networks and innovative marketing strategies. The fund made 18 investments, with 6 exits, and provided some of the track record behind her current fund, ATG Samata, which is raising $50M.

"I am now raising a 50 million dollar fund on the back of my angel investing track record, which included 6 exits of individual investments"

Interviewee

11 An exit occurs when an investor sells part or all of their ownership, usually to gain a return on investment.

c) Innovative investment models: women mobilise local capital to pilot and develop innovative investment models for SMEs.

Many interviewees were attracted to the investment world because it offered the chance to contribute to job creation in the countries they cared about. This is often followed by disillusionment when it proves difficult to provide capital to the SMEs that create impact but not at the speed or scale required for venture capital or private equity. Innovations on fund models are routinely dismissed by institutional investors as they add uncertainty to an already challenging market. This leaves local capital as a key source of funds for innovative investment models.

For example, Haba Capital in Kenya saw a gap in the market for SME working capital needs. Its focus is on "contract financing", where it funds entrepreneurs who have contracts from credible institutions to deliver goods or services. Haba offers liquidity on the back of such contracts through invoice discounting and local purchase order financing. Haba Capital informally launched its working capital products in 2022 and since then, has disbursed over $1.9M in working capital debt to 22 clients in 58 transactions across various sectors. They match the demand with a pool of capital from individuals in the diaspora.

Diago Dieye
Khuwaylid Capital

Khuwaylid Capital, a Shari'ah-compliant impact investment fund that makes use of pooled individual investors, family offices, foundations and fund of funds, aims to deploy capital to its pipeline of SMEs and has just reached first close. The Fund will invest using profit-sharing structures, quasi-equity, non-dilutive and self-liquidating instruments, which enable both Shari'ah compliance and fit-for-purpose capital for local SMEs in Senegal.

Lelemba Phiri
Empress Fund

Empress had to get creative with funding instruments due to the high returns demanded by the pool of individual investors and also because the pipeline was largely women-founded and they lacked access to the large assets such as land and real estate required as collateral. This led to the use of a revenue-share model which was well understood, but didn't work in the way it was modelled because the revenue growth was lumpy. The fund also started providing working capital finance and experimented with rotating credit.

Susanne Roelofsen
CEO Angels/Susika Afrika

Sarah is designing a debt-crowdfunding platform to offer an alternative to equity investments. From her participation in the African Angel Academy and initial validation sessions, it was clear that there is demand for smaller ticket sizes and shorter investment cycles. Many women investors do not necessarily want to manage a portfolio of 30+ equity investments. To this end, CEO Angels/Susika Afrika are looking at crowdlending to reduce risk and will pair the investment with pre and post investment technical assistance with a view to attach a guarantee to the pilot loans.

d) Wealth creation: the assets that women build by mobilising and investing local capital can be leveraged for capital commitments to a larger fund.

In addition to the lack of track record, a notable barrier to starting a fund is insufficient capital to meet the required commitment as a General Partner. A standard GP commitment is 2% of the fund size. For example, a GP would need $1.5mn to launch a $75mn fund, in addition to fund set-up fees and the foregone income during the fundraising process. In the case of Aïssatou Le Blond, who crowdfunded her first portfolio deal by deal under M&A Ventures in Senegal, the success of her investment strategy yielded shareholdings that were valuable enough to meet the commitment on her $75mn institutional fund, Opera Green Industry Capital.

e) To effect career transitions between investment models.

As mentioned above, several operators in the Green House had transitioned from roles in Red Circle models including private equity funds, investment banking and venture capital. The reasons for this were most often a dissatisfaction with the type of investments done and a desire to change one's working conditions. In Côte d'Ivoire, one interviewee explained her choice to earn a lower salary working in a locally-funded SME fund: not only did it allow her to achieve the impact in the education sector that she personally sought, but she could leverage the safety of her salary to set up women's angel investor networks in her spare time and multiply her impact.

Another interviewee in Senegal was employed full time at an international financial institution after having built a successful career in corporate venture capital. In her spare time, she had set up a thriving and sophisticated tech-focused angel investor network that leveraged her own skillset, reputation and private networks. She indicated a desire to move into this role full-time in order to do the type of deals that her employer could not. These stories translate a true desire to invest differently: in different entrepreneurs and alongside like-minded individuals. Local capital mobilisation is the mechanism through which new ways of investing can be developed. When women investors have more options, they are more likely to stay in the field.

Njeri Muhia
FrontEnd Ventures

Njeri started out in banking in London and was deeply passionate about investing in local entrepreneurs back home in Kenya. Her journey to General Partner at FrontEnd started out as an individual mission to unlock investments in Kenyan entrepreneurs by matching diaspora funds to local opportunities. This then grew into a locally domiciled and locally-led fund which reached its First Close using only individual investments from locals and the diaspora.

d) To create investment careers that reconcile personal values, work and family.

Closely linked to the channel above, local capital mobilisation is leveraged by mission-driven women investors who set up Green House vehicles to align personal values with their investment strategies and to improve the conditions in which they work notably with respect to work-life balance. In West Africa we heard from women who had held senior investment roles in European and North American funds where they had felt exposed to both gender and racial bias. Their colleagues often did not relate to the continent in the same way that they did, and they held this discomfort in silence. We learnt about the lack of options that these roles provided to balance maternity and childcare responsibilities with senior investment roles. This is consistent with insights from the WAI Group.

One fund manager who was in the process of raising her first private equity fund related that she was easily able to form a team by calling up women who had quit their previous roles in mainstream funds after deciding to have a family. These women were high performers but sought a better work-life balance and an enterprise culture that was more accommodating of women. This was not a barrier for the new fund: by creating single-country or single-region investment strategies, women could avoid the need for frequent and long-haul travel. By utilising, for example, Protected Cell Companies with one geographic region represented per cell and one fund partner active in that region, funds could achieve geographic risk diversification in a manner that suited the female partners.

Njeri Muhia
FrontEnd Ventures

Whilst living abroad, Njeri wanted to start investing into Kenya and into Kenyan entrepreneurs, rather than just making local land or real estate investments. Along her career path, she observed that it was so much easier to set up investor meetings for expats, Harvard or white-male teams, but local teams were not getting as much airtime. And so, her personal mission to democratise access to capital began, which then expanded to her personal diaspora networks. Njeri eventually moved back to Kenya in 2021 to start an early-stage catalytic fund which was designed to be hyper-local: domiciled in Kenya, managed by Kenyans, using pooled local/diaspora funds to invest in Kenyan start-ups. The fund started mobilising local capital through individual investors and was targeting $5M, which subsequently moved up to $10M. Institutional investors have a strong preference for this to be a $20M fund, but this would crowd out the start-ups FrontEnd set out to serve. The fund's First Close comprised only local individual investors who are motivated by nation building and the desire to curb the export of Kenyan value, where a significant amount of the proceeds from local start-up exits have flowed to foreign investors. Chief amongst her strategies, Njeri succeeded in attracting local investors by providing intensive education to individual investors about asset classes.

Diago Dieye

Khuwaylid Capital

After undergoing a personal transformative journey, Diago's motivation to undertake an Islamic Finance venture came from a combination of wanting to align her personal values to the ethical pillars of her fund, identifying a gap in the market and her commitment to impact investing. She has since launched Khuwaylid Capital, the first Islamic impact investment fund in Francophone Africa, which has achieved its first close.

"I sent out 220 pitches for VC money, got 40 calls out of that and ended up with one investment. There was scepticism about our very small $10k ticket sizes, but women in the industry supported me. I received referrals for investment which helped lend credibility."

Interviewee

"I had seen 90% of value being exported out of Kenya through foreign-held instruments, and our local entrepreneurs are not being funded in mainstream capital markets. The motivation of our individual retail investors is to generate local returns that can be reinvested locally. For us, this is nation building."

Interviewee

3 The structures through which local capital is pooled differ significantly from traditional fund structures. To distinguish them, we introduce two terms: "Red Circle" for traditional funds that are compatible with institutional funding[12], and "Green House" for investment models that are not.

The shareholders of AfVest, some of whom have careers in institutional funds, observed that up 90% of start-up value was exported out of Kenya through foreign-held instruments and that local entrepreneurs were not being funded by traditional funds. To remedy this, they came together as personal and professional friends to invest in local SMEs. The shareholders also had experience of investing through chamas[13] but found these to be inefficient due to a "too many cooks in the kitchen" problem.

They therefore decided to create a company that would be a "sophisticated chama", which is governed by an Investment Committee and a Board. Their members are shareholders in a locally-domiciled private limited company with 10% equity, 90% debt split. They make use of shareholder loans which are tax efficient and use share options to pay the Investment Committee. Afvest does have capital calls[14] in the form of rights issues[15] for those who can participate, including newcomers.

In Senegal, both WIC Capital and M&A Ventures made use of locally-incorporated, low-cost legal entities such as simplified stock companies ("société aux actions simplifiées") to pool local capital. A constraint for M&A Ventures was the limit on the number of shareholders per structure, which led to the need to incorporate one vehicle per deal which in turn created unnecessary overheads. In the Netherlands, Zidicircle was faced with the challenge of pooling funds from the diaspora using Dutch legal entities that had the mandate to make investments in African jurisdictions. Despite the advancement of European regulations for investment-crowdfunding, the costs of being compliant in Europe are too high relative to the deal sizes that the structure intended to make in African markets.

As a result, Zidicircle opted for a Dutch cooperative society structure which allows members to commit capital upon joining and to agree to the bylaws which are determined flexibly by the members. The bylaws are used to replicate an investment mandate of sorts. In this way, costly regulations in the cross-border context are avoided. This model has also been used in France by FADEV, an impact investment cooperative that also uses the term "crowdfunding" to describe its model despite not making use of European crowdfunding regulations.

We introduce some practical terminology to distinguish these investment structures from those that are typically used to pool institutional capital: the "Green House" is a collective term for structures that are broadly incompatible with institutional investors such as DFIs; Red Circle groups those that are compatible. This reframing is helpful to articulate the "insider-outsider" paradigm that characterises African capital markets and the resulting difficulty in channelling large amounts of risk capital to SMEs. Indeed, the

12 Institutional funding in the African context refers largely to development finance institutions, international financial institutions and pension funds.

13 A chama is a saving society that groups of Kenyans use to pool savings.

14 A capital call is the act of drawing down funds from shareholders whenever the need arises.

15 A rights issue is an invitation from a company to its existing shareholders to purchase additional shares in the company.

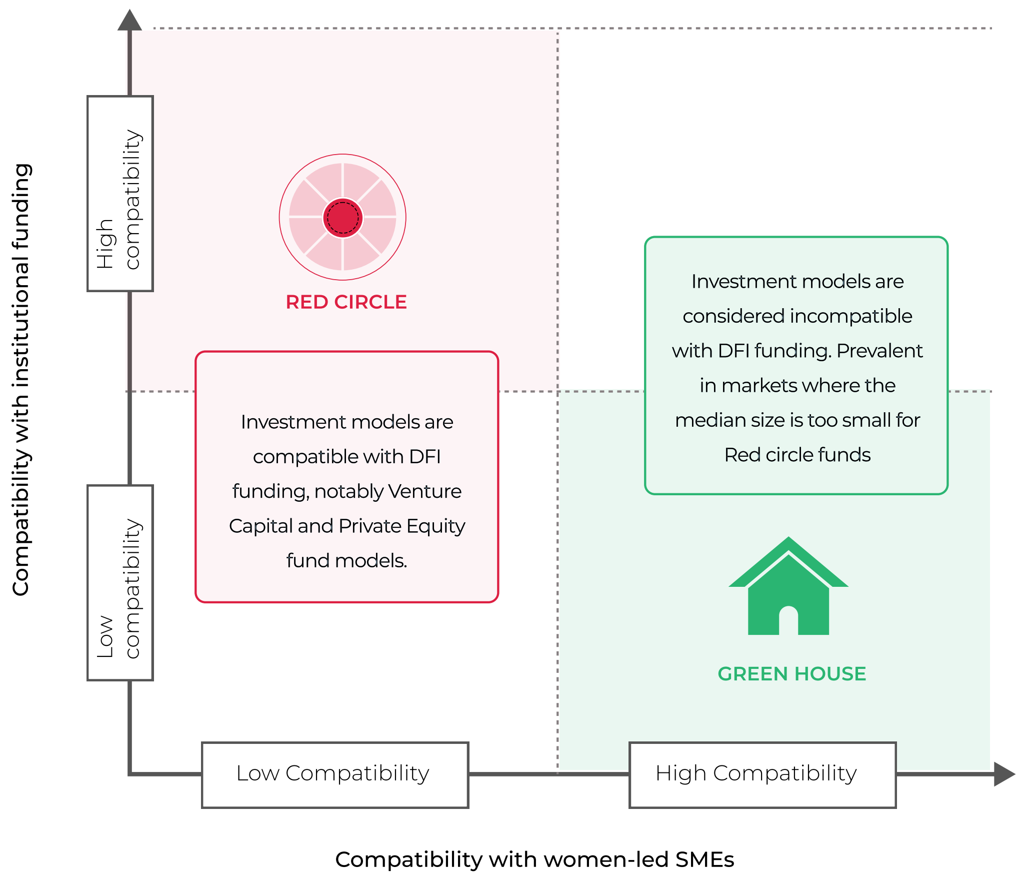
persistent complaint from African entrepreneurs that they can access mentoring and acceleration programmes but not investment capital can be partly explained by this divide. The case studies on Haba Capital and M&A Ventures help to illustrate the challenges in scaling innovative investment models: in order to increase funds under management by going beyond individual investors to institutional investors, one must change the legal structure, jurisdiction and investment instruments; however, in doing so, one shifts cost structures and deal economics in such a way that it becomes non-viable to serve the same SMEs. One alternative to this dilemma is to put in place enabling regulations that allow the Green House intermediaries to scale their operations with the same capital source - individuals - and to tap into catalytic capital from development agencies, foundations and philanthropic investors. We address this issue in the recommendations.

Figure 4 : An overview of the Green House and Red Circle Structures

The Green House includes all investment models that are currently considered incompatible with institutional funding, notably from DFIs, such as open-ended SME investment companies, tech-enabled investment platforms, angel investor syndicates and cooperative societies.

The Red Circle includes all investment models which are compatible with DFI funding, such as venture capital and private equity funds. The investment models in the Green house are typically more relevant to small African businesses than those in the Red circle. Green house models are disproportionately prevalent in markets where the median deal size is too small for Red circle funds.

The Green House vs Red Circle Matrix

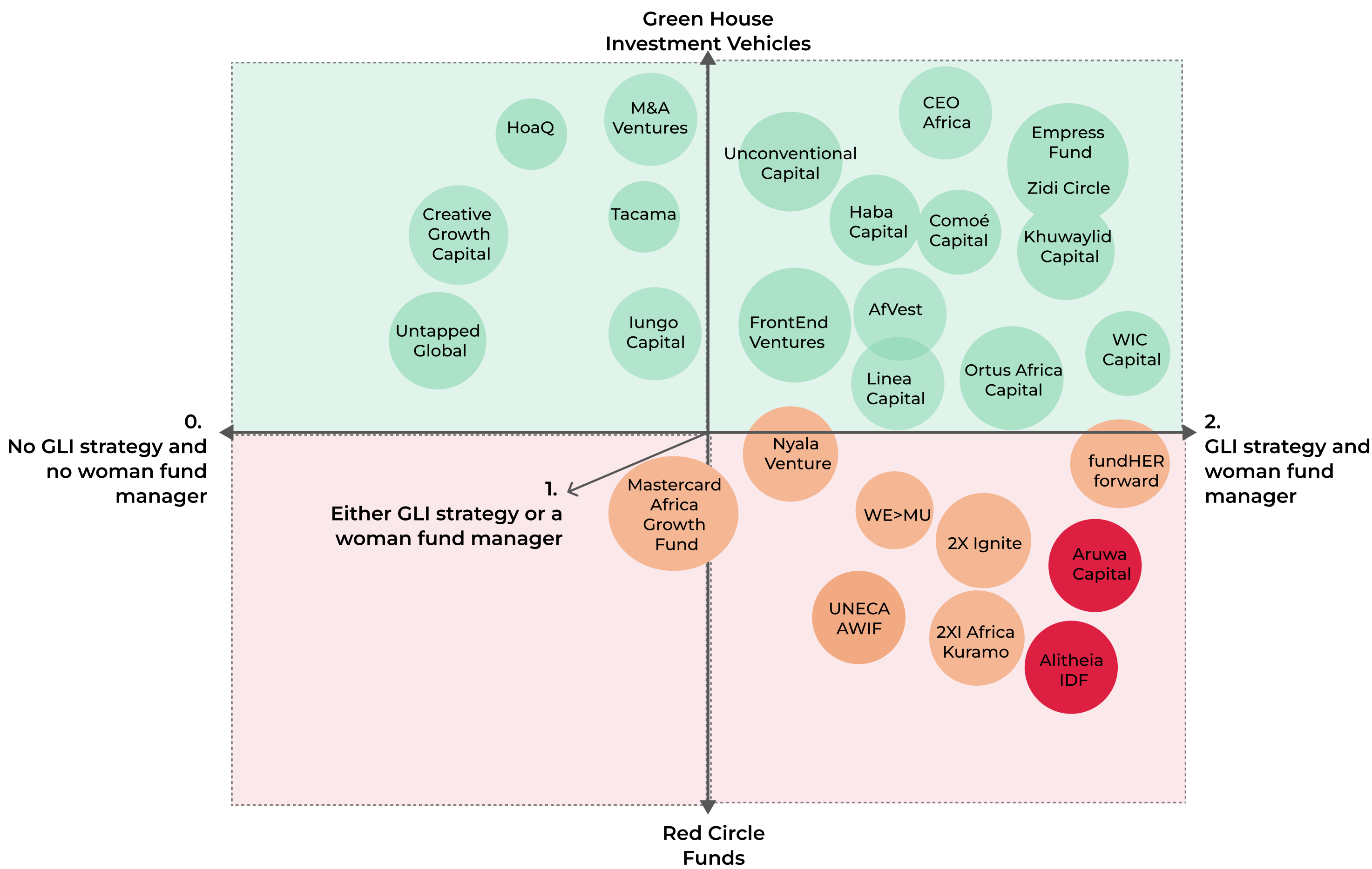


It is instructive to use this reframing to map existing gender lens support programmes. The latter have become instrumental to the acceleration of women fund managers on the continent. The graphic shows the relevance of all Green House investment models to women-led SMEs (top left and right quadrants) regardless of an intentional gender les investment strategy. Indeed, several SME funds including Business Partners International and Iungo Capital reported having half or more of their portfolio companies led by women simply by virtue of the flexible instruments used to fund them. Investment vehicles in the top right quadrant represent those which have both a gender lens investment strategy and which are led by women. There is early success of initiatives such as Nyala Venture by FSDAi in providing capital to innovative intermediaries in this quadrant. The Mastercard Africa Growth Fund works on the frontier of Green House and Red Circle models. More funding must be carefully designed to flow to these corners as part of a comprehensive strategy to improve access to capital for women.

Figure 5 : Mapping Gender Lens Support Programmes

Green House vehicles   Red Circle funds   Gender lens support programmes

We map select investment funds and vehicles on the Green House / Red Circle spectrum and overlay select GLI interventions in the market. This illustrates how most support programmes in the field of gender lens investing are focused on Red Circle funds. For example, an emerging female fund manager accelerator in the Red Circle quadrant would be support women to raise capital into a Red Circle fund model. The mapping illustrates the opportunity for GLI interventions for all Green House models, and particularly those in the upper-right quadrant where there is both a woman fund manager and a gender lens investment strategy present.



When Green House intermediaries such as angel networks, crowdfunded funds and invoice financing platforms mobilise local capital, they are able to offer patient risk capital[15] to SMEs on terms that are not available at banks or Red Circle funds. These features include local currency, flexible instruments and small investment ticket sizes.

A significant benefit of local capital-based investment models is that SMEs are financed in local currency. This is not always the case, with many pan-African angel networks requiring a common currency for cross-border transactions which is often the US dollar. However, the local currency aspect has become crucial since the devaluations of the Naira, Cedi and Kenyan Shilling over the past year in the context of ballooning national debt. Debt or debt-like products in local currency have naturally experienced high demand. Local capital providers used a variety of mezzanine debt products including working capital loans, invoice financing, non-collateralized loans, profit-share agreements and revenue-share agreements. The speed of deployment of finance was a key value-add to their SME clients.

The prevalence of debt and debt-like structures was also a reflection of investor preferences. Local individual investors preferred short to medium-term lock-up periods (1-3 years). They did not necessarily require outsized returns and diaspora investors did not always require returns in hard currency, nor to repatriate capital gains to their host country. For Ortus Capital in Uganda, a very small proportion of the fund is in foreign currency as most of the portfolio companies[17] understand the cost of capital.

“I was jaded by the classic private equity fund model. Ten years is so limiting - you leave value on the table when you are forced to exit at the wrong time."

Interviewee

"Before this year, the Kenyan shilling had been stable for a while. Now the capital costs for those who had committed individually have increased: Ksh25k has become Ksh32k. It is starting to stabilise a little bit, but when portfolio companies report 80% year-on-year growth it looks like nothing in USD."

"We need to unlock capital in an environment of significant currency devaluation. There is appetite, but pension funds are complex as they have 3 year rotations of trustees so their incentives are not aligned to long-term investment strategies. Timing is key."

Interviewee

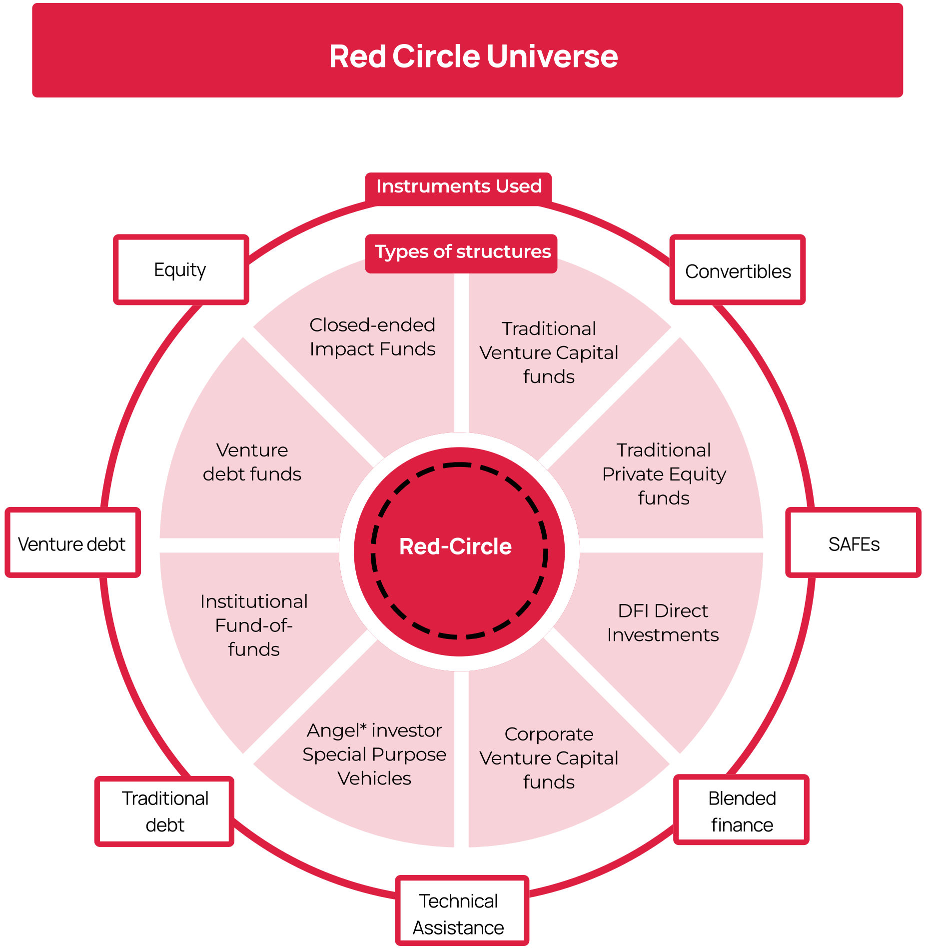
"We have been burned by making pure equity investments, so we have shifted to convertible loans with specific metrics. We ensure that it is not over dilutive, for example, a founder may not want to give more than 20% of equity at a future stage. We can structure additional capital investments as debt instruments at higher interest rates."

Interviewee

16 Patient risk capital refers to investments that enable companies to growth over a medium to long period by reinvesting revenues and profits into the business instead of into, for example, interest repayments.

17 A portfolio company is a company or entity in which a fund or investment vehicle invests.

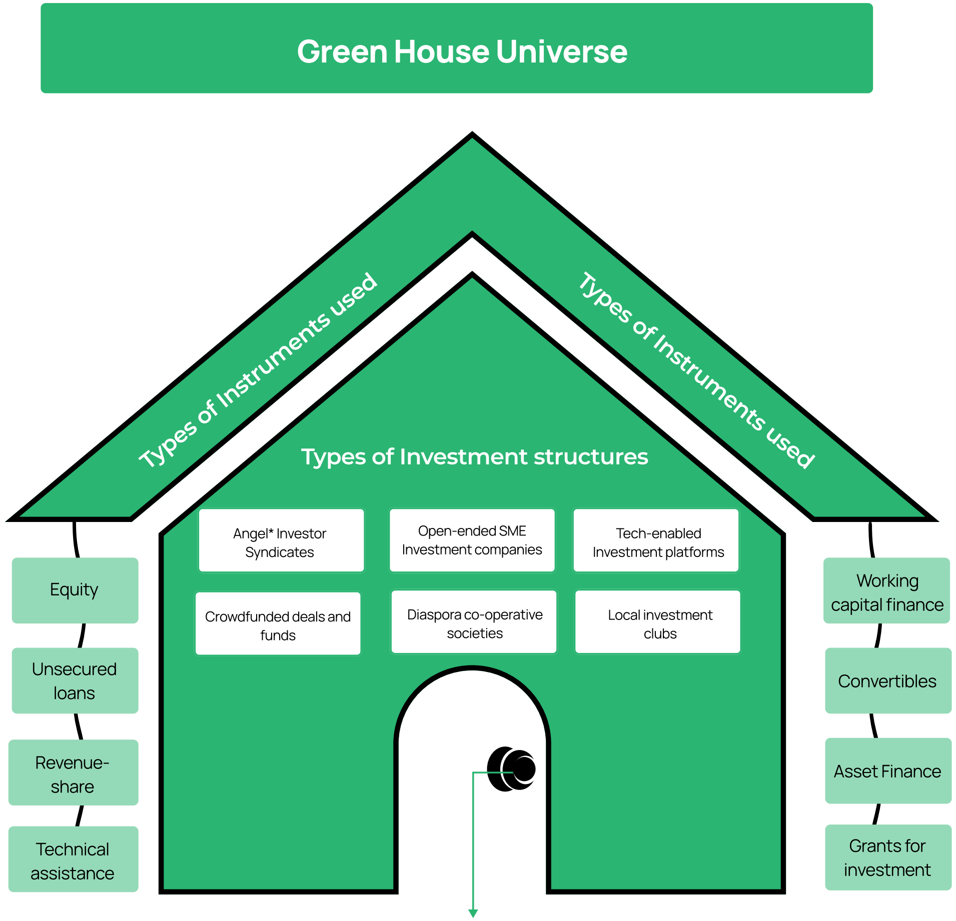
Figure 6 : Red Circle Universe



Red Circle investment models are broadly defined as those which are compatible with Development Finance Institutions (DFIs). This means that they meet conditions on size, investment strategy, historical performance, fund horizon and returns expectations of DFIs. Red circle funds typically provide capital in hard currency.

*The term "Angel" is most often associated with venture capital, which is a Red circle investment model. Angel investors typically invest in foreign currency and in start-ups with business models deemed compatible with venture capital. However, angel investor syndicates are typically not structures through which DFIs would invest.

Figure 7 : Green House Universe



Green House investment models **unlock** local-currency risk capital for small businesses that are underserved by institutional investors and banks. These diverse investment models ensure resilient capital markets by providing fit-for-purpose capital to businesses along the company life-cycle. They build the pipeline for larger funds while enabling innovation, job creation and impact. They are critical to a gender inclusive economy.

*The term "Angel" is most often associated with venture capital, which is a Red circle investment model. Angel investors typically invest in foreign currency and in start-ups with business models deemed compatible with venture capital. Although there is overlap, it is helpful to distinguish angel investors from local and diaspora individual investors who may not self-describe as angel investors and who are a key source of local-currency capital for Green house investment models.

5 Green House intermediaries combine local legal structures, lean operations and embedded technology to maintain low transaction costs on small-sized deals. However, in most cases there is some level of subsidisation of the costs related to SME investment-readiness and investor relations.

While the benefits for SMEs of local capital mobilisation for Green House investment models are clear, whether or not these models can achieve long-term sustainability and scale is an open question. Their focus on SMEs requires them to tackle the challenge of investment-readiness, which is a term describing the process of preparing an entrepreneur and their business for external investors. This is the most substantial cost for any investment intermediary in the transforming middle and attempts to outsource it to consultants, accelerators or incubators often fail. For this reason, Green House models often rely on the outsized commitment and subsidisation of the vehicle founder or deal lead. The latter most often makes this work by combining full-time employment with investment activities, or by earning consulting revenues.

Another cost is the administrative burden related to managing a large number of small individual investors. Individuals may require intensive "hand-holding": site visits, extensive due diligence, basic education on the investment instrument, and support submitting Know-Your-Customer documentation. Software can relieve some of this burden, but in order for the full transaction to be processed digitally there needs to be a significant investment in technology. In developed markets there is a panoply of digital products and platforms that serve pooled investment processes, from private placements to investment-crowdfunding. However, there is at present no incentive for our interviewees to invest in such technologies. At the same time, the use of foreign service providers is fraught: these platforms have been built to meet foreign regulations and typically provide limited payment methods for African markets due to compliance risks. The monthly subscriptions are also disproportionate to the deal size in African markets.

6 There are almost no bespoke regulatory frameworks in Africa that support the local capital mobilisation use-cases of Green House intermediaries. As a result, they take steps to avoid licensing regimes that are prohibitively expensive and ineffective. However, the lack of standards and norms impedes long-term sustainability and scale.

Several interviewees reported that the activity of collecting investments from ordinary individuals - known as "retail investors" in regulatory jargon - meant that their vehicles could be qualified by local regulators as "deposit-taking institutions" or their investment activities as "public offerings". However, these intermediaries do not have the vocation to act like banks or stock exchanges. In developed markets, regulators have updated laws and regulations for the digital age as platforms such as Facebook groups and WhatsApp groups are used to attract investors to start-up investment opportunities, blurring the lines between private and public offerings.

However, most regulators in African markets have not undertaken this work and this creates an incentive for intermediaries to remain "under the radar" which in turn prevents them from tapping donor funds for various aspects of their operations. Another consequence is that Green House intermediaries have imported terminology and processes from foreign markets, particularly in the angel investment space.

In our interviews we heard North American jargon such as "accredited investors", "SAFE" (Simple Agreement for Future Equity) and "High Net Worth Individual" used to describe local investors and instruments. However, these terms are not defined in local regulatory texts. There are, at best, local equivalents; but even so these definitions were often not known by interviewees. The lack of adapted regulations to this ecosystem impedes the formation and professionalisation of capital pools. The operations of Green House intermediaries remain relationship-intensive and hence unable to scale to larger numbers of retail investors.

RECOMMENDATIONS

Key Recommendations

1 The mobilisation of local capital from individuals should be a strategic area of study and work for inltiatives targeting gender equality in access to capital for both fund managers and entrepreneurs in Africa.

2 Local capital strategies should be integrated into programmes whose impact outcomes include: a deeper pipeline of candidates for DFI gender lens commitments, a broader set of SME investment models in the market, greater volumes of risk capital for women-led SMEs and new pathways for female talent to enter and remain in the investment industry.

This research has demonstrated the opportunity for gender equality that lies in enabling local capital mobilisation and Green House models. Initiatives targeting this space are recent and in order to accelerate progress, more organisations should equip themselves with tools to support and back women in the Green House. If the status quo persists whereby women in the Green House are unable to benefit from DFI commitments under the banner of gender equality, then the expansion of such initiatives risks unintentionally exacerbating the "insider-outsider" problem in the African investment industry. This will in turn worsen perceptions of "pink-washing" and the exclusion of local capital providers from development finance.

3 Legal reforms, tax incentives and enabling capital markets regulations are essential for local capital to play its catalytic role fully, as is the case in developed markets. This cannot be left only to government agencies in the current context of austerity.

4 Grant-making organisations must therefore embrace the long-term work required to yield results at national, regional and pan-African policy levels.

The policy component of support to local capital intermediaries is the most critical of all. With few exceptions, African jurisdictions remain shunned by institutional investors due to the lack of basic legal and regulatory frameworks. Most Green House intermediaries have no choice but to incorporate their entities in this environment and convince investors that the opportunities outweigh the real and perceived risks of locking up capital in jurisdictions with weak institutions.

The African Crowdfunding Association's work in the regulatory arena has shown that a lack of interest from regulators is most often not the key barrier to progress. Rather, it is a lack of internal technical expertise and resources with which to engage experts and train their teams on new topics in financial markets. This situation has only been exacerbated in recent times as regulators experience budget cuts along with other government agencies. Grant-funding organisations should collaborate with experienced funders of capital markets regulatory work, as well as with local regulatory technical experts and grassroots networks to grow the pool of grant funding available for technical assistance to regulatory authorities.

The use of networks can accelerate and deepen the quality of private sector stakeholder engagement, leading to more realistic regulations and higher adoption rates

5 Local investment-crowdfunding regulations should be carefully crafted to incentivise Green House intermediaries to move away from relationship-based operations toward structured investment products for local and diaspora retail investors.

6 Market support organisations should increase technical assistance to willing African regulators and in parallel leverage grassroots investor networks as a collaborative platform for public-private dialogue. This is necessary to convey the cost-sensitivity of Green House intermediaries to regulators and achieve frameworks that can be broadly adopted without compromising on financial inclusion of SMEs.

7 Working groups between African peer regulators should be prioritised with the goal of regulatory harmonisation. If necessary, grant-making organisations should fund this work given the importance of harmonisation for the business model sustainability of Green House intermediaries.

A recurrent mistake in capital markets development is to "copy-paste" regulatory frameworks from developed markets. The insights in this report point to unique use-cases of investment-crowdfunding regulations that must be taken into account when drafting locally relevant and fit-for-purpose regulations. For example, local capital providers should be permitted to apply for a new licence that allows them to market their investment offerings to large numbers of retail investors under certain conditions. Instead of focusing on disintermediation as was the case in most developed markets, regulations in African markets should enable Green House intermediaries to do small SME investments at scale while reducing costs.

Instead of permitting simple debt and equity structures only, as is the case in developed markets, local regulations should permit all investment instruments that are practical for SME growth. Similarly, the requirements for Know-Your-Customer checks should be locally relevant and realistic. The combination of such measures will increase the viability of Green House models and incentivise local fund managers to invest in the technology value chains that will, in turn, enable greater participation of retail and diaspora investors.

Lastly, the harmonisation of investment-crowdfunding regulations across African markets is critical to the sustainability of Green House intermediaries. Scalability for many Green House intermediaries means replicability of the model in other countries rather than an increase in funds under management in a single market. However, if replicating the model requires acquiring one licence per country and varying rules, the cost of compliance would render the model non viable. In practice, regulatory harmonisation across African markets can follow several regimes according to resources and national preferences. However, platforms for joint working groups and regular convenings are lacking. Grant-making organisations should seize this opportunity and encourage innovation in regulatory approaches and knowledge transfer.

8 Where tax incentives for local individual investors are not politically feasible, catalytic financiers should design de-risking mechanisms which are operationally simple for intermediaries to implement.

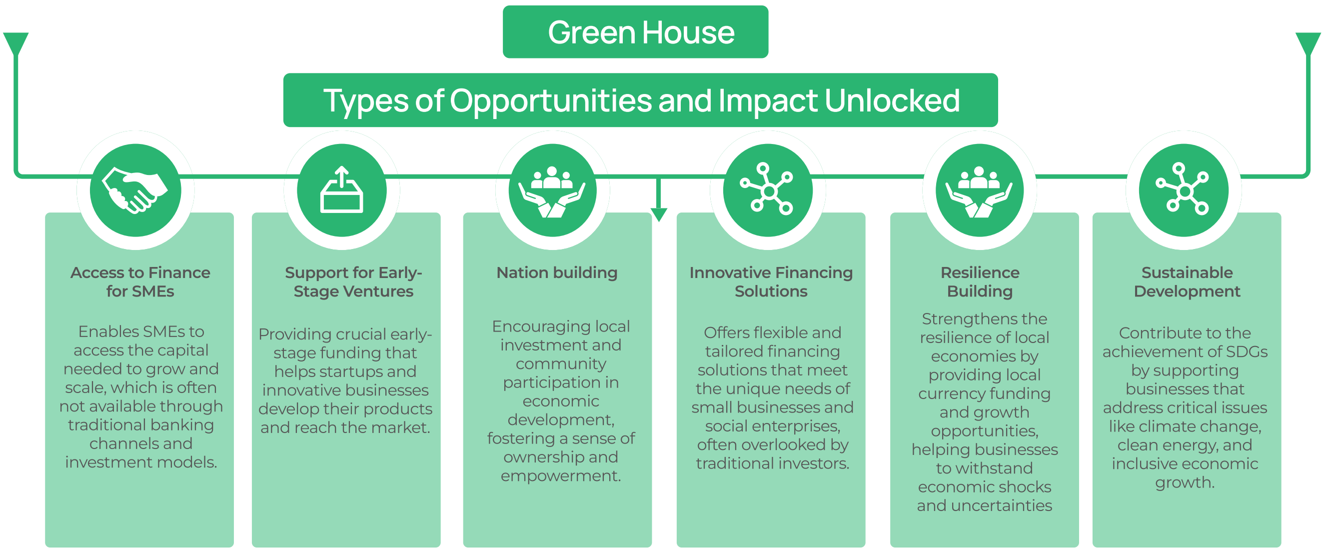
The vast majority of capital invested by individuals into SMEs in developed markets flows through tax incentive structures that are intentionally crafted to support government priorities for growth and competitiveness. In African markets, individual investors must overcome a multitude of disincentives to commit capital to early-stage investments. This research revealed that local investors have important non-financial reasons for investing: they seek to change the status quo where institutional investors and governments have left a gap. Given the importance of Green House models to SME access to capital, development agencies and their peers should consider acting as catalytic investors alongside local individuals.

CONCLUSION

Conclusion

The women interviewed for this research tell a story with many commonalities across the diverse investment models that are used in conjunction with local capital mobilisation. Contrary to received ideas about the fragmentation of local capital markets and consequent difficulties in using these vehicles as intermediaries to deploy institutional capital, we show that through concerted efforts to establish fit-for-purpose regulatory regimes these intermediaries can play a transformative role in SME access to finance. It is clear that the benefits to women in particular - both investors and entrepreneurs - merit the investment in enabling these intermediaries. By making Green House investment models more viable, we strengthen the resilience of local capital markets and create an important link between African investors and the real economy. The dominance of the youth demographic in Africa makes this a compelling opportunity given the use of modern technology in facilitating access to investment opportunities. With appropriate safeguards and a supportive ecosystem, local capital mobilisation can spur a new class of SME investment intermediaries led and designed by Africans for Africans.

Figure 8 : Impact Unlocked by Green House structures



CASE STUDIES

HABA CAPITAL

‘Haba na Haba Hujaza Kibaba’

COUNTRIES OF INTEREST:

FOUNDATION YEAR: 2015

INVESTOR TYPE: Private Debt Company

CURRENCY: Local Currency

HEADQUARTERS: Nairobi, Kenya

VEHICLE STRUCTURE: Individual pooled capital transitioning to hybrid working capital fund

STRUCTURE: Green-House / Hybrid

FUND SIZE GOAL $10M. With $1M from individual investors (100 at 10k each

TICKET SIZE: $3K-$200K; median $8k

Haba Capital is a private debt company that offers working capital products to Small and Growing Businesses (SGBs) in East Africa. Its focus is on “contract financing”, where it funds entrepreneurs who have contracts from credible institutions to deliver goods or services. Haba offers liquidity on the back of such contracts through **Invoice Discounting and Local Purchase Order Financing**.

Haba Capital informally launched its working capital products in 2022 and since then, has disbursed over $1.9M in working capital debt to 22 clients (58 deals) in various sectors. Haba Capital is primarily funded by young professionals in the Diaspora and in Africa. Teddy Onserio, the founder, has been harnessing diaspora capital and using his personal networks to invest in Kenya - where he grew up and understands its key challenges - as part of a collective desire for nation-building. Currently, most of these individuals invest on a deal by deal basis. Haba is gradually transitioning to a pooled structure where investors commit capital for a period and get exposure to a pool of investments rather than singular deals.

Haba’s next evolution is to raise $10M in investment capital. Of this, the goal is for $1M to come from retail investors, roughly 100 members committing $10,000 each.

Teddy Onserio
Founder

Investment fee structure

Fully subsidised by the founder, there was formal cost structure. The founder facilitated deal execution once individuals had selected their preferred deal.

Individual investor challenges

Original challenges related to educating the diaspora investors and personally assuming the risk associated with their equity investments. This led to the focus on working capital which was a better fit for the individuals in his network.

Investment types

Equity | Debt | Working Capital

Sector

Agnostic

Key Risks to Investment Club’s Sustainability

Hiring

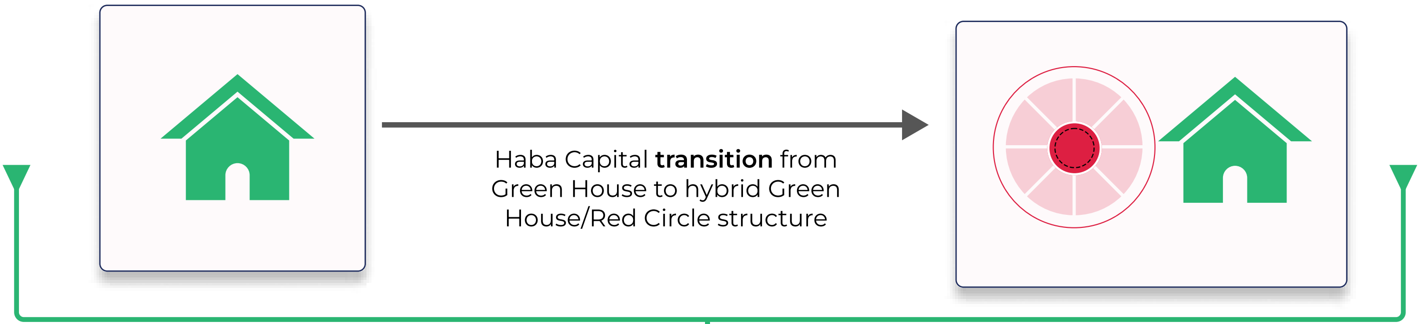
Lack of capital to make key mid or senior-level hires necessary to raise significant institutional funds.

Lack of crowdfunding regulations

A lack of enabling regulation for pooled investments prevents scale and sustainability.

Technology

Need to access to various technology platforms that can improve their efficiency which is costly.



Individual Pooled Capital Structure : Green House

- Haba provides SMEs short-term working capital from investors in the diaspora.
- 112 investors with an average ticket of $20k
- Minimum of $3k per deal, median of $8k, maximum investment $50k
- Investing in local currency suits diaspora investors because keep proceeds in the country for other investments or property.
- 49% of investors are women
- Debt is more easily understood and manageable for SMEs.
- Limited equity investments due to high administrative burden to manage individuals and limited capacity to monitor investments.
- Motivation for this structure was to get the deals done & support SMEs during periods when they have gaps in financing and other institutions cannot meet it
- Investments are done on a deal by deal basis

Pioneer Working Capital Fund structure: Hybrid Green House and Red Circle

- Goal is to **raise funds from institutional investors** in addition to the existing pooled capital from individuals from the diaspora.
- **Addresses the limitation on investment size** when using only individual pooled capital
- Currency matching: capital is provided in the currency of revenues.
- 40% equity, 60% debt structure with first-loss capital
- Seeking **technical assistance** for Haba Capital and its portfolio companies alongside the capital invested
- Seeking SME-oriented institutional investors
- Individual investors commit capital for a period, and get exposure to a **pool of investments rather than individual deals**.

Factors influencing the development of the investment vehicle

Limited capital for set-up fees

Lack of capital to meet the minimum capital required for registration as a fund.

Investor trust and referral-based growth

Most new investors start with the minimum $3,000 and want to see returns before investing more. Referred by friends and family, the growth is limited by the capital within this network.

Preference for short-term investments

Investors prefer 6-month deals over 12-month ones and are willing to reinvest after 6 months. However, they hesitate to commit to longer terms without incentives, like a DFI guarantee, making long-term investment vehicles challenging.

M&A Ventures

COUNTRIES OF INTEREST:

FOUNDATION YEAR: 2017

INVESTOR TYPE: Individuals

CURRENCY: Local

HEADQUARTERS: Dakar, Senegal

VEHICLE STRUCTURE: S.A.S. companies

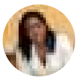
STRUCTURE: Green-House

NO. OF DEALS 9

TICKET SIZE: $150,000 - $350,000

M&A Ventures is an investment arm of M&A Capital, an investment company founded by Aïssatou Le Blond in Dakar. M&A Ventures invests early in start-ups and small and medium-sized businesses across various sectors, including financial services, education/training, services, and small industries, with a mission to transform SMEs into African multinationals.

TEAM



Aissatou Le Blond
Founder & CEO

Investment types

Equity

Debt

Working Capital

Sector

Agnostic

Structure

S.A.S. (simplified stock company) created for every new project, with M&A Capital 65% via M&A Ventures ; co-investors 35%

.

No management fees; M&A Capital covers all management costs.

Average of 20 local investors per deal with an average investment size of $84000 each.

Investment strategy

"Build-up and buy-out" strategy in diversified sectors (education, fintech, agribusiness, IT)

.

Key Risks to Investment Club's Sustainability

Lack of crowdfunding regulations

Without regulations, the deals could not be marketed publicly to individuals.

Recruitment challenges

Retention of trained staff who may leave for better-paying opportunities.

Legal structure limitations

Each deal required setting up a new S.A.S. structure which is administratively expensive.

Exit Strategy

Share buyback with 20% IRR after 5 years guaranteed by M&A Capital. M&A Capital stays invested thereafter with no per-determined exit horizon.

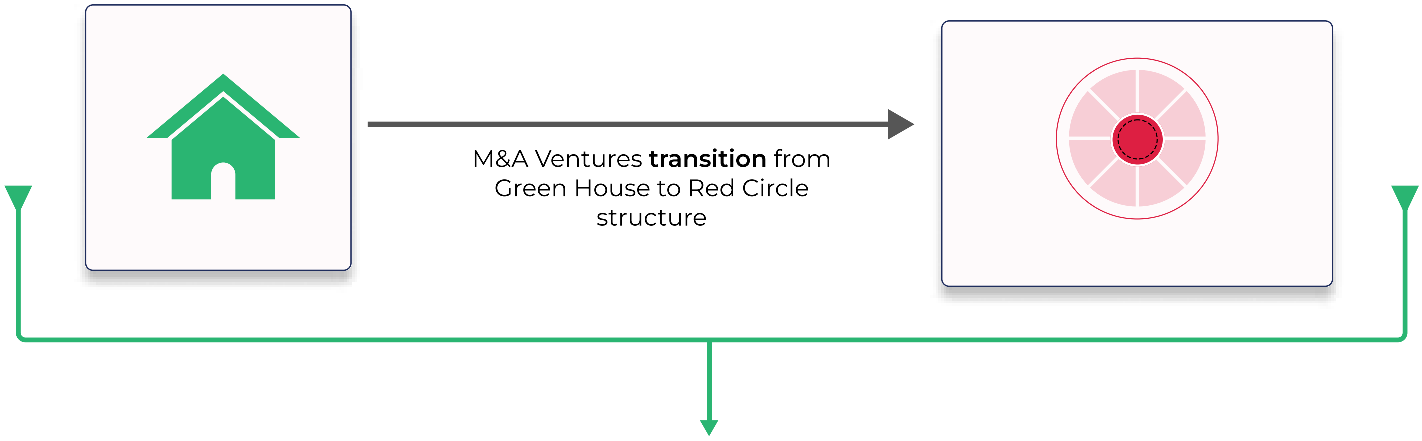
Individual investor challenges

Strategic Anonymity

Given the lack of fit-for-purpose regulations, it was not possible for the investment vehicle to build its own profile in the market. There was an ever-present risk of being shut down by regulators despite their well-intentioned attempts to engage them.

Managing multiple relationships

Managing a large number of individual investors is administratively burdensome and costly. Investors have varying risk-return profiles and each needed to be accommodated.



Aïssatou Le Blond created M&A Ventures with a long-term goal of building African multinational companies. She commenced operations with a model akin to venture building. She focused on small businesses that were relevant to locals, for example, a bakery chain and a private school specialising in STEM education. This strategy allowed her to raise early-stage investment capital for each business from the locals who would be ultimately using the product. She crowdfunded each deal by simply offering local individual investors the opportunity to enter the capital of a dedicated S.A.S. structure (simplified stock company) that was locally incorporated. Aïssatou offered locals a three-year lock-up period after which she would propose to buy back their shares at an agreed upon multiple.

Within 7 years, she had made 9 investments this way and exited two of them at 8x and 9x multiples. On the back of that track record, she launched Opera Green Industry Capital, a €75mn private equity fund. This traditional fund targets institutional LPs including DFIs, invests in hard currency and is based in Mauritius. The size of the fund was dictated by the follow-on capital needs of her portfolio companies. The shift to a Red Circle model reflected the need to cater to institutional LPs without which it would be difficult or impossible to reach the targeted fund size.