Water and Energy for Food (WE4F) Grand Challenge for Development

Southern and Central Africa Landscape Mapping

September 2020
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1. Objectives and methodology
The WE4F Southern and Central Africa landscape mapping aims to build a pipeline of innovators and identify potential partner service providers and investors in the region.

**Enterprises**
The program seeks to build a pipeline of innovators that impact the nexus (food, water, energy) primarily through the private sector to increase the sustainability of agricultural food value chains.

**Investors**
The program aims to assess appropriate capital types, terms, and financial products needed for innovators to achieve scale or raise capital and to identify financial institutions and investors most relevant to the nexus firms.

**Service providers**
The program intends to assess technical and investment advisory services needed by innovators to scale or raise capital and to identify potential providers of those technical and advisory services.

**Target countries**

- Angola
- Chad
- Central African Republic
- Democratic Republic of Congo
- Eswatini
- Lesotho
- Botswana
- Mozambique
- Namibia
- South Africa
- Zambia
- Zimbabwe
- South Sudan
- Sierra Leone
- Tanzania
- Uganda

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The Team focused on gathering information in service of WE4F’s objectives

To achieve this objective, the Team analyzed the following questions:

1. Which scalable enterprises are operating in the WE4F nexus in Southern and Central Africa?
2. What types of capital are available to support the growth of WE4F enterprises in the target regions?
3. Which financial / investment partners would be able to support the enterprises’ growth objectives?
4. What kinds of technical and business advisory services are needed by the enterprises and what is the availability of service providers linked to these needs?
5. How has the COVID-19 pandemic affected the current operations and growth prospects of enterprises in the nexus?
Various partners shared lists, connected the Team to potential companies, and recommended additional resources.

The Team utilized six partners to cover the Southern Africa and Central African region.

- DRC
- Lesotho
- Mozambique
- South Africa
- Zambia
- Zimbabwe

Target countries
- Angola
- Botswana
- Eswatini
- Lesotho
- Mozambique
- Namibia
- South Africa
- Zambia
- Zimbabwe

All target countries
The Team reached out to 96 enterprises, 39 investors, and 39 service providers, and profiled 74 entities to conduct this analysis.

- The Team reviewed multiple lists that were shared by various partners.
- Other partners made direct introductions to WE4F related enterprises, service providers and investors ("Firms") in their networks.
- The Team contracted external experts through third-party platforms to identify innovators in countries where we had limited reach.
- The Team performed a high level screen of Firms based on available data to determine their program fit, considering, inter alia, nexus fit, geography, growth stage, and sub-sector.

- The Team reached out to 174 Firms, received responses from 135, and scheduled 83 interviews.
  - Upon further review of the Firms based on additional information they provided, approx. 50 were deemed not a fit for the program.
  - Interviews were conducted via Zoom, Microsoft Teams, WhatsApp, and phone calls.

- The Team conducted 83 approx. 1-hour long Firm interviews.
  - After further assessing their nexus fit, three of the Firms were removed and six enterprises, which were not deemed a core fit for the WE4F program, were placed on a secondary list.
  - Reasons for placement on the secondary list included:
    - Enterprises were pre-revenue or too early stage
    - The sector fit was not very clear
    - BoP/Gender/Youth empowerment was not strong enough
  - The interview insights from 74 Firms were profiled and analysed for the purposes of this summary report.
The Team modified its outreach approach to overcome COVID-19 related challenges in sourcing and connecting with nexus firms, investors, and service providers.

The Team utilized comprehensive lists compiled from internal and external sources to drive outreach

- **Internal resources**
  - Investor lists, leveraged past work, third-party providers (S&P Capital IQ, OnFrontiers, Baobab)

- **External partners**
  - AGRA, AMI, ANDE, Asoko Insights, AVCA, IFC, and SATIH

Comprehensive outreach list

- **Outreach**
  - Investors
  - Enterprises
  - BAs / TAs

Companies in the nexus

The outreach approach was different than that of West/East Africa and MENA to address additional challenges and insights arising from the COVID-19 pandemic

- In order to fully capture the effect of the COVID-19 pandemic on innovators in the target region, the Team incorporated questions around how each of these organizations are affected
  - How does COVID-19 impact your current operations? (e.g. logistics bottlenecks, staff reductions, health & safety regulations)
  - How does COVID-19 impact your financial situation? (revenue, margins, liquidity)

- Due to COVID-19 related contact and travel restrictions, all enterprise and firm interviews were conducted virtually
  - The use of emails and virtual communication tools for outreach created additional challenges compared to in-person meetings, including lower response rates, excessive delays, and technical difficulties (e.g. network connectivity)

- As many of the firms were heavily involved in managing the impacts of the COVID-19 pandemic on their businesses, the Team experienced a much lower and slower response rate on the outreach efforts
  - In order to overcome the challenges of delayed responses, the Team prioritized outreach very early on in the project to provide ample lead time (up to three weeks) for responses

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2. Executive summary
The business environment in Southern & Central Africa remains challenging despite improvements, and the economic fallout from COVID-19 could heighten existing vulnerabilities.

While the region showed modest GDP growth and deal activity...

- Central Africa experienced modest GDP growth ahead of Southern Africa, which was held back by South Africa’s stagnant economy.
- While the region has taken some positive reform steps, only three countries rank in the top 100 in ease of doing business...
- ...with Angola, Chad, DRC, and Central African Republic remaining below the 90th percentile.
- Led by South Africa, Southern & Central Africa have the highest number of private equity and venture capital deals on the continent...
- ...but average deal sizes are lower than in East and West Africa.

...structural challenges continue to pose barriers to regional food security...

- Water scarcity, energy crises and poor infrastructure inhibit development of the agricultural sector.
- Reliance on food imports and volatility in exchange rates redirect resources from domestic food production and leave countries vulnerable to global supply and demand shocks.
- Shallow credit markets and inadequate minority investor protections increase the perceived risk of investment in the region.
- The SME financing gap in Southern & Central Africa is the highest compared to other African regions.
- Accessibility to SME financing varies by country, with the lowest rates in Angola, DRC and Central African Republic.

...with the COVID-19 pandemic dampening the region’s economic outlook...

- The pandemic is plunging countries in Southern and Central Africa into negative GDP growth...
- ...with South Africa’s economy expect to fall by 8% in 2020, putting further pressure on the Sovereign balance sheet.
- The slowdown in regional and global trade will prolong a demand shortfall for food products, trade in export crops, and agricultural and food production in the region.
- Limited market access due to movement restrictions challenge the livelihoods of domestic communities and businesses...
- ...with SMEs being particularly affected due to their weaker balance sheets and lower access to finance.
Enterprises operating in the nexus have ambitions to significantly scale over the next five years through local & regional expansion and new product offerings

Enterprises have defined expansion projects and strong ambitions for scale...

- Enterprises expect to grow revenue at an average CAGR of 45% over the next 5 years, predominantly driven by aggressive customer growth in both current and new markets
- Firms in the water-food nexus tend to have higher revenues, larger staff contingents and operate primarily in South Africa, Eswatini, and Namibia. These firms show the highest growth expectations with 53% growth expected year-on-year
- Although firms operating in the energy-food nexus tend to be more nascent, this sector reported the largest opportunity for job creation, and expects revenue to grow by 33% year-on-year

…but require sufficient outside funding and support to succeed

- Enterprises are seeking aggregate investment capital of approx. USD 87.3m, with a median capital need around USD 600k
- 58% of the enterprises had received some form of outside financing before (including grants), with funds predominantly used for equipment purchases
- Various companies expressed an ongoing need for working capital to help them reach full capacity
- Some firms also seek funding to support end user financing to address low consumer affordability across the nexus
- 44% of profiled firms had prior experience raising outside investment capital (excluding grants), and 89% had financials prepared by an accountant, a key requirement for future capital raises

Encouragingly, profiled enterprises have diverse leadership

- Over half of profiled enterprises are majority black owned, with 51% of firms having a majority Black senior management team
- 85% of firms have women in leadership roles and 61% have youth in leadership roles...
- ...however most firms lacked specific programs or interventions to advance gender or youth impact
- Firms generally also lack visibility into gender/youth impact in their respective value chains
The WE4F nexus resonates with investors – with minimum scale, a strong financial track record, and attractive growth prospects being key determinants for investment viability

There is a variety of investors interested in WE4F nexus firms...

- Profiled investors cover the **full spectrum of financial instruments and investment size**, with the majority preferring to invest in **growth enterprises in the ag and energy sectors**
- Profiled **debt and mezzanine investors** included several micro and SME-focused lenders that target loans below USD 2m...
- **Commercial banks** recognize the critical importance of agriculture and food security in the region, but are extremely risk-averse, resulting in **interest rates and collateral requirements** that can be prohibitive for SMEs

...however, investment readiness remains a major barrier...

- The majority of the equity and mezzanine investors state **financial size and minimum commercial viability** as limiting factors for investment...
- ...with 73% of investors citing **inadequate revenues, informality and a lack of documentary preparedness** as barriers to investment
- Investors frequently identified **poor financial literacy amongst management teams** as challenges post-investment...
- ...indicating an opportunity for WE4F to support **pre- and post-transaction advisory**

...with BAS/TA being key to value creation and ensuring ESG compliance

- **Development-oriented investors** are likely to make early-stage investments coupled with **business advisory and technical assistance provision**
- **All investors** actively monitor **ESG metrics and drive gender inclusion efforts** as part of their impact measurement
- While some investors provide skills development and training programs for young employees, **most currently do not yet mandate youth empowerment** as a targeted effort in their operations
Service providers operating in the nexus assist enterprises with market access, capital raisings, and expansion – as well as technical and ESG related advisory services

<table>
<thead>
<tr>
<th>Profiled service providers provide an array of services...</th>
<th>...and tailor their offerings to meet specific needs of nexus firms...</th>
<th>...while highlighting remaining gaps...</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Profiles service providers <strong>primarily focus on agriculture and agribusiness</strong>, providing a range of transaction advisory, strategy, and business development advisory services</td>
<td>• The majority of the profiled service providers position themselves as <strong>strategy and management consultants</strong> that offer a full suite of services to align with individual firm needs</td>
<td>• Service providers stated that their clients in the nexus have had <strong>challenges with distribution and access to market</strong>, as well as with <strong>capital raisings due to not having the required skillset in-house</strong></td>
</tr>
<tr>
<td>• Many of the service providers focus primarily on <strong>early-stage businesses</strong>, and as a result have <strong>fees subsidized by donors</strong>, as smaller businesses typically cannot afford commercial rates</td>
<td>• Service providers mimic the spread of services requested, which increases in variety particularly in larger economies</td>
<td>• <strong>Strategic partnerships</strong> with banks, DFIs, equity investors and donors can be critical to the success and expansion of the service providers</td>
</tr>
<tr>
<td>• Of the service providers operating commercially, most operate regionally and offer a wide range of services</td>
<td>• Recognizing the global shift towards sustainability, firms are offering ESG services relating to <strong>gender, youth, and BoP integration</strong></td>
<td>• There is an <strong>opportunity to build partnerships with service providers across the region and beyond to share knowledge</strong> and assist with <strong>capacity building</strong> in specialized services for WE4F nexus firms</td>
</tr>
<tr>
<td></td>
<td>• ESG focused services also cover impact reporting, as well as specific technical advisory on <strong>climate resilience and sustainable natural resource management</strong></td>
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</table>
COVID-19 has created significant challenges among companies, investors, and service providers, creating clear opportunities for WE4F to provide coordinated support.

**Enterprises are deploying various measures to preserve their businesses**

- In response to the pandemic, enterprises have reorganized employees, instituted remote work and increased their marketing efforts in order to **sustain revenue, control costs, and manage cash**
- Border closures have led to companies switching suppliers, having a knock-on effect on their **timelines, quality control, and pricing**...
- ...with food-related businesses classified as **essential services** generally faring better during the lockdown
- Around 70% of enterprises reported to have **sufficient cash reserves**, whereas approx. 12% reported to be at risk of closing permanently
- **Access to additional capital** in the current environment has been reported as more challenging by approx. 40% of enterprises

**Investors reported direct impact on portfolio companies and a slowdown in deal pipeline**

- 27% of investors anticipate **severe impacts to portfolio companies** in the short term with potential **insolvency, write-downs or write offs** of their investments
- The majority of investors are **proceeding with investments, albeit more cautiously**, but do not foresee any long-term effects on their ability to invest
- While loan rates and maturities are lower, **covenants and collateral agreements are stricter** as investors have become more conservative
- Investors have a more pessimistic market outlook than service providers, with most investors not expecting the **market to recover before late 2021**

**Service providers are innovating to help nexus firms manage crisis related challenges**

- COVID-19 has presented unprecedented challenges to enterprises; however, service providers feel equipped to support clients in keeping their businesses operational
- Service providers can play a role in undertaking **risk assessment and building resilient action plans** in response to COVID-19...
- ...and in assisting enterprises with **compliance with health & safety regulations** and operational efficiency measures...
- ...while supporting **market access and regional expansion, digitizing businesses, and enhancing ESG to drive long term sustainability**
Consistent with other WE4F African regions, enterprises in Southern and Central Africa face significant barriers to raising capital and have strong demand for growth equity

**Enterprises seek investment capital, but lack expertise to identify the appropriate financing**

- Enterprises across regions generally find the capital raising process costly and time-intensive, and they have difficulty identifying value-adding growth partners. They have limited resource capacity and/or skillsets to focus on capital raising activities
  - Enterprises in West Africa are often self-funded and have found it difficult to raise capital due to prohibitive costs of local bank financing, evolving business structures, and smaller ticket sizes
  - In the MENA region, some businesses rely on sources of financing coming from family and friends, which often exist in a highly informal fashion
- Enterprises across regions mainly requested a combination of debt and equity to procure equipment, increase working capital, and finance sales activities
- Across regions, available debt financing is very costly and therefore only accessible to few enterprises

**Equity investors keen on investing in the nexus face cost and resource barriers to pursue smaller tickets**

- Most investors are focusing on growth stage and mature enterprises with more predictable cash flows, lower commercial risks, and clear exit routes
- Across regions, enterprises generally note that they have little to no access to small ticket financing
  - Although local banks and MFIs offer small debt tickets, accessing these products is challenging due to structure, tenor, and need for collateral
  - Commercial banks are risk-averse and offer limited lending to SMES
- Investors across regions note that company informality and size contribute to the lack of investment ready firms limiting their ability to complete investments
  - Based on post investment assessments, investees often lack the management depth necessary to implement plans or adequately manage finances

**Many types of services providers are available, but most do not offer the full suite of services required**

- In all regions, enterprises have difficulty identifying the types of support needed and/or the appropriate providers for them
- Enterprises in larger economies demand higher amounts of investment capital and more varied support services
- Transaction advisory, general business development, and business strategy are key services requested that are critical to business growth
- Many service providers profiled across the regions are specialists who rarely have the inhouse capacity to service all enterprise needs
- Only the most developed markets have service providers that know the local landscape and offer all the services a company could need
- Across all regions there is an opportunity for cross border linkages between service providers to extend their reach beyond their countries of operation
Highlighted differences between Southern and Central Africa and other WE4F African regions could serve as guiding factors for WE4F in Southern Africa (1/2)

<table>
<thead>
<tr>
<th>Macroeconomic factors</th>
<th>MENA</th>
<th>West Africa</th>
<th>East Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>More intraregional differences in MENA (Maghreb, Levant, GCC) than in Southern and Central Africa</td>
<td></td>
<td>Foreign exchange volatility is not a concern within the West Africa Economic and Monetary Union, which covers most francophone countries in the region, which are supported by the stability of the pegged Franc CFA when making USD, EUR, or GBP denominated investments</td>
<td>Stronger macroeconomic indicators with average GDP growth rates at approx. 6.4% regionally (2019) compared to approx. 0.7% growth in Southern and Central Africa (2019)</td>
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</table>

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>MENA</th>
<th>West Africa</th>
<th>East Africa</th>
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<tbody>
<tr>
<td>The abundance of cheap energy in the MENA region means there are fewer firms devoted to energy infrastructure, while approx. 44% of profiled companies in Southern and Central Africa focus on energy infrastructure</td>
<td></td>
<td>Profiled enterprises were more distributed across West African economies, unlike in East and Southern and Central Africa, where innovations were heavily concentrated within the largest economies, Kenya and South Africa</td>
<td>Deeper network of enterprises in the nexus. East Africa has been a hotbed of innovation in off-grid energy which has led to more innovation in the WE4F nexus</td>
</tr>
<tr>
<td>While innovations in water efficiency are a big theme in both regions there are proportionally more companies involved in the water nexus in MENA than in Southern and Central Africa</td>
<td></td>
<td>The sector with the highest financing need in West Africa was irrigation vs. energy infrastructure in Southern and Central Africa</td>
<td>Enterprises are collectively seeking approx. USD200m in financing over the next 2-3 years, significantly more than in Southern and Central Africa</td>
</tr>
<tr>
<td>Enterprises in MENA are on average older and smaller. The median revenue was USD300k vs USD600k in Southern and Central Africa</td>
<td></td>
<td>There was a general preference for grant financing in West Africa because it is non-recourse, unlike in Southern and Central Africa where the need for grants is, at least in part, driven by COVID-19</td>
<td>Fewer gender diverse enterprise with approx. 33% of profiled firms reporting at least one female in senior leadership vs. 85% in Southern and Central Africa</td>
</tr>
<tr>
<td>Fewer companies requesting grant capital in MENA, however a situational difference is to be observed given COVID-19</td>
<td></td>
<td>Enterprises have more realistic expectations for growth in Southern and Central Africa and are generally more sophisticated than in West Africa</td>
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</table>
Highlighted differences between Southern and Central Africa and other WE4F African regions could serve as guiding factors for WE4F in Southern Africa (2/2)

<table>
<thead>
<tr>
<th>Investors</th>
<th>MENA</th>
<th>West Africa</th>
<th>East Africa</th>
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<tbody>
<tr>
<td>• Informal channels such as financing from family and friends are more commonly utilized in MENA than in Southern and Central Africa</td>
<td>• The SME financing gap in West Africa is lower than in Southern and Central Africa at approx. 49%</td>
<td>• Deeper landscape for donor related support (such as grants and technical support) already available to companies in East Africa compared to Southern and Central Africa</td>
<td></td>
</tr>
<tr>
<td>• The SME financing gap (see definition on page 58) in MENA is significantly larger, approx. 88% vs. 59% in Southern and Central Africa. SMEs in both regions however struggle to bridge the persistent gap</td>
<td>• Sizes of the investments required in Southern and Central Africa are much more concentrated at the top and the bottom than in West Africa</td>
<td>• Impact investors are the most active investor type offering a hybrid of debt, equity, and grants. Southern and Central Africa demonstrate a more diversified landscape of investors</td>
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<tr>
<td>• With 178 private equity (“PE”) deals over the last five years with a total value of USD3.5bn, the MENA region had less overall transaction activity than Southern/Central Africa, however experienced larger average transaction sizes¹</td>
<td>• 30% of the Southern and Central African enterprises are seeking less than USD100k vs 10% of West African enterprises</td>
<td>• The SME financing gap in East Africa is the lowest of the regions at 45%</td>
<td></td>
</tr>
<tr>
<td>• 30% of the Southern and Central African enterprises are seeking capital greater than USD2m vs 16% of West African enterprises</td>
<td>• 30% of the Southern and Central African enterprises are seeking capital greater than USD2m vs 16% of West African enterprises</td>
<td>• With 167 PE deals in the region over the last five years with a total value of USD6.6 bn, West Africa had less transaction activity than Southern/Central Africa, however experienced significantly larger average transaction sizes¹</td>
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<table>
<thead>
<tr>
<th>Service providers</th>
<th>MENA</th>
<th>West Africa</th>
<th>East Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Service providers are less sector focused in MENA and very few provide transaction advisory services</td>
<td>• Managers of informal firms in West Africa are skeptical of the value for money of certain advisory services, and hence are hesitant to pay</td>
<td>• Intermediaries in East Africa are less sophisticated, offer a more limited range of services, and are concentrated in specific countries</td>
<td></td>
</tr>
<tr>
<td>• Service providers are less sector focused in MENA and very few provide transaction advisory services</td>
<td></td>
<td>• Unlike in East Africa, service providers in Southern and Central Africa are generally larger and able to service multiple markets in the region</td>
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</table>

Note 1: This compares to 303 PE deals in Southern/Central Africa over the last five years with a total value of USD3.3bn - refer to page 57 for details.
Opportunities for WE4F (1/2): Immediate action is recommended to sustain nexus firms through the COVID-19 pandemic

<table>
<thead>
<tr>
<th>COVID-19 considerations</th>
<th>Key issues</th>
<th>Recommendations</th>
</tr>
</thead>
</table>
| **Enterprises**         | ▪ Lower sales are exacerbated by customers’ inability to pay, putting severe pressure on cash flow  
                          ▪ Businesses lack resources and capacity to implement and comply with heightened health and safety standards  
                          ▪ Disrupted logistics and closed borders result in slower export sales, and severe delays for imported input materials | ▪ Source, vet, and coordinate TA and investment advisory service providers that can immediately support the businesses at risk of closing in the next 3-12 months  
                          ▪ Facilitate engagement with investors to adjust loan and investment terms to incorporate the expected COVID-19 effects  
                          ▪ Form a technical assistance unit to promote market access and assist with heightened health and regulatory standards as a result of COVID-19  
                          ▪ Educate companies on alternative financing solutions, including special COVID-19 relief funds  
                          ▪ Support companies with applying for alternative sources of bridge or COVID-19 relief funding | ▪ Select enterprises through a first round of call for proposals focused on selecting companies that require support to counter the impact of COVID  
                          ▪ Provide rapid relief grants, repayable grants or concessional debt to viable enterprises facing COVID-19 specific challenges  
                          ▪ Use milestone grants and matching debt to lower overall financing costs  
                          ▪ Provide guarantees to reduce heightened collateral requirements for borrowers |
| **Investors**           | ▪ Increased cautiousness in deploying capital  
                          ▪ Travel restrictions limit ability to undertake due diligence  
                          ▪ Sector viability/trends change rapidly, creating more uncertainty around the business and market outlook | ▪ Support virtual platforms to facilitate pre-investment due diligence to get deals across the line  
                          ▪ Create a transaction unit that can support on-the-ground due diligence requests  
                          ▪ Engage throughout the investment process, and utilize case studies and sector insights to showcase success stories and key market insights within the WE4F nexus to attract new investors and reassure existing ones, e.g. via program website or newsletters | ▪ Consider providing bridge financing solutions for businesses with prospective investors with delayed investment timelines to enable the highest impact (i.e. Open Road Alliance) |

Source: WE4F analysis and Firm interviews
Opportunities for WE4F (2/2): Carefully designed interventions and coordination with enterprises, investors, and service providers can enable catalytic growth in the mid/long term

<table>
<thead>
<tr>
<th>Key issues</th>
<th>Recommendations</th>
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<tbody>
<tr>
<td><strong>Enterprises</strong></td>
<td></td>
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<tr>
<td>Enterprises have challenges attracting motivated investors at workable terms for their business</td>
<td>Work with enterprises to help them understand the targeted services they’d benefit from (e.g. R&amp;D, strategy analysis, etc) as a first focus before pairing them with services providers</td>
</tr>
<tr>
<td>Enterprises seek to diversify product offering and expand both locally and regionally in the medium to long term, but often lack resources to effectively assess expansion options and establish defined strategies, increasing risks of failure</td>
<td>Subsidize TA to provide solutions to specific product / capacity constraints to enable scaling</td>
</tr>
<tr>
<td>Enterprises do not have sufficient capacity to fund R&amp;D</td>
<td>Pre-fund capital raising support, which may include assessing the pros &amp; cons of expanding into new markets or product lines</td>
</tr>
<tr>
<td>Enterprises lack full visibility on the representation of women and youth across their broader value chain</td>
<td>Promote youth and women empowerment, through metric driven approaches, including a fit check process in calls for proposals</td>
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<tr>
<td><strong>Investors</strong></td>
<td></td>
</tr>
<tr>
<td>Investors have a high perceived level of risk pre-investment (e.g. due to size and informality of enterprises) as well as post-investment (e.g. poor financial literacy of management)</td>
<td>Facilitate operational and technical support pre- &amp; post-investment to build a stronger group of portfolio companies</td>
</tr>
<tr>
<td><strong>Service providers</strong></td>
<td></td>
</tr>
<tr>
<td>Most enterprises cannot afford to cover the cost of TA services</td>
<td>Incentivize local TA firms to form partnerships with more experienced firms in the region and beyond to create an ecosystem of knowledge sharing, e.g. by becoming pre-approved advisors under the WE4F program (similar to INVEST)</td>
</tr>
<tr>
<td>Enterprises do not typically build specialized skillsets for expansion or capital raising internally</td>
<td>Support enterprises and investors with subsidized TA or advisory services that have clearly defined, and tangible outcomes linked to business growth</td>
</tr>
<tr>
<td><strong>Source:</strong> WE4F analysis and firm interviews</td>
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</table>

**Services**

- Conduct a second round of call for proposals focused on selecting companies that require support for business growth and scaling
- Provide grant structures including milestone grants, repayable grants and concessional debt/equity with a priority on feasibility studies, and the implementation of product/service development, pilots and well-vetted multi-dimensional expansion plans (covering further growth initiatives in existing markets as well as regional expansion)
- Provide financial assistance to companies piloting end user finance as an expansion strategy to new customers
- Prioritize support for investors that provide working capital facilities for high potential enterprises to tap into

**Capital**

- Provide first-loss investments to increase investor confidence in bankable opportunities
- Provide affordable guarantee structures or concessional capital to incentivize investment in smaller-ticket investments
- Support commercial due diligence services for smaller transactions and firms with strong impact on the nexus – decreasing the transaction costs
WE4F should implement actions over two phases: immediate actions to address COVID-19 challenges and mid/long-term actions to drive scaling and growth of nexus firms

First, focus on assisting companies in dealing with COVID-19 challenges ...

**Immediate actions**

- Source, vet, and coordinate TA and investment advisory service providers that can immediately support the businesses at risk of closing in the next 3-12 months
- Provide rapid relief grants, repayable grants or concessional debt to enterprises facing COVID-19 specific challenges, as well as support companies with applying for alternative sources of bridge financing
- Support virtual platforms to facilitate pre-investment due diligence to get deals across the line and create a transaction unit that can support on-the-ground due diligence requests

**Mid/long-term actions**

- Subsidize TA to provide tangible solutions to product/capacity constraints to enable scaling, and provide grant structures with a priority on funding R&D and the implementation of pilots and multidimensional expansion plans
- Incentivize local TA firms to form partnerships with more experienced firms and incentivize international TA firms to partner with local firms in order to create an ecosystem of knowledge sharing
- Provide affordable guarantee structures or concessional capital to incentivize investment in smaller-ticket or highly catalytic investments

... then focus on assisting companies in their business growth
3. Regional overview
Central Africa experienced modest GDP growth ahead of Southern Africa, with South Africa’s stagnant economy having an outsized impact on the region

Both regions exhibited moderate to positive growth in 2019, with a notable acceleration in Central African countries (DRC, Chad, CAR), indicating the success of IMF programs in that region.

South Africa continues to struggle to revive its economy, and suffers from an increasingly negative trade balance and rising Sovereign debt levels, limiting its ability to provide positive stimulus to the Southern Africa region.

Source: IMF World Economic Outlook, World Bank
The challenging business environment and shallow credit markets across the region limit the ease of access to low cost debt funding in local currency.

- Apart from South Africa and Namibia, the credit markets in the two regions are shallow.
- The median proportion of domestic credit to the private sector as a % of GDP is 20%. This proportion mirrors the proportion of credit from banks. Notably, commercial banks only contribute half of total credit to the private sector in South Africa.

### Commercial climate: Southern and Central Africa

**Rank: Ease of doing business**

- Majority of the profiled countries rank below average globally in ease of doing business, ease of registering property, and protections for minority investors.
- Only three countries rank in the top 100 in ease of doing business while Angola, Chad, DRC, and Central African Republic all rank beyond the 90th percentile.
- Although Zambia ranks fourth globally in ease of getting credit, the median rank for the remaining countries is 94, indicating major headwinds in accessing credit.
- Similarly, among the countries within the nexus, only four countries ranked in the top half in terms of providing adequate minority investor protections.

<table>
<thead>
<tr>
<th>Ease of getting credit rank</th>
<th>Domestic credit to private sector (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>80</td>
</tr>
<tr>
<td>Angola</td>
<td>185</td>
</tr>
<tr>
<td>Democratic Republic of Congo</td>
<td>144</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>67</td>
</tr>
<tr>
<td>Zambia</td>
<td>4</td>
</tr>
<tr>
<td>Botswana</td>
<td>80</td>
</tr>
<tr>
<td>Mozambique</td>
<td>165</td>
</tr>
<tr>
<td>Namibia</td>
<td>80</td>
</tr>
<tr>
<td>Chad</td>
<td>152</td>
</tr>
<tr>
<td>Eswatini</td>
<td>94</td>
</tr>
<tr>
<td>Lesotho</td>
<td>144</td>
</tr>
<tr>
<td>Central African Republic</td>
<td></td>
</tr>
</tbody>
</table>

1 GDP-weighted average using 2018 GDP and most recent country data available as of July 2020.

Challenges such as water scarcity, a regional energy crisis, and poor infrastructure are affecting food production in the different countries

<table>
<thead>
<tr>
<th>Issue</th>
<th>Water scarcity</th>
<th>Regional energy crisis</th>
<th>Poor infrastructure</th>
<th>Import reliance</th>
<th>FX volatility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact on food production</td>
<td>Climate change results in significant declines in crop production, while urbanization places greater pressure on water supply systems for agriculture</td>
<td>Chronic energy scarcity and disruption force power rationing, which increases costs of commodity production and processing, and lead to reduced yields</td>
<td>Poor port, rail, road and water infrastructure and lack of storage facilities impede transportation of inputs and produce, resulting in high costs and post-harvest losses</td>
<td>Over-reliance on food imports affect the growth of the domestic agriculture sector and leave countries vulnerable to global economic shocks</td>
<td>Reduction in export revenues for countries across region has resulted in significant currency devaluations</td>
</tr>
<tr>
<td>Examples</td>
<td>• Severe drought in Zimbabwe resulted in a decline in maize production by 53% in 2019 • Severe flooding in Central African Republic destroyed agricultural fields • Many farmers in South Africa are grappling with debt caused by droughts in previous years</td>
<td>• Load shedding in Zambia resulted in inadequate power for crop irrigation • Electricity tariff hikes in South Africa increased costs of electricity by 6.5%, which farmers are forced to absorb • Severe power cuts in Zimbabwe cause smallholder farmers to resort to generators</td>
<td>• After a landslide in DRC, residents were forced to venture over 20km to find a new water source • In Chad, costs of transporting produce to markets account for most of the production cost • Mozambique’s road coverage is among the lowest in Africa, limiting market access for rural farmers</td>
<td>• Angola only cultivates 10% of its arable land, imports more than half of its food and is the US’s 5th largest market for poultry in the world • Zimbabwe’s cereal import capacity in 2019 was severely impacted by currency depreciation, constraining access to food as imports fulfill 50% of national consumption</td>
<td>• Angola expects the devaluation to its currency to continue for several months, increasing its debt burden • Zimbabwe, DRC, Angola, and Mozambique are depleting their foreign currency reserves in an effort to stabilize currencies</td>
</tr>
</tbody>
</table>

The COVID-19 pandemic has exacerbated the weaknesses in the region’s food security and threatens to undo years of hard-earned economic progress.

COVID-19 responses varied across the region as larger countries, led by South Africa, implemented more restrictive lockdown procedures.
4. Enterprises
41 enterprises were profiled across 9 countries and two regions with 15% representation from two of the smallest economies (Lesotho and Eswatini) in the region.

- South Africa has a high number of innovators in the nexus; the country’s developed infrastructure and its position as the region’s main trading hub makes it highly attractive for innovators.
- Smaller economies like Lesotho and Eswatini represent about 15% of profiled companies; local government bodies in these countries actively engage with the private sector, which provided our Team with a central point of contact for introductions to local enterprises.
- The nexus ecosystem in CAR is still small; all enterprises recommended by local experts were only tangentially related to the nexus. Similarly in Angola, there were a lot of innovators who are currently in the green energy space but are only recently started to diversify into renewable energy for agri operations, as the local agri sector is fairly small (5.5% of GDP).
- Although the Team identified potential innovators in Botswana, contacted parties were unresponsive.

1 Despite outreach focused on all target countries, no suitable enterprises were identified and profiled in Angola, Botswana and the Central African Republic.
2 Source: IFAD.
Limited access to reliable grid energy and increasing water scarcity in the region underpin the innovation trends within the nexus

With governments across the regions unable to supply reliable grid power, particularly in rural areas, enterprises are focusing on providing alternative energy sources.

- There are major innovations within the energy infrastructure sector. Enterprises are offering alternative energy solutions to power operations across the agriculture value chain, with a particular focus on using renewable energy to power irrigation solutions as well as agri processing that drives value addition.
- Innovations in irrigation aim to facilitate yearlong production among smallholder farmers, who require more tailored irrigation solutions.
  - The relatively high irrigation innovations in Mozambique could partially be attributed to a recent USD 55m grant from the World Bank that targets irrigation and greater market access for smallholder farmers.
- Other notable sectors of innovation included the inputs/planting sector with firms designing solutions to promote less water usage, and data optimization that aims to promote a more scientific and tailored approach to agriculture, especially as regards to adapting to weather and soil conditions.

1. Worldbank.org
Enterprises with the highest investment asks have relatively lower revenues, indicating that they are still in the early growth stages and substantial capital is needed to grow revenues.

Revenues are strongly driven by both novelty of products in the market and enterprise’s ability to produce for a large customer base.

• Enterprises specializing in aquaculture activities are mass producing for both local consumption and export markets including the US and Japan; the strong customer reach drives high revenue levels.

• Inputs and planting innovators focus on soil enhancing solutions, but face challenges related to customer uptake, which contributes to lower revenues.
  • Additionally, for many smallholder farmers traditional use of agricultural waste is still prevalent, and there is low willingness to pay for commercial fertilizers.

Investment ask relates to capex and working capital needs across the various sectors.

• More capital-intensive energy related companies are seeking higher investments to set up infrastructure in new markets.

• In the data optimization space, enterprises seek support in research and development to enhance established product offerings and hence require lower ticket sizes.

• Innovators in irrigation seek funding to finance inventory of costly irrigation systems.
The majority of enterprises with revenue above USD 2.5m are based in South Africa and Namibia, which benefit from good infrastructure and a single currency.

- Businesses with higher revenues predominantly operate in two of the region’s most established economies, South Africa and Namibia, underlining the importance of strong business infrastructure in driving business growth.
- For smaller economies like Lesotho and Eswatini, there is a limit to local business growth, and innovators may need to look at other markets to achieve substantial growth.
  - Enterprises that have been operating in these markets longer have expressed interest in expanding to other countries, whereas younger enterprises still see headroom in local market potential.
- Enterprises with revenues over USD 500k within the first seven years of operations demonstrate potential to scale and present compelling opportunities for investors.
- Businesses in the data optimization sector displayed a strong ability to scale rapidly.
  - Both data optimization enterprises surveyed were operating in at least five countries.
  - Once these businesses achieve proof of concept, limited capex is required to achieve additional scale.
Enterprises are seeking aggregate investment capital of approx. USD 87.3m, with a median capital need around USD 0.6m.

Cheaper capital is more attractive to enterprises particularly given the current economic climate.

- Over half of the respondents expressed need/preference for some form of grant financing.
- The COVID-19 global pandemic further heightens the need for cheaper capital as enterprises seek to reduce stress on their resources.

Firms primarily sought capital to finance equipment purchase.

- Around 58% of the enterprises had received some form of outside financing before (including grants), with funds predominantly used for equipment purchase as firms graduate out of the start up phase.
- Various companies expressed an ongoing need for working capital to help them reach/increase full capacity.
  - This is driven by the fact that half of the profiled firms operate within the highly capital intensive energy infrastructure and irrigation sectors.

The nexus is still fairly nascent in the region with majority of firms seeking ticket sizes under $2m.

- 63% of investment asks were below USD 2m with a majority of these asks below USD 500k.
- The majority of enterprises in Southern Africa are not yet at a stage where they can absorb large amounts of capital.
- 44% of profiled firms had prior experience raising outside investment capital (excluding grants), and 89% had financials prepared by an accountant, indicating a higher level of formality, which bodes well for future capital raises.

Use of proceeds from prior fundraises (%):
- Growth capital - Other: 2%
- Growth & working capital: 13%
- Growth capital - multiple uses: 4%
- Growth Capital - Sales, marketing, product development: 17%
- Growth capital - Equipment purchase, physical expansion: 58%

Range of ticket sizes (#):
- Below $100k: 8
- $100k-$500k: 9
- $500k-$2m: 9
- $2m-$5m: 5
- Above $5m: 4
- No figure given: 6

1. 36 out of 41 enterprises answered this question
2. Excludes 17 of the 41 companies who did not respond mainly because they did not raise external capital before
3. 6 out of 41 enterprises did not respond to this question; 2 of these companies were not fundraising
Enterprises primarily intend to achieve growth by attracting new costumers and introducing new product offerings

### Themes of historical growth drivers

<table>
<thead>
<tr>
<th>Revenue growth drivers (% of total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sold to more customers: 80%</td>
</tr>
<tr>
<td>Created new product: 15%</td>
</tr>
<tr>
<td>Other: 3%</td>
</tr>
</tbody>
</table>

Most enterprises grew in the past by selling products to more customers

- Once businesses have successfully proven the value creation of their product offering, it becomes easier to scale in their home markets
- Word of mouth and marketing efforts assist with company growth once the business has reached critical mass
- Less than 20% of companies saw new products as a key driver of their historic revenue growth

### Growth drivers of future revenue

<table>
<thead>
<tr>
<th>Revenue growth drivers (% of total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sell to more customers: 49%</td>
</tr>
<tr>
<td>Create new product and sell to more customers: 37%</td>
</tr>
<tr>
<td>Create new product / service: 7%</td>
</tr>
<tr>
<td>Charge more for existing product: 2%</td>
</tr>
<tr>
<td>Other: 2%</td>
</tr>
</tbody>
</table>

Enterprises expect to reach their revenue growth ambitions primarily by selling to new customers and introducing new products

- Enterprises consider densification in current markets and accessing new markets as critical to unlocking future growth
- Almost half of enterprises intend to introduce new products and services to support revenue growth
- This will require a continued focus on marketing developing sales channel, as well as R&D investment for new products and services

### Revenue and customer expectations over a 5-year horizon

- Enterprises expect to grow revenue at an average CAGR of 45% over the next 5 years
  - Enterprises expect to achieve this through growing their customer base at an average CAGR of 89%, which would imply that enterprises expect their revenues per customer to materially decline as they broaden their customer reach
  - This incoherence may well indicate that businesses struggle to accurately forecast their key growth drivers, pointing to the need for support in business planning

### Revenue growth drivers (% of total)

<table>
<thead>
<tr>
<th>Customer and revenue growth CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
</tr>
<tr>
<td>50%</td>
</tr>
<tr>
<td>100%</td>
</tr>
<tr>
<td>150%</td>
</tr>
<tr>
<td>200%</td>
</tr>
<tr>
<td>34%</td>
</tr>
<tr>
<td>600%</td>
</tr>
</tbody>
</table>

- Enterprises expect to sell to more customers 49%
- Created new product and sell to more customers 37%
- Create new product / service 7%
- Charge more for existing product 2%
- Other 2%

- Customer growth
  - 0% to 200% Revenue growth
  - 34% Customer growth
Three quarters of profiled enterprises plan to expand to new countries to drive growth through either establishing operations or using agent networks

Planning to expand to new countries (%)

- Yes
- No

### Planning to expand to new countries (%)

- 76%
- 24%

- Although most firms indicated plans to expand to new markets, many noted that these were more medium to long-term plans and not an immediate focus
  - This is evidenced by the fact that some firms are yet to pinpoint their next countries of expansion and could benefit from business strategy support with a focus on identifying the best markets for growth

- To support expansion to new markets, enterprises sought financing for feasibility studies and capex to establish operations in new geographies

- It should be noted that indicated expansion plans might not necessarily involve a full market entry, but could also encompass an agent model or commercial partnerships with local distributors

- Over half of the countries looking to expand, operate in more than one country and can leverage their prior experience entering new markets for future market expansions

### Quotes

**Our expansion is driven by the number of distributor clients we can acquire in any given country. Therefore, there are no plans to open operations in Mali, however we plan to add Malian distributors to our network.**

- Irrigation pump manufacturer

**We need a market study to identify alternative crops that would be commercially viable for Mozambique and South Africa. We are budgeting to pay around $100,000, however we are yet to raise this funding**

- Fruit producer using drip irrigation

**Our company is flexible to expand wherever the demand is.**

- Agricultural data analytics company

**We would expand to new countries based on agent relationships, and not by establishing branches.**

- Insulated panel manufacturer

**As a supplier to a large supermarket chain, we aim to expand and start new urban farms in other African countries where that supermarket chain has supply challenges. Countries already considered include Mauritius, Mozambique, Botswana, Uganda, and Tanzania. We have been contracted to build more urban farms across Southern Africa but lack the funding to do so.**

- Hydroponic systems developer
Zambia was the most frequently mentioned expansion market, while East Africa was most popular for inter regional expansion

- Zambia, Mozambique, Botswana and Zimbabwe are the most frequently mentioned markets for expansion in the region
  - Botswana and Zambia are both among the top 3 for ease of doing business in the region
  - Despite its position as the region’s largest economy, relatively few enterprises plan to expand to South Africa, pointing towards higher perceived barriers to entry in South Africa’s more established and competitive WE4F ecosystem
  - Regionally, East Africa (predominantly Kenya) was most frequently mentioned as expansion market, particularly for firms based in South Africa
  - Previous WE4F landscape assessments indicate that East Africa has one of the most mature WE4F ecosystems. Even though this could make it attractive, South African firms potentially face fierce competition from local innovators
To help companies assess whether and how to expand from their home markets, WE4F can consider developing in-house expertise and coordinating support with other BAS/TA providers.

<table>
<thead>
<tr>
<th>Description</th>
<th>Type of service providers</th>
</tr>
</thead>
</table>
| Assessment of regional expansion feasibility and strategy | Analysis and strategy formulation  
  • Core objectives  
  • Appropriate modus of market entry (e.g. organic entry, JV/acquisition, distributor partnership)  
  • High level capex and opex estimates for market entry  
  • High level revenue expectations | Strategy/management consultant |
| Market study on potential expansion markets | Market study of potential markets  
  • Market size and expected growth and envisaged market share  
  • Customer segmentation  
  • Market structure  
  • Product and customer trends  
  • Competitor landscape analysis including price comparable, value-added services and end user finance  
  • Supply chain considerations  
  • Macroeconomic conditions | Strategy/management consultant |
| Regulatory assessment and legal considerations | Assessment of regulatory considerations  
  • Licensing and registration  
  • Tax  
  • Exchange control  
  • Border controls and regulations  
  • ESG considerations | Strategy/management consultant  
  • Local legal adviser |
| Identification of potential local commercial partners | Identification of potential local partners  
  • Distributors  
  • Suppliers  
  • Agents  
  • Customers | Technical assistance provider  
  • Local/Regional industry expert |

Development of new market selection criteria based on:  
- Ease of doing business  
- Industry maturity  
- Market potential and growth  
- Competitive landscape  
- Likely partners  

Formulation of business case and implementation plan  
- Revenue expectations and return on investment  
- High level capex and opex estimates for market entry  
- Implementation project timelines and team
There is an opportunity for enterprises to gain new customers by offering end user finance. However, this could put additional cashflow pressure on their business models.

Over half of the enterprises offer some form of end user finance to customers:

- This serves as a tool to drive additional product sales as affordability is low among targeted consumers.
- Some enterprises noted that even though they do not officially offer end user financing, they are forced to adjust various payment plans to better match customers’ ability to pay.

The funds we seek will predominantly go towards purchasing the pumps to be distributed across Eswatini, and towards establishing a payment scheme for our smallholder farmer clients. - Solar PV systems installation provider

Most enterprises have previously focused on finding new consumers for their product lines:

- Few enterprises won new customers from competitors. No enterprise reported creating a new product/service as a customer acquisition strategy.
- As markets get more saturated, enterprises will need to create product/service differentiation and tap into new customer segments to gain more customers.
- For example, 10/19 enterprises that don’t currently offer end-user finance, supply agricultural equipment and could introduce end-user finance and capture more of the smallholder farmer market. Simply Swazi in Eswatini is considering this strategy to expand its consumer base.

More enterprises could consider end user finance to offer additional value to their customers:

- Providing end user finance may allow enterprises to tap into additional customer segments including BoP, and assist with customer uptake.
- This would require upskilling for the management and finance team on implementation of end user financing and associated client screening.
- Offering end user finance may not be viable to all business models, especially those that are already cash strapped, and serve consumers whose businesses are highly seasonal.
- Instead of deploying their own balance sheet funds, enterprises could consider commercial partnerships with providers of asset backed financing.

We have invested less effort into working with farmers recently because banks see farmers as high risk and unbankable, which impedes their ability to pay.

- Renewable energy service provider
76% of profiled firms have previously received technical assistance, primarily to assist with development and implementation of pilots.

A significant portion of enterprises have received TA support, both paid for and subsidized by various programs

- 95% of the enterprises expressed that their expansion plans would benefit from some form of TA support.
- Firms show a willingness to pay for some technical assistance, indicating that they believe it is crucial to their growth plans, and that there is a general need for upskilling in various areas across the nexus.
- Previous support was focused on development and implementation of pilots, which is crucial as enterprises in the nexus tend to test market viability and seek technical experts to aid their R&D and implementation processes.

Enterprises are now looking for more specialized support across transaction advisory and business development

- The majority of enterprises are in the expansion phase and are interested in TA that supports their top line growth.
  - Most firms believe transaction advisory and general business development would be most beneficial to their growth plans.
    - This reflects that the majority of the firms are currently raising capital, and over half of them have no prior experience with the capital raising process.
  - Although most enterprises noted ESG as a key focus, only two firms flagged ESG related assistance as the most critical TA needed and many noted ESG related assistance as a secondary need.

Sources: Enterprise interviews; Team analysis

1 40 of the 41 interviewed enterprises responded to this question.
Over half of profiled enterprises are majority black owned, which is directly correlated to stronger black representation in senior management positions.

- Although over half of the enterprises have majority black ownership, the percentage of firms with no black representation in ownership is still relatively high at 39%.
  - Some countries, such as South Africa, have Black Economic Empowerment regulations that aim to encourage increased black shareholding and management participation. Despite these regulations, only 4 out of 12 South African enterprises had black ownership indicating that the regulations may not be effective at achieving their objectives across all sectors.
- We noted a strong positive correlation between enterprises that are majority black owned and black presentation within senior management.
  - In order to meaningfully drive black representation, especially in companies that are not majority black owned in the WE4F nexus, black empowerment metrics could be added as a consideration for companies receiving support from WE4F.
Most of the profiled enterprises have women and youth in leadership positions. However, they lack full visibility on the representation across the broader value chain.

Gender and youth impact is secondary to business growth for most enterprises

- Outside of ensuring representation of women and youth in management positions, most firms did not have specific programs in place for women or youth empowerment.
  - Most firms believe their gender and youth impact is achieved indirectly through enhanced food security and creating jobs. Additionally, as firms are still young and addressing growth challenges, social responsibility initiatives tend to be of lower priority.
  - This contrasts with most profiled investors actively tracking gender and (to a lesser degree) youth impact, though this is not typically their primary investment consideration.
  - Similarly, most of the service providers profiled provide gender and youth impact services; however, when they have provided these services in the past, it was mostly funded by external parties without direct cost to the company.
  - WE4F could promote youth and women empowerment, through metric driven approaches.
    - Including women and youth empowerment as an evaluated metric in the fit check process for enterprise selection during calls for proposals.
    - Sponsoring internship opportunities targeted at youth and women inclusion with quotas and periodic reporting.
    - Working with investors to require women and youth related ESG metric tracking from investees in the nexus.
Interregional comparison of profiled firms by revenue suggests that the West Africa and MENA region have the least developed nexus ecosystem

- The majority of the Eastern Africa and Southern Africa companies had revenue figures of at least USD 500K, pointing to a more mature WE4F ecosystem
  - Though in Southern Africa, revenues are lower on average with approx. 95% of enterprises generating revenues below US$ 5m and 25% generating revenues below USD 100k
  - West Africa and MENA markets are seemingly more nascent in the WE4F nexus sectors as indicated by levels of revenue
Many profiled firms operate directly in the ESG nexus by providing climate smart and circular environmental practices as part of their product or service offerings.

Key ESG considerations for enterprises
• Environmental sustainability
• Incorporating regenerative agriculture advisory and products into their services
• Integrated water management
• Climate smart agriculture solutions

Many firms operating in the WE4F nexus are providing products or services directly linked to ESG, in terms of assisting agribusinesses with being more climate change resistant, protecting soil quality, and incorporating circular water systems into their operations.

Key ESG areas relevant to WE4F nexus

Snapshots of enterprises with relevant ESG related product offerings

An enterprise offering water treatment solutions for agribusinesses incorporating circular water systems to allow businesses to re-use their wastewater

An enterprise supplying circular aquaponics water systems designed and constructed

A precision agriculture enterprise focused on reducing water consumption and enhancing soil quality

An enterprise offering solutions that promote energy efficiency, water remediation, and storage and circular economy driven waste management

Circular water systems
Regenerative soil practises
Countries in Southern Africa have been disproportionately affected by the COVID crisis due to the severity and length of lockdown restrictions, which impacted nexus logistics.

- The region’s main economic hub, South Africa, had closed borders since March, resulting in **regional interruptions or delays to cross border trade** with enterprises unable to access critical inputs on time and delays in exports; travel restrictions resulted in delays for the commissioning and servicing of machinery.
  - An enterprise in Lesotho reported interruption in operations due to a failed machine that could only be serviced in South Africa.
    - Despite official guidance that business goods would be allowed to move across boarders, an enterprise in Eswatini reported inputs had been stuck in South Africa for over a month.

Source: Oxford COVID-19 Government Response Tracker from the Blavatnik School of Government
As a result of COVID-19, enterprises suffered lower sales, lower customer ability to pay, and disrupted logistics - as well as temporary shutdowns and cross-border restrictions.

Enterprises are dealing with major interruptions along their entire operational value chains.

### Effects of COVID-19 on nexus enterprises¹ (#)

<table>
<thead>
<tr>
<th>Issue</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower sales</td>
<td>14</td>
</tr>
<tr>
<td>Disrupted logistics</td>
<td>4</td>
</tr>
<tr>
<td>Customers unable to pay</td>
<td>1</td>
</tr>
<tr>
<td>Temporary shutdown of businesses</td>
<td>4</td>
</tr>
<tr>
<td>Difficult exporting/accessing inputs</td>
<td>5</td>
</tr>
<tr>
<td>Other</td>
<td>9</td>
</tr>
<tr>
<td>Interrupted funding from investors</td>
<td>1</td>
</tr>
</tbody>
</table>

1. 38 out of 41 companies answered this question

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Given that our customers are mainly smallholder farmers who have limited incomes, they have been unable to make their payments on time and have completely stopped attending training workshops which represent a significant portion of the company's revenue.

- **Solar-powered equipment provider**

It has been impossible to get items across the SA border. We tried to pivot and sell hand sanitizer, but we’ve been caught up in an approval process as we are required to have a special certificate.

- **Solar PV systems installation provider**

We procure inputs from South Africa and China, so the border closures on South Africa's side have halted procurement efforts and have also delayed expansion to Botswana.

- **Water harvesting systems manufacturer**

Even before SA went into lockdown, suppliers in Asia were already closed, reducing manufacturing capacity. Now, we are struggling to get inputs to the manufacturing facilities in time which is pushing back our timelines.

- **Agricultural data optimization company**
Over 80% of enterprises have sufficient cash reserves and do not expect to close permanently. However, access to additional capital has been challenging for some businesses. About 70% of enterprises have cash reserves for the next 6—24 months, but access to additional capital has been challenging for some businesses.

12% of companies reported to be at risk of permanent closure. Most enterprises do not expect to permanently close as a result of COVID-19, and have cash reserves to sustain business operations.

- Agribusinesses have been less affected than other sectors due to being classified as essential services, which were exempt from business closure during the full lockdown.
- The businesses at risk of closure were facing challenges prior to COVID-19, with customers being unable to pay during the pandemic exacerbating cashflow shortages.
- A South African equipment provider reported that two major clients shut down as a result of COVID-19, putting pressure on the company’s viability.
- Various enterprises that reported challenges in accessing capital, were actively fundraising but have found that investors are now more hesitant to commit capital, with some even reevaluating previous commitments.

Access to funding impacted (%)

- “The traditional lending process is not set up to operate under remote working conditions. To get a loan from a bank, you need approval stamps from various people. With people working from home this process has broken down - it now takes you three times the time you would have needed to get a loan before.”
  - Energy infrastructure developer

- “These investors had committed approx. US$ 200,000 to the project. However due to the COVID pandemic, they decided to delay the investment, potentially permanently.”
  - Water harvesting systems manufacturer
Some enterprises lack the resources to adequately assess and respond to the COVID-19 related risks to their businesses

Enterprises with investor backing have performed more in-depth risk assessments, as investors try to actively manage their portfolios
- Enterprises with outside private capital were able to benefit from hands on support and mentorship from their investors in navigating COVID-19 challenges
- Although businesses have performed risk assessments, many of those have been high level and once-off, not considering the dynamically changing situation

Enterprises in the growth phase often lack the capacity or resources to fully assess or respond to unexpected market shocks such as COVID-19
- Providing prefunded technical assistance in the form of risk assessments and response plans may improve business resilience

For both the short and medium term, enterprises seek financial support to help them weather the current economic climate
- However, as many businesses had not performed formal risk assessments, it is crucial for financial support to be accompanied by business strategy support to ensure that resources are appropriately allocated
- Enterprises also expressed need for assistance with market access, potentially driven by the strict travel lockdowns that have been prevalent across the region
Enterprises instituted a wide range of measures to respond to the immediate business impact from the COVID-19 pandemic, with a focus on preserving cash.

Enterprises are actively reorganizing their operations to address the stresses caused by the COVID-19 pandemic.

Enterprises response to the COVID-19 pandemic (#)^

- **Reorganized employees to profitable activities**: 7
- **Temporary employee reduction**: 6
- **Instituted teleworking**: 7
- **Drew from personal savings / borrowed**: 3
- **Switched suppliers**: 2
- **Increased marketing efforts**: 1
- **Shifted to contactless delivery of services**: 3
- **Other**: 8

Reallocating employees to the most profitable activities has been the primary focus for enterprises:

- Employee overheads are typically one of the largest costs for most businesses.
- Staff reorganizations have been the primary focus, but some enterprises have had to temporarily or permanently lay off staff in order to realize more immediate cost savings.
- Where companies have reallocated staff, the implication is a potential reduction in productivity as employees need time to upskill, especially with less resources available for trainings.

With strict lockdowns in most Southern African countries, companies have had to institute remote working and re-assess their supplier base:

- Enterprises have had to quickly adapt to remote working, which has proved tough in a nexus that is highly dependent on constant movement and high human interaction.
- The uncertainty of the length or severity of the lockdown has led to companies drawing from personal savings to remain in business.
- Some companies have had to switch suppliers as imports have been slow or halted due to border closures – with knock-on effects on timelines, quality control and pricing.

---

1. 37 out of 41 companies answered this question.
WE4F can provide immediate assistance to enterprises that are under cashflow pressure due to COVID-19

Enterprises can apply internal measures to preserve cash and return to top line growth

- Enterprises can conserve cash by:
  - Implementing cost reduction programmes, e.g. work hour reduction, staff furloughs, rent renegotiations
  - Conducting balance sheet restructuring, e.g. sale & leaseback of buildings, land or other assets
  - Adjusting payment terms with suppliers
  - Delaying non-essential projects such as additional CAPEX or R&D investments
- Firms can leverage technology to reach new customers, e.g. via e-commerce
- Enterprises can also develop clearer market access strategies to better understand shifting demand, potential new client bases and local substitutes for their product to sustain demand

Enterprises can also approach existing or new investors...

- Approach existing funders for additional capital support:
  - Renegotiate loan terms to extend maturities and reduce cash pay interest (e.g. swap senior into convertible debt)
  - Extend revolver and working capital lines and consider asset backed financing options
  - Consider shareholder loans or new equity injections to provide equity buffer
  - Profiled investors are receptive to providing additional support to their investees:
    - 33% reported openness to offer additional capital injections to their existing investees
    - Others are providing repayment holidays, bridge financing and short-term liquidity support

... or apply for emergency relief funds to mitigate COVID-19 induced challenges

Banks, investors and DFIs have been launching new funding windows and vehicles, both short-term and long-term, in response to the crisis:

- African Development Bank raised USD 3bn to provide financial support to countries and businesses fighting against the pandemic
- The Rupert and Oppenheimer family created a USD 56m fund to assist affected SMEs in South Africa
- Vital Capital launched a USD 10m relief facility to offer critical funding to African businesses
- IFC approved a USD 14bn package of fast-track financing to assist SMEs, largely towards trade financing, working-capital support and medium-term financing to private companies struggling with disruptions in supply chains

WE4F can provide or facilitate BAS/TA support to implement key measures

WE4F can provide pre-funded advisory to assist in negotiations with funders

WE4F can assist enterprises in identifying and applying for suitable programs

1 Timelines for raising equity from new investors can be prohibitively long if firm has acute cash flow challenges. New funders may require more risk protection and hence will likely offer less favourable terms. Source: WE4F analysis and firm interviews, desktop research, McKinsey report: How South African SMEs can survive and thrive post COVID-19, July 2020
Delivering targeted technical assistance and risk mitigation tools can improve the resilience and survival of businesses amid COVID-19

<table>
<thead>
<tr>
<th>COVID-19 specific considerations</th>
<th>Key issues</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Businesses that were finalizing capital injections before the pandemic have had to delay processes, leading to unexpected business slow downs and cashflow pressure</td>
<td>Educate companies on alternative financing solutions, including special COVID-19 relief funds</td>
</tr>
<tr>
<td></td>
<td>Lower sales are exacerbated by customers’ inability to pay, putting severe pressure on cash flow</td>
<td>Support companies with applying for alternative sources of bridge or COVID-19 relief funding</td>
</tr>
<tr>
<td></td>
<td>Businesses lack resources, know how and capacity to implement and comply with heightened health and safety standards</td>
<td>Facilitate engagement with investors to adjust loan and investment terms to incorporate the expected COVID-19 effects</td>
</tr>
<tr>
<td></td>
<td>Disrupted logistics and border restrictions result in slower export sales, and severe delays for imported input materials</td>
<td>Source, vet, and coordinate TA and investment advisory service providers that can immediately support the businesses at risk of closing in the next 3-12 months</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Form a technical assistance unit to promote market access, assist with heightened health and regulatory standards as a result of COVID-19 and marketing support as enterprises try to re-engage consumers after lockdowns</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Select enterprises through a first round of call for proposals focused on selecting companies that require support to counter the impact of COVID</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Consider providing bridge financing solutions for businesses with prospective investors with delayed investment timelines to enable the highest impact (i.e. Open Road Alliance)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Provide guarantees and first loss tranches as risk mitigants for increasingly cautious investors to encourage them to fulfill investment commitments and reach financial close</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Provide rapid relief grants, repayable grants or concessional debt to viable enterprises facing COVID-19 specific challenges</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Use milestone grants and matching debt to lower overall financing costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Provide guarantees to reduce heightened collateral requirements for borrowers</td>
</tr>
</tbody>
</table>
Identifying high impact WE4F firms and providing capital raising services will increase the likelihood of the enterprises’ ability to scale

<table>
<thead>
<tr>
<th>Common themes/barriers</th>
<th>Key observations</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprises cannot fulfill larger order sizes and achieve scale due to working capital constraints</td>
<td>Pre-fund capital raising support, which may include assessing potential expansion markets and the competitive environment of target countries to better position the enterprises for successful market entries</td>
<td>Conduct a second round of call for proposals focused on selecting companies that require support for business growth and scaling</td>
</tr>
<tr>
<td>Enterprises seek regional expansion but are yet to establish defined expansion plans including, target markets, competitive landscape, timing, cost, modus of market entry, partnerships, etc.</td>
<td>Subsidize TA to provide technical experts that support specific product development and implementation of pilots to enable companies to test different markets customer segments</td>
<td>Provide grant structures including milestone grants, repayable grants and concessional debt/equity with a priority on feasibility studies, and the implementation of product/service development, pilots, and well-vetted multi-dimensional expansion plans (covering further growth initiatives in existing markets as well as regional expansion)</td>
</tr>
<tr>
<td>Most enterprises do not have the in-house technical skills to run a competitive debt or equity capital raising process</td>
<td>Provide investment facilitation services to assist companies through the capital raise process including determining most suitable capital structures as well as preparing fundraising documents</td>
<td>Provide financial assistance to companies piloting end user finance as an expansion strategy to new customers</td>
</tr>
<tr>
<td>Enterprises do not generally have existing relationships with financial or strategic investors in their own countries or the countries for expansion</td>
<td>Manage relationships with the right strategic and financial buyers to ensure the enterprises receive fair terms to enable expansion</td>
<td>Prioritize support for investors that provide working capital facilities for high potential enterprises to tap into</td>
</tr>
<tr>
<td>Enterprises lack full visibility on the representation of women and youth across their broader value chain</td>
<td>Promote youth and women empowerment, through metric driven approaches, including a fit check process in calls for proposals</td>
<td>Provide guarantees for enterprises to achieve better financing terms from working capital providers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Work with investors to require women and youth related ESG metric tracking from investees in the nexus</td>
</tr>
</tbody>
</table>
5. Investors
The private capital landscape in Southern & Central Africa has grown in recent years, reflecting an increase in ease of doing business.

Private sector developments are supported by recent improvements in business conditions

- In Southern Africa, **South Africa continues to dominate** the region’s capital markets, but **smaller markets like Zambia are accelerating** capital market development.

- Zambia claimed 11% of the volume of private equity ("PE") deals in Southern Africa and 8% of total value, the second highest in the region after South Africa.

- In Central Africa, **numerous reforms** have had positive impact on improving the business climate, and CEMAC (Central African Economic and Monetary Community)’s capital markets show a **clear indication of growth potential**.

- The ongoing merger of regional stock exchanges is estimated to generate USD1.8bn of issues by 2020, and increase the market depth tenfold by 2025.

- Despite progress, there is still room for further improvement in Central Africa, particularly in Chad and Central African Republic, in areas such as cross-border trade and insolvency requirements.

---

Private equity investment activity in Southern Africa* (USD m)

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total value of new investments</td>
<td>370</td>
<td>570</td>
<td>690</td>
<td>840</td>
<td>588</td>
</tr>
<tr>
<td>Total value of follow-on investments</td>
<td>440</td>
<td>570</td>
<td>1,070</td>
<td>1,160</td>
<td>1,040</td>
</tr>
</tbody>
</table>

---

Ease of doing business score

- **2016**
  - Angola: 59
  - Botswana: 58
  - Central African Republic: 54
  - Chad: 61
  - DRC: 56
  - Eswatini: 61
  - Lesotho: 66
  - Mozambique: 66
  - Namibia: 61
  - South Africa: 65
  - Zambia: 65
  - Zimbabwe: 48

- **2020**
  - Angola: 59
  - Botswana: 58
  - Central African Republic: 54
  - Chad: 61
  - DRC: 56
  - Eswatini: 61
  - Lesotho: 66
  - Mozambique: 66
  - Namibia: 61
  - South Africa: 65
  - Zambia: 65
  - Zimbabwe: 48

Note: 100 indicates the best performer.

---

* Includes all countries in the Southern African region (including those not in the nexus). **Does not include nexus Central African countries (Chad, CAR, DRC)**

Though transactions in Southern & Central Africa are smaller and more numerous compared to other WE4F regions...

---

**Less PE/VC capital is deployed in Southern & Central Africa, but across more transactions**

- Southern & Central Africa have the **highest number of PE deals** compared to other African regions, although the total value is lower than in West Africa
  - South Africa remains the regional powerhouse, contributing to **48% of the value and 59% of the volume of PE deals** in the region
- The median PE ticket size in Southern & Central Africa is similar as in East & West Africa while MENA ticket sizes are significantly larger
- While the number of venture capital (“VC”) transactions is highest, the **total value and median VC transaction size is smaller** than in other African regions on average

---

**Southern & Central Africa have seen more than 300 private equity and almost 160 venture capital transactions over the past 5 years**

<table>
<thead>
<tr>
<th></th>
<th>Southern &amp; Central Africa</th>
<th>West Africa</th>
<th>East Africa</th>
<th>North Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td><em><em>Value of total PE deals 2014-2019 (USD, % SSA</em>)</em>*</td>
<td>USD 3.3bn 13%*</td>
<td>USD 6.6bn 26%*</td>
<td>USD 2.0bn 8%*</td>
<td>USD 3.5bn 14%*</td>
</tr>
<tr>
<td><strong>Volume of total PE deals 2014-2019 (#, % SSA)</strong></td>
<td>303 29%</td>
<td>251 24%</td>
<td>167 16%</td>
<td>178 17%</td>
</tr>
<tr>
<td><strong>Median PE ticket size (USD)</strong></td>
<td>USD 6m</td>
<td>USD 6m</td>
<td>USD 6m</td>
<td>USD 8m (MENA = USD 29m)</td>
</tr>
<tr>
<td><strong>Value of total VC deals 2014-2019 (USD, % SSA)</strong></td>
<td>USD 0.4bn 10%</td>
<td>USD 0.7bn 18%</td>
<td>USD 0.6bn 15%</td>
<td>USD 0.2bn 6%</td>
</tr>
<tr>
<td><strong>Volume of total VC deals 2014-2019 (#, % SSA)</strong></td>
<td>159 26%</td>
<td>129 21%</td>
<td>141 23%</td>
<td>86 14%</td>
</tr>
<tr>
<td><strong>Median VC ticket size (USD)</strong></td>
<td>USD 0.5-1.1m</td>
<td>USD 3.0m</td>
<td>USD 2.2m</td>
<td>USD 1.0m</td>
</tr>
</tbody>
</table>

* Excludes multi-region deals
SMEs in Southern & Central Africa struggle to bridge the persistent financing gap

---

SMEs are the backbone of employment and growth in the region; however, a significant financing gap persists

- Small and medium enterprises (“SMEs”) play a significant role in the region, contributing up to **55% of employment and up to 34% of GDP**
- **Access to finance remains a bottleneck** in some countries due to high interest rates and collateral requirements
- In Mozambique, Zambia and Zimbabwe, ~90% of SMEs are credit-constrained
- On average, the **SME financing gap** as a percentage of GDP is **16%** in the Southern & Central Africa region
- Women-owned businesses account for **20%** of the SME financing gap
- The percentage of SMEs that are fully or partly constrained is **41%** on average, but ranges from **15% in Namibia to 69% in Zimbabwe**

---

**Available financing for SMEs in Southern & Central Africa**

<table>
<thead>
<tr>
<th>Region</th>
<th>Current volume</th>
<th>Finance gap</th>
<th>Total demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>S. &amp; C. Africa</td>
<td>359</td>
<td>92</td>
<td>451</td>
</tr>
<tr>
<td>East Africa</td>
<td>99</td>
<td>49</td>
<td>148</td>
</tr>
<tr>
<td>West Africa</td>
<td>447</td>
<td>67</td>
<td>514</td>
</tr>
<tr>
<td>MENA</td>
<td>302</td>
<td>119</td>
<td>421</td>
</tr>
</tbody>
</table>

---

**Top 3 economies by region (2019 GDP, USD bn)**

<table>
<thead>
<tr>
<th>Region</th>
<th>GDP (USD bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>359</td>
</tr>
<tr>
<td>Angola</td>
<td>92</td>
</tr>
<tr>
<td>DRC</td>
<td>49</td>
</tr>
<tr>
<td>Kenya</td>
<td>99</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>91</td>
</tr>
<tr>
<td>Tanzania</td>
<td>62</td>
</tr>
<tr>
<td>Nigeria</td>
<td>447</td>
</tr>
<tr>
<td>Ghana</td>
<td>67</td>
</tr>
<tr>
<td>Côte d'Ivoire</td>
<td>44</td>
</tr>
<tr>
<td>Egypt</td>
<td>302</td>
</tr>
<tr>
<td>Algeria</td>
<td>172</td>
</tr>
<tr>
<td>Morocco</td>
<td>119</td>
</tr>
</tbody>
</table>

---

**Potential demand and financing gap (USD bn, % of total demand)**

<table>
<thead>
<tr>
<th>Region</th>
<th>Current volume</th>
<th>Finance gap</th>
<th>Total demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>S. &amp; C. Africa</td>
<td>48 (41%)</td>
<td>70 (59%)</td>
<td>$118 bn</td>
</tr>
<tr>
<td>East Africa</td>
<td>38 (55%)</td>
<td>31 (45%)</td>
<td>$69 bn</td>
</tr>
<tr>
<td>West Africa</td>
<td>111 (51%)</td>
<td>106 (49%)</td>
<td>$217 bn</td>
</tr>
<tr>
<td>MENA</td>
<td>26 (12%)</td>
<td>195 (88%)</td>
<td>$221 bn</td>
</tr>
</tbody>
</table>

---

* The SME financing gap is estimated as the difference between current supply and potential demand which can potentially be addressed by financial institutions. The SME financing gap assumes that the SME firms in a developing country have the same willingness and ability to borrow as their counterparts in well-developed credit markets and operate in comparable institutional environments — and that financial institutions lend at similar intensities as their benchmarked counterparts.

Limited pipeline constitutes the largest barrier in sourcing new investments, while inadequate financial management and systems hinder post-investment implementation.

Informality and inadequate size contribute to lack of investment-ready firms

- Enterprises often lack the required financial and legal documentation to facilitate investment
- Investors show high willingness to have new partners to source new investments
- Majority of equity/hybrid investors state financial size and minimum commercial viability as limiting factors for investment, making it difficult to target smaller companies

Post-investment challenges

- Typical challenges include lack of internal controls and processes
- Investees often need technical assistance and financial management training
- Most investors address these challenges by directly providing business advisory or technical assistance services, or by linking enterprises with third-party providers

A complaint we hear from larger private equity deal teams is that the quality of pipeline they come across is quite poor. They feel that although they can find deals, many are not ready for private equity investment.

- Impact investor

For many companies it is their first time getting institutional investors on board. Typical challenges are with the business structure, a lack of systems, a lack of organized processes, and a lack of formal governance.

- Private Equity GP

They do not have financial literacy and do not properly understand credit and cashflow.

- Microcredit provider

Source: WE4F analysis and firm interviews
A variety of financial instruments exist for short- and long-term financing needs – each with a unique risk and reward profile

<table>
<thead>
<tr>
<th>Debt</th>
<th>Mezzanine</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid out first</td>
<td>Paid out second</td>
<td>Paid out last</td>
</tr>
</tbody>
</table>

**Debt investors make investments based on:**
- Strong cash flows
- High level of collateral requirement (in some cases, buyer contracts can serve as collateral)

**Debt investors only focus on the risk factors affecting the company. Debt investors are not incentivized to help the company grow because growth does not offer any additional returns**

**Debt is often used to:**
- Finance working capital including input or trade financing
- Finance assets of companies with secure cash flows and collateral value (e.g. land, building, machinery, vehicles)

**Mezzanine products are hybrid instruments with characteristics of both equity and debt**

**Typical structures include:**
- Debt-like instruments such as convertible loans (can become equity)
- Equity-like instruments such as preferred shares (equity with mandated dividend) and redeemable equity (ordinary shares with a put option)

**From the company’s perspective this reduces debt obligations, aligns incentives and limits dilution to shareholders**

**From the investor’s perspective this protects them from downside while providing some upside**

**Mezzanine instruments typically have a fixed term and are refinanced through senior debt**

**Equity investors are incentivized to help grow the company because their returns depend on the company’s growth trajectory and profitability**

**Equity is often used to:**
- Fund start-ups (risk capital)
- Finance expansion / growth
- Finance greenfield projects

**Third-party equity investors select companies based on:**
- Potential for high returns
- Entrepreneur’s willingness to partner

**Equity investors are incentivized to help grow the company because their returns depend on the company’s growth trajectory and profitability**

**Equity is often used to:**
- Fund start-ups (risk capital)
- Finance expansion / growth
- Finance greenfield projects

**Can be minority investment (e.g. backing a founder) or control investment (new shareholder dominates decision making)**
Profiled investors cover a broad range of capital types and geographies, with funding typically coupled with some form of BAS/TA support.

- **Average preferred ticket sizes**: USD300k for debt/mezzanine investors, USD5m for equity impact investors and USD10-15m for traditional equity investors.
- **VC & SME-focused** equity investors target ticket sizes below USD1.5m.
- **Debt investors** typically offer 3-5 year term loans, while the average preferred holding period for equity investors is 4-6 years.

**Primary country of operations**
- Namibia: 33%
- Angola: 20%
- South Africa: 20%
- Zambia: 13%
- Regional¹: 7%
- Pan-African¹: 7%
- Other: 0%

- **Most capital providers** operate regionally or pan-African.
- **Most investors** provide BAS/TA directly or through third parties.

**Type of BAS/TA provided/offered through referrals**
- Business strategy: 30%
- General business development including R&D, supply chain: 20%
- Accounting, audit, legal or financial management: 20%
- Other: 30%

- **Regional investors** are focused on the Southern African region; Pan-African investors cover countries across different regions in Africa.

Source: WE4F analysis and firm interviews.

1 Regional investors are focused on the Southern African region; Pan-African investors cover countries across different regions in Africa.

We provide TA services that go hand in hand with the financing we provide. After financing we extend business support in areas of focus identified under such a business planning exercise.

- **SME impact investor**

87% of investors provide BAS/TA services or offer referrals to assist enterprises post-investment.

However, investors estimate that only 54% of their portfolio companies engage in BAS/TA services.
The presence of investors sharing risk and growth with SMEs can catalyze the expansion of the local private sector.

<table>
<thead>
<tr>
<th>Description</th>
<th>Short term debt</th>
<th>Long term debt</th>
<th>Mezzanine instruments</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Loan with short term maturity, e.g. for trade or working capital</td>
<td>Loan with medium to long term maturity</td>
<td>Loan with additional returns depending on revenue or profit, convertible loans, etc.</td>
<td>Ordinary shares as majority or minority investor</td>
</tr>
<tr>
<td>Holding period</td>
<td>6-18 months</td>
<td>2+ years</td>
<td>2-5 years</td>
<td>5+ years</td>
</tr>
<tr>
<td>Risk</td>
<td>Low – collateral e.g. based on customer receipts</td>
<td>Low to medium – collateral e.g. based on land, buildings, machinery</td>
<td>Medium to high – collateral requirement often lower than debt</td>
<td>High – no collateral</td>
</tr>
<tr>
<td>Return expectations</td>
<td>9%-25% – Local banks(^1)</td>
<td>9%-25% – Local banks(^1)</td>
<td>15%-20% in fund currency</td>
<td>20%-25% in fund currency</td>
</tr>
<tr>
<td>Concessional support</td>
<td>Guarantees (DCA), technical assistance</td>
<td>Financing, guarantees (DCA), technical assistance</td>
<td>First loss capital, financing, investment facilitation, technical assistance</td>
<td></td>
</tr>
<tr>
<td>Key considerations for investees</td>
<td>• No equity dilution • Restrictive covenants • Cashflow required to service debt obligations (particularly constraining during COVID-19)</td>
<td>• Limited availability • Higher cost compared to senior debt • Less obligations than debt • Limited dilution</td>
<td>• Investors can provide governance and strategic decision-making support (can be helpful during COVID-19) • Dilution in shareholding • Time-consuming process as requires significant due diligence</td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) Interest rates on debt vary significantly by country, currency and instrument. Reported ranges included– 9%-13% in South Africa, and 15%-25% for other countries on an annualized basis. Rates can increase to 50%+ on an annualized basis for microfinance institutions in certain markets. Sources: Firm interviews, SAVCA Rise 2019
Most profiled investors have development-oriented mandates. However, the ability to invest in smaller, earlier stage opportunities depends on the size and mandate of each fund.

- All profiled equity investors have developmental mandates, while this varies for profiled debt investors.
- Investors typically include impact metrics as part of their due diligence. These can either be developed internally or following external guidelines (e.g., IFC standards).
- 100% of investors with developmental mandates offer referrals for business/technical advisory services, ensuring their portfolio companies receive the necessary support to unlock growth. This represents a collaboration opportunity with WE4F that could lend its service provider catalogue.

It is important that donor programs understand how funds are structured and built to meet shareholder expectations and commercial outcomes. Private equity funds raise capital around a specific mandate. It is often very difficult to convince larger funds to target smaller companies if it is not in their mandate to do so, irrespective of the incentives put in place by organizations outside the shareholder / limited partner base.

- Private Equity GP

1 Data points are based on 2 debt/mezzanine investors only, and therefore may not be representative of the region.
2 Excludes microfinance institutions.
Source: WE4F analysis and firm interviews.
Profiled investors cover the full spectrum of financial instruments and investment size, with the majority preferring to invest in growth enterprises in the ag and energy sectors.

Investors prefer investing in growth companies in the ag and energy sectors

- Most investors are focusing on growth stage enterprises with appropriate financial management and accounting systems
- 75% of debt/mezzanine investors and 57% of equity investors make early stage investments

Profiled investors cover a range of instruments and investment sizes

- Profiled debt and mezzanine investors included several micro and SME-focused lenders that target loans below USD2M
- Average tenor for term loans offered by banks range anywhere from 18 months to 12 years
- Mezzanine investors provide hybrid instruments to firms, limiting fixed debt service but provide some equity upside
- Conversely, private equity investors are generally interested in larger ticket sizes with a preferred holding period of 4-10 years
- We have a voracious appetite to invest right now. We want to buy at the bottom.

- Private Equity GP

Source: WE4F analysis and firm interviews
Investors actively monitor ESG related metrics and drive gender inclusion efforts, but do not yet mandate youth empowerment as a targeted effort in their operations.

### Gender lens
- 88% of debt investors specifically lend to female led/empowered firms
- Majority of equity investors seek to support/enhance female leadership in portfolio companies
- Some capital providers have partnered with larger organizations/governments to accelerate empowerment of female entrepreneurs

**Impact investor**
- We direct capital into businesses which recognize the role of women in value chains and promote their empowerment.

**Impact investor**
- We apply three gender lenses to the portfolio: through our management team, at the portfolio company management level, and at the beneficiary level.

**Private Equity GP**
- We actively look for black female leaders and place preference on that in portfolio companies.

### Youth lens
- Investors generally encourage but do not mandate youth empowerment efforts
- Very few firms have training programs specifically for youth professionals

**Micro loans crowdfunding platform**
- We support partnerships that focus on youth but have no mandates specifically designed to target youth.

**Private Equity GP**
- Approx. 30% of our private equity team is under the age of 30. We provide on the job training, not a specific training program.

**Private Equity GP**
- We take youth empowerment into account, but there are no specific programs in place.

### Metrics and compliance
- ESG elements are accounted for in due diligence, and actively monitored post investment
- ESG compliance is mostly tied to standards set forth by international bodies (e.g. IFC, UN, World Bank)
- Some investors developed internal impact scores to tailor their monitoring to their investee set
- HR related metrics used include
  - Management team composition
  - # of female employees in leadership positions
  - Gender and race balance in management team
- Other ESG elements include environmental practices, poverty alleviation, and financial inclusion

**Our score card is unique and tries to account for all the different geographies in which our investees operate.**

- **Micro loans crowdfunding platform**

**Our client ESG ratings are updated annually with the goal of driving down risk at portfolio level as a result of our focused, client-specific ESG management formalization support that is given to all our portfolio clients.**

- **SME impact investor**
Investors reported significant short-term impact from COVID-19 on key market terms, and expect a full market recovery in late 2021 at the earliest.

- Most investors have observed key changes in market terms as a direct result of COVID-19:
  - Interest rates, in part driven by central bank policy, and loan maturities have tended to come down.
  - Conversely, majority of the investors observed stricter terms for loan covenants and collateral agreements, while providing flexibility to existing investee companies.

In addition to repayment holidays, we are restructuring transactions and considering additional funding to existing investees that have been adversely affected by COVID.

- SME impact investor

Interest rates are lower, but lending rates are stricter.

- Private guarantee provider

A few of our portfolio companies that export to the US have had sales completely stop. We expect the US to only recover in 2022, so emerging market companies that rely on these sales will struggle.

- Impact investor

...there will be some lasting impacts on our portfolio due to COVID-19. Clients will become more indebted and disposable income decreases, unemployment is higher, so sourcing skills will be easier. We expect lasting changes in behavior with people working from home, online shopping, and brick & mortar shops taking a sustainable hit.

- Private Equity GP
Investors see pronounced short- and medium-term impact of COVID-19 on their existing portfolio and new investments, but foresee a normalization in 13-24 months

- **27%** of investors anticipate severe impacts to portfolio companies in the short term with potential insolvency, write-downs or write-offs of their investments.
- Majority of investors are proceeding with investments, albeit more cautiously, but do not foresee any long-term effects on their ability to invest, which confirms the existence of collaboration opportunities for WE4F despite the effect of COVID-19.
- Investors have noted a surge in e-commerce from portfolio companies seeking to diversify go-to-market channels during the pandemic.

When evaluating a business today, you have to ask, if COVID came back in 2-3 years, would this business survive?

- **Impact investor**

[To close investments] I don’t think it’s the appetite necessarily, but the ability. It is difficult to travel and do due diligence.

- **Private Equity GP**

We are not renegotiating loans yet as we don’t know when things will go back to normal. Once we are aware when it will, we will establish new repayment terms and restructure. We will also give more loans to customers to restart their businesses.

- **Microcredit provider**

Source: WE4F analysis and firm interviews
A significant proportion of profiled investors have slowed investment activity or adapted their strategy as a result of COVID-19

- Majority of profiled investors have paused or slowed down their investment activity since the onset of COVID-19, and only 43% of investors have made an investment since March 2020.
- While most investors have not changed their investment plans due to the pandemic, the majority are proceeding with caution.
  - Investors with changed strategies are focusing on new investments in agriculture.
- In reaction to requests for supplemental funding, majority of the investors provided additional capital injections and/or repayment holidays to their existing investee companies.

In addition to repayment holidays, we have provided bridge financing to some of our existing clients to help the navigate challenges caused by the pandemic.

- Alternative SME financing solution provider

The pandemic has made us rethink if our valuations adequately reflected risk and we have now taken a more conservative approach as it relates to our projections, multiple expectations, assumptions around capital structure and the use of relatively low-price debt.

- Private Equity GP

Export facing businesses, which were previously known to be good, untouchable businesses with low market risk were the hardest hit by COVID. In the past, these businesses were insulated from most of the domestic market risk as they had access to great markets at their doorstep. It has become more imperative to look inwards and not forget how important it is to develop domestics markets to be fruitful for investment.

- Private Equity GP

Source: WE4F analysis and firm interviews
In a post-COVID environment, greater incentives and interventions would be required for investors to increase investment activity in SMEs and WE4F nexus firms.

Most important intervention for more investment in smaller businesses during/after COVID-19*

- Another organization offering reimbursable or normal grants offered alongside your investment: 25%
- Technical assistance offered alongside your investment: 13%
- Assistance sourcing new clients or projects to invest in: 9%
- Financial guarantees from a third party: 9%
- Donor-funded due diligence or transaction advisory services: 13%

Most important intervention for more investment in WE4F nexus during/after COVID-19*

- Another organization offering a first-loss investment alongside your investment: 27%
- Assistance sourcing new clients or projects to invest in: 27%
- Another organization offering reimbursable or normal grants offered alongside your investment: 27%
- Technical assistance offered alongside your investment: 9%
- Financial guarantees from a third party: 9%

- Most investors would consider opportunities more attractive if portfolio companies had access to supplemental grants offered by other organizations alongside their investment.
- Outside of capital support, investors valued due-diligence support and technical assistance pre-and post investment.
- Investors eager to invest in the nexus requested support in sourcing viable investment opportunities.
- There was no observable positive or negative impact of COVID-19 on gender lens investment strategies.

- Competition commission fees are high (USD 8,000), which is a barrier. First-loss investments and donor funded due-diligence would be attractive. - Private Equity GP
- First-loss investment and financial guarantees from third parties would also be helpful. - SME impact investor
- "The pandemic has revealed that businesses have to push more towards digital and that as investors we need to be more local. We are now hiring more local professionals and moving away from having a team that predominantly sits in London.” - Impact investor
Supporting private equity investment into promising innovators can fast track their scalability

Private equity investors play a significant role in expanding businesses in the region

- There is high potential to drive innovation in the region through investing in smaller younger firms that are overlooked by larger private equity investors
- Smaller enterprises are expected to have a more significant growth trajectory within 5 years
- Younger enterprises are more inclusive and have more emphasis on females and youth in their businesses and value chain

WE4F can build on and enhance this support to promote job creation and economic viability

- WE4F can provide support to private equity firms to identify pipeline and assist in investment due diligence
- This can help newer private capital firms raise meaningful capital and develop investment strategies across the region that target smaller companies
- WE4F can bridge the existing gap in access to finance between larger and smaller businesses

Strong private equity role in Southern Africa is reflected by several larger enterprises having existing private equity investors

Private equity backed enterprises benefit from hands on mentorship from seasoned professionals, with access to additional funding

Enterprises without sophisticated backers are unable to tap into knowledge banks during unexpected market events like COVID-19

With equity being more viable to fund expansion plans, encouraging equity investments will have a positive effect on WE4F enterprise growth
Consistent with themes in prior assessments, providing increased pre- and post-transaction support, first-loss capital and innovative structures can prove catalytic

<table>
<thead>
<tr>
<th>Key issues</th>
<th>Recommendations</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Common themes/barriers</strong></td>
<td>▪ Limited pipeline of investable projects</td>
<td></td>
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<tr>
<td></td>
<td>▪ Investors have a high perceived level of risk pre-investment and post-investment (e.g. poor financial literacy of management)</td>
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<td></td>
<td>▪ Facilitate operational and technical support pre- &amp; post-investment to build a stronger group of portfolio companies</td>
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<td></td>
<td>▪ Support commercial due diligence services for smaller transactions and firms with strong impact on the nexus – decreasing the transaction costs</td>
<td></td>
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<tr>
<td></td>
<td>▪ Provide affordable guarantee structures or supplemental grants to incentivize investment in smaller-ticket investments</td>
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<tr>
<td></td>
<td>▪ Fund first-loss tranches and loan guarantees to help de-risk commercial or impact investors</td>
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<tr>
<td><strong>Other regional considerations</strong></td>
<td>▪ High degree of informality and lack of required documentation</td>
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<tr>
<td></td>
<td>▪ Lack of financial literacy to manage investments efficiently</td>
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<td></td>
<td>▪ Limited joint development of investment opportunities</td>
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<tr>
<td></td>
<td>▪ Capital controls limiting repatriation of funds and high currency fluctuations</td>
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<tr>
<td></td>
<td>▪ Provide introductions to capital providers’ existing TA/BAS teams to expand their services and enterprises supported</td>
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<tr>
<td></td>
<td>▪ Establish a deal/networking platform for investors or partner with external platforms (i.e. Orbitt) to drive investor awareness of vetted opportunities</td>
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<tr>
<td></td>
<td>▪ Offer milestone grants and repayable grants to de-risk investment and give recipients an opportunity to demonstrate track record of disciplined financial management</td>
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<td></td>
<td>▪ Provide first-loss investments to increase investor confidence in bankable opportunities</td>
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<tr>
<td><strong>COVID-specific considerations</strong></td>
<td>▪ Increased cautiousness in deploying capital</td>
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<tr>
<td></td>
<td>▪ Travel restrictions limit ability to undertake due diligence</td>
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<tr>
<td></td>
<td>▪ Sector viability/trends change rapidly</td>
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<td></td>
<td>▪ Support virtual platforms to facilitate pre-investment due diligence to get deals across the line and create a transaction unit that can support on-the-ground due diligence requests</td>
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<tr>
<td></td>
<td>▪ Engage throughout the investment process, and utilize case studies and sector insights to showcase success stories and key market insights within the WE4F nexus to attract new investors and reassure existing ones, e.g. via program website or newsletters</td>
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<tr>
<td></td>
<td>▪ Consider providing bridge financing solutions for businesses with prospective investors with delayed investment timelines to enable the highest impact (i.e. Open Road Alliance)</td>
<td></td>
</tr>
</tbody>
</table>

Source: WE4F analysis and firm interviews
6. Service providers
Eight out of the 18 profiled service providers operate in multiple countries across the region, and the majority offer strategy and management consulting services.

18
Service providers profiled across the region

11
Service providers with an agriculture and agribusiness sector focus

7
Service providers offering business and supply chain development

7
Service providers offering transaction advisory or facilitation services

9
Service providers focused on business strategy development

2
Service providers focused on technical and engineering services

2
ESG specialist service providers

---

1 Transaction advisory or facilitation services include engagement with investors, capital raising, identification of key growth partners / business mentors;
2 Business strategy development includes drafting business plans, performing market research and analysis, creating performance measurement methodologies and others

Sources: Business advisor interviews; Team analysis
Many service providers operate successful commercial business models, leveraging diversified service toolkits, vast regional footprints, strong sector track record, and strategic partnerships.

Service providers deploy a diverse range of business models (#)

- Majority of the profiled service providers operate commercial business models. However, many service providers:
  - Minimize service costs to small enterprises by subsidizing their commercial rates with donor funding
  - Have well-developed service toolkits they can deploy across their regional footprint
  - Have a track record of servicing WE4F nexus clients
  - The few service providers who offer services for free are fully funded by government and/or donors
  - Providers source new clients by leveraging existing partnerships with both donor and commercial partners
  - Donor partnerships allow providers to offer partial or complete pre-funded business advisory services, reducing overall transaction costs and market information asymmetry
  - Commercial partnerships with banks and other financial institutions allow service providers to co-create new products and business solutions that benefit smallholder farmers and other small businesses by reducing their risk profile

Sources: Business advisor interviews; Team analysis
Demand for TA and advisory services becomes varied as aggregate investment amount increases, and highly demanded services in the region can be readily met by service providers.

**Demand for technical assistance and business advisory service by country and type (%)**

<table>
<thead>
<tr>
<th>Total investments sought, USDm</th>
<th>Chad</th>
<th>DRC</th>
<th>Eswatini</th>
<th>Lesotho</th>
<th>Mozambique</th>
<th>Namibia</th>
<th>South Africa</th>
<th>Zambia</th>
<th>Zimbabwe</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.2</td>
<td>100%</td>
<td>100%</td>
<td>33%</td>
<td>33%</td>
<td>17%</td>
<td>33%</td>
<td>42%</td>
<td>20%</td>
<td>29%</td>
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<tr>
<td>0.03</td>
<td></td>
<td></td>
<td>67%</td>
<td>67%</td>
<td>17%</td>
<td>17%</td>
<td>8%</td>
<td>20%</td>
<td>29%</td>
</tr>
<tr>
<td>5.1</td>
<td></td>
<td></td>
<td>17%</td>
<td>17%</td>
<td>42%</td>
<td>17%</td>
<td>17%</td>
<td>20%</td>
<td>29%</td>
</tr>
<tr>
<td>0.2</td>
<td></td>
<td></td>
<td>33%</td>
<td>33%</td>
<td>42%</td>
<td>8%</td>
<td>8%</td>
<td>20%</td>
<td>29%</td>
</tr>
<tr>
<td>7.0</td>
<td></td>
<td></td>
<td>17%</td>
<td>17%</td>
<td>17%</td>
<td>8%</td>
<td>8%</td>
<td>20%</td>
<td>29%</td>
</tr>
<tr>
<td>0.19</td>
<td></td>
<td></td>
<td>33%</td>
<td>33%</td>
<td>17%</td>
<td>25%</td>
<td>40%</td>
<td>14%</td>
<td>29%</td>
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<tr>
<td>30.3</td>
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<td></td>
<td></td>
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<tr>
<td>22.5</td>
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<td></td>
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<td></td>
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<tr>
<td>20.6</td>
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</tbody>
</table>

- Technical assistance and business advisory services become varied as aggregate investment amount increases
- Enterprises in larger economies demand higher amounts of investment capital and support services:
  - Higher individual ticket sizes of profiled companies
  - Higher numbers of WE4F eligible enterprises that meet the size and growth indicator thresholds, which also enhances opportunities to drive profitability for service providers
- Most enterprises require transaction advisory, general business development and business strategy services in the short and medium term
  - The services demanded directly mimic the spread of services supplied by majority of the profiled service providers, demonstrating a clear opportunity for WE4F to include matchmaking and linkage interventions in the program
- Service providers can readily assist enterprises with business needs using current toolkits
- Service providers operating in this space mainly have a regional or multi-country footprint, which helps them overcome the challenges related to the shallow markets of individual countries

Sources: Business advisor interviews; Team analysis
Strategy and management consultants are positioned as a one-stop shop to help enterprises overcome key business challenges such as capital raising and efficient cash flow management.

### Observations on WE4F nexus client business challenges

- **Growth-stage enterprises have limited knowledge about the type of capital instruments available and suitable**
- **Firms have limited understanding of various types of investors’ capital raising process and the appropriate investment period given technology’s useful life**
- **Nexus firms have difficulty managing distribution channels and other logistics of getting goods to market at competitive pricing**
- **Businesses operating in new product research and development require frequent upskilling, which can become expensive**
- **Less developed businesses require more investor readiness assistance and often require multiple rounds of funding to be viable**
- **Firms require financial planning support to effectively forecast and manage cash flows**
- **In countries where currency is volatile, WE4F nexus clients struggle to maintain accurate, consistent and reliable financials**
- **Nexus firms often have poor operational efficiency and governance structures to attract appropriate capital**

### Relevant service providers profiled

- **Strategy / management consultant**
- **Technical / engineering advisor**
- **Compliance consultant - ESG**
- **Lobbyist / public sector engagement consultant**
- **Other (e.g. SME incubators, economics consultants, supply chain management)**

### Number of profiled service providers

- **Strategy / management consultant**: 9
- **Technical / engineering advisor**: 2
- **Compliance consultant - ESG**: 2
- **Lobbyist / public sector engagement consultant**: 1
- **Other**: 4

Sources: Business advisor interviews; Team analysis
Building partnerships between service providers across the region would create opportunities for country- and sector-specific knowledge transfer, and capacity building for larger contracts.

- Service providers operating in more than 6 countries employ between 8 - 42 consultants
- Service providers that have worked across more regions are likely to bring added value to enterprises due to their knowledge of different markets and business environment.

Sources: Business advisor interviews; Team analysis
Service providers recognize the importance of gender, youth, and BoP integration and therefore have incorporated a positive bias lens in their M&E frameworks.

- **Gender and youth integration**: Service providers typically assist with monitoring and evaluation of these matrices, build key performance indicators based on industry best practice, recommend integration strategies and identify investments with noticeable gender and youth impact.
  - On average, **56% of service provider consultants are women and 39% are youths**. Some service providers have youth internships to upskill youth and combat national youth unemployment rates.
- **BoP initiatives**: Service providers who focus on BoP primarily work to upskill unemployed women and youth, promote job creation, and formalize businesses.
  - Service providers believe that their work in sustainable agribusiness and supply chain development directly benefits BoP communities.
  - Some service providers only support enterprises that focus on impacting BoP empowerment, thereby indirectly benefiting BoP communities.

---

**Gender, youth and Base of the Pyramid (BoP) impact is a primary concern for service providers**

<table>
<thead>
<tr>
<th>Service providers with gender advocacy initiatives (% total)</th>
<th>Service providers with youth empowerment initiatives (% total)</th>
<th>Involved in projects that empower consumers at the base of the pyramid (BoP)(% total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>78%</td>
<td>89%</td>
<td>72%</td>
</tr>
<tr>
<td>Gender inclusion projects</td>
<td>Youth inclusion projects</td>
<td>BoP projects</td>
</tr>
<tr>
<td>Gender inclusion projects</td>
<td></td>
<td>Works directly with BoP communities</td>
</tr>
<tr>
<td>73%</td>
<td>79%</td>
<td>38%</td>
</tr>
<tr>
<td>of all projects are in part about gender inclusion</td>
<td>of all projects are in part about youth inclusion</td>
<td>Works indirectly with BoP communities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>23%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Works both directly and indirectly with BoP communities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>38%</td>
</tr>
</tbody>
</table>

Sources: Business advisor interviews; Team analysis
The demand for ESG services motivates service providers to expand their current advisory toolkits to help enterprises manage resources and remain resilient.

Service providers recognize the importance of ESG and incorporate related services in general advisory.

- **Resource management**
  - Provide sustainable management of natural resources (e.g., integrated water management, biodiversity conservation, soil management).
  - The aquaculture advisors promote environmentally responsible fisheries development and focus on water efficiency in food production:
    - A South African service provider works to improve entrepreneurs' soil quality and carbon content to promote sustainable soil use.
    - A South African service provider has built frameworks for governments that take soil management into account, promoting productive carbon-rich soil.

- **Climate resilience**
  - Provide climate resilience services (e.g., drought and flood management).
  - More technical service providers focus on infrastructure advisory and ESG practices that more practically address climate change:
    - Some service providers are assisting enterprises with climate resilience R&D and IoT offerings as well as assisting with resource management.
    - A Pan-African service provider advises entrepreneurs on the integration of renewable energy, precision integration and natural resource management.

ESG service providers in the region comply with international standards and incorporate customized measures in advisory:

- Impact Reporting and Investment Standards (IRIS) is the key standard used.
- Most ESG providers offer compliance reporting, while others focus on advisory.
- Investors and Service Providers that have inhouse ESG specialists offer this service externally, demonstrating increased awareness of and demand for ESG advisory.

- **Unknown** 17%
- **ESG provider** 50%
- **Non ESG provider** 33%

Sources: Business advisor interviews; Team analysis.
COVID-19 has presented unprecedented challenges to enterprises; however, service providers feel equipped to support clients in keeping their businesses operational

<table>
<thead>
<tr>
<th>Service provider clients are primarily concerned with their ability to pay salaries and be resilient through the pandemic</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Other related concerns cited by service providers include managing cash reserves, retrenching staff, and accessing new markets to diversify revenue streams</td>
</tr>
<tr>
<td>• 15 of the profiled service providers believe that business will return to pre-COVID-19 revenue/operations while three believe that business will normalize only after 2022</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Importing and exporting clients are concerned about their ability to gain access to necessary inputs and inventory to continue operations</th>
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<tbody>
<tr>
<td>• In many countries across the region, border restrictions or closures have been mandated by government</td>
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<tr>
<td>• Clients’ inability to supply their customers at the usual rate, coupled with restricted customer movement and self-isolation may shift consumer behavior in the long run</td>
</tr>
<tr>
<td>• This change may result in an indefinite reduction of demand, leading to businesses shutting down</td>
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</table>

<table>
<thead>
<tr>
<th>Both enterprises and service providers have adapted swiftly to meet new market demands</th>
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</thead>
<tbody>
<tr>
<td>Many enterprises have embraced online payments to reduce physical contact</td>
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<td></td>
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<tr>
<td>Some enterprises operating in restricted industries have repurposed current machinery to develop new revenue generating streams</td>
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<tr>
<td></td>
</tr>
<tr>
<td>Most service providers have adapted their service toolkits to respond to new business needs</td>
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</table>

94% of the profiled service providers feel equipped to assist clients with COVID-19 related needs, increasing likelihood of business survival

Sources: Business advisor interviews; Team analysis
Although service providers have not seen many businesses shut down due to COVID-19, non-essential services and companies that depend on informal markets have been hit the hardest.

- Service providers have generally seen pipelines in the tourism and hospitality industries suffer the most
  - National lockdowns have restricted tourism and hospitality industry trade
    - Restaurants, hotels, small businesses and cafes have experienced partial or complete shutdown as per country lockdown procedures
    - As these industries are some of the largest employers in the region, this has directly increased unemployment rates
  - Limitations of consumer movements, and discretionary spending due to job losses and pay cuts have also reduced demand for discretionary services

- Informal businesses or entrepreneurs that rely on informal markets are experiencing challenges with access to customers
  - Passenger transportation and cross-border logistics companies have experienced reduced demand

Service providers have not seen businesses fail due to COVID-19

<table>
<thead>
<tr>
<th>Have seen businesses fold as a result of COVID-19 (% total)</th>
<th>Yes</th>
<th>28%</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>72%</td>
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</tbody>
</table>

Service provider clients and therefore service providers themselves remain largely unaffected by the COVID-19 pandemic in the short run

- The agribusiness sector has been regarded as an essential service and have, for the most part, been allowed to continue operations under lockdown restrictions
- In countries with distressed on-grid electricity and water supply, renewable energy companies and water drillers and distributors have also been allowed to operate in support of public sector supply shortages
- While some companies were less affected in the short run, service providers expect those companies may still experience challenges in the medium to long term due to the overall contractions of regional economies

Sources: Business advisor interviews; Team analysis
Investment facilitation and market access are critical interventions required during and after the COVID-19 pandemic to enable nexus firms to remain operational and expand sustainably

40% of service providers already engage smaller enterprises; 33% would require fee subsidies and 17% would require grant capital

**Intervention support during COVID-19**

- Performed risk assessment of COVID-19 (% of total)
  - Yes: 56%
  - No: 44%

- Enterprises do not have capacity to build action plans in response to COVID-19
  - Service providers believe that businesses need to pivot in response to the pandemic, and implement ESG goals and policies for long-term sustainability
  - Assisting enterprises with compliance with health and safety regulations and operational efficiency measures would be beneficial

- Service providers believe that creating more linkages between small businesses and corporates will lead to sustainable growth
  - African Business Group is initiating a seed fund to support early-stage agripreneurs to further their reach

**Interventions post COVID-19**

- Most critical support requirements over the next 6-12 months (#)
  - Investments: 16
  - Market access: 9
  - Salary reimbursement: 5
  - Specialised TA: 4
  - Easing of regulations: 4
  - Deferment of taxes/fees: 2
  - Other: 1

- Additional capital and market access will be critical in the medium term
  - Enterprise needs do not shift materially when considering the post-COVID-19 business environment. It is likely that a “new normal” will be established, making it challenging to predict consumer behavior and sales demand going forward
  - Diversifying demand across regions and customer segments will be necessary

Providing capital raising support and market access support will have a tangible impact on struggling enterprises

- Assisting with identifying the right strategic partners for entering new markets, understanding new regulatory environments and heightened health and safety standards is critical
- Introducing firms to appropriate financial and strategic investors will unlock mentorship opportunities and potential synergies for the enterprises

Sources: Business advisor interviews; Team analysis
Service provider assistance with pilots and R&D will make nexus firms regionally competitive; and COVID-19 specific immediate assistance will ensure nexus enterprises survive the crisis

### Key issues

<table>
<thead>
<tr>
<th>Common themes/ barriers</th>
<th>Other regional considerations</th>
<th>COVID-specific considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprises do not typically build specialized skillsets for expansion or capital raising internally</td>
<td>Many service providers focus on early-stage support</td>
<td>Businesses do not have the capacity or technical know how to implement and comply with heightened health and safety standards in response to COVID-19</td>
</tr>
<tr>
<td>Most enterprises cannot afford to cover the cost of service providers</td>
<td>Enterprises are finding it challenging to find new markets and to export their products</td>
<td>Enterprises’ expansion plans are affected by the COVID-19 pandemic both from a financial and logistical standpoint</td>
</tr>
<tr>
<td>Due to a lack of experience with service providers, enterprises have difficulty identifying the type of service needed and the appropriate provider to engage</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Recommendations

| | Support enterprises and investors with subsidized TA or advisory services with specific focus on scaling and growth advisory |
| | Partner with service providers to build in-house expertise for WE4F and organize capacity building workshops and targeted training (e.g. business expansions and strategic partnerships) for relevant firm employees to build specialized skillsets for expansion |
| | Source, vet, and coordinate TA and investment advisory service providers that can continuously remain available to support enterprises for their highest needs |
| | Incentivize local TA firms to form partnerships with more experienced firms to create an ecosystem of knowledge sharing, e.g. by becoming pre-approved advisors under the WE4F program (similar to INVEST) |
| | Grants can support sector-wide service provider functions around the most requested needs (e.g. technical assistance with market access, and exports) |
| | Link BAS and TA outcome to clear and measurable metrics to better track successes and measure impact |
| | Source, vet, and coordinate TA and investment advisory service providers that can immediately support the businesses at risk of closing in the next 3-12 months |
| | Subsidize COVID-19 specific response offerings to ensure that enterprises remain compliant and are able to pivot in accordance with the “new normal” of the business environment |
| | Form a technical assistance unit to promote market access and assist with heightened health and regulatory standards as a result of COVID-19 |

Source: WE4F analysis and firm interviews
Opportunities for WE4F support
WE4F can play a key role in addressing the urgent challenges resulting from COVID-19, supporting short term resilience and medium-term return to growth

**Enterprises face immediate challenges, putting pressure on cash flow and growth**
- Enterprises face unexpected business slow downs and cashflow pressure from lower sales and delays in arranging new financing
- Logistics being disrupted and border restrictions result in slower export sales and severe delays for imported input materials
- Enterprises do not have the capacity or technical know how to implement and comply with heightened health and safety standards in response to COVID-19
- Investors have increased cautiousness in deploying capital and observe rapid shifts in sector viability/trends
- Travel restrictions limit ability to undertake due diligence

**WE4F should provide crucial support in facilitating recovery...**
- Source, vet, and coordinate TA and investment advisory service providers that can immediately support the businesses at risk of closing in the next 3-12 months
- Facilitate engagement with investors to adjust loan and investment terms
- Support companies with applying for alternative sources of bridge or COVID-19 relief funding
- Form a technical assistance unit to promote market access and assist with heightened health and regulatory standards as a result of COVID-19
- Support virtual platforms to facilitate pre-investment due diligence, coupled with a transaction unit that can support on-the-ground due diligence requests
- Engage throughout the investment process, and utilize case studies and sector insights to showcase success stories and key market insights within the WE4F nexus to attract new investors and reassure existing ones
- Supporting TAs with capacity building to respond holistically to COVID-19 challenges (e.g. webinars to share best practice)

**...and provide capital solutions to ameliorate financing barriers**
- Select enterprises through a first round of call for proposals focused on selecting companies that require support to counter the impact of COVID
- Provide rapid relief grants, repayable grants or concessional debt to viable enterprises facing COVID-19 specific challenges
- Use milestone grants and matching debt to lower overall financing costs
- Consider providing bridge financing solutions for businesses with prospective investors and delayed investment timelines
- Provide guarantees and first loss tranches to encourage investors to reach financial close
- Provide first-loss investments or subsidize pre-investment DD to increase investor confidence in bankable opportunities
- Develop equity/debt guarantees or grant capital matching to de-risk the investment
Greater coordination among firms, investors and service providers, along with judicious deployment of grant capital, will accelerate growth in WE4F nexus sectors

Innovators face multiple barriers to achieving scale and securing financing for expansion

- Lack of outside capital makes it difficult for enterprises to deploy the necessary working capital to drive scale or to invest in R&D to make their products more competitive in new markets
- Enterprises generally do not have existing relationships with financial or strategic investors and face challenges in souring and selecting the appropriate TA provider
- Innovators lack adequate financial literacy to run a capital raise or to manage their finances, creating challenges in the pre- and post-investment process
- Enterprises lack visibility on the representation of women and youth across their value chain
- Some investors are hesitant to invest in smaller firms that do yet not meet ticket size cutoffs, display a high degree of informality, or lack management depth
- Most enterprises cannot afford to cover the cost of TA services
- Many TAs focus on early stage support
- Lack of joint development of opportunities between investors as well as between TAs reduce knowledge sharing and deal flow

WE4F can facilitate connections and align support...

- WE4F should form a technical assistance unit and a brokering unit to promote or directly establish investor connections
- Units should also work to reduce information gaps by fostering connections and collaborations between investors and between TAs
- In addition to brokering connections, units should develop capacity building workshops and targeted training (e.g. business expansions and strategic partnerships) to local firms to facilitate pre-investment processes and support expansion strategies
- Units should be staffed and equipped to perform limited initial due diligence of their own in order to understand the nature of entrepreneurs' challenges and recommend the most efficient and holistic solution, and refer to a suitable service provider for further assistance
- WE4F may support enterprises and investors with subsidized TA or advisory services that have clearly defined/tangible outcomes linked to business growth
- WE4F should promote youth and women empowerment, through metric driven approaches, including a fit check process in calls for proposals

…while deploying targeted grant capital to catalyze growth initiatives

- Conduct a second round of call for proposals focused on selecting companies that require support for business growth and scaling
- Provide grant structures including milestone grants, repayable grants and concessional debt/equity with a priority on feasibility studies, and the implementation of product/service development, pilots, and well-vetted multi-dimensional expansion plans (covering further growth initiatives in existing markets as well as regional expansion)
- Provide financial assistance to companies piloting end user finance as an expansion strategy
- Prioritize support for investors that provide working capital facilities for high potential enterprises to tap into
- Grants may be structured as first-loss investments to increase investor confidence in bankable opportunities
- Affordable guarantee structures or concessional capital may be offered to incentivize investment in smaller-ticket investments
- Support commercial due diligence services for smaller transactions and firms with strong impact on the nexus – decreasing the transaction costs
- Work with investors to require women and youth related ESG metric tracking from nexus investees
Coordination and collaboration with WE4F Hubs across Africa will enhance WE4F’s capacity in Southern Africa for effective and impactful interventions

<table>
<thead>
<tr>
<th>Programmatic lessons learned</th>
<th>Innovator value chains</th>
<th>Ecosystem partnerships</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Sharing implementation best practices and lessons learned will shorten feedback loops, allowing WE4F teams to act with greater responsiveness to innovators’ evolving needs and stakeholders’ evolving roles</td>
<td>• As innovators grow and look to enter new markets, intersections with WE4F regional Hubs and Hubs’ innovator value chains can unlock opportunities for collaboration and expansion</td>
<td>• Synergies with complementary donor programs across sub-Saharan Africa will increase WE4F’s awareness of opportunity for sustainable impact</td>
</tr>
<tr>
<td>• Sharing approaches to the programmatic incorporation and measurement of key operational and impact indicators will allow WE4F teams to more effectively serve cross-cutting program elements while maintaining focus on primary outcomes</td>
<td>• Best-practice innovator business models and non-proprietary operational and managerial practices can be shared between Hubs’ technical assistance and brokering teams</td>
<td>• Relevant programs implemented by WE4F Founding Partner governments can let WE4F in Southern Africa offer innovator graduates a continuum of touchpoints on their post-WE4F growth journey</td>
</tr>
</tbody>
</table>
Appendix – sectors
Biomass/Biogas – Agricultural waste is used to produce renewable energy and fertilizer, increasing farmers’ incomes and reducing landfills

- Biomass/Biogas is a type of biofuel naturally produced from the decomposition of organic matter, to turn waste into a source of usable energy.
- Profiled company procures agricultural waste for power production from local smallholders.
- The procurement of waste generates income for farmers who can reinvest that income to gain access to cheaper, renewable energy, or to procure farming inputs.
- Biogas is used to produce fertilizer used in aquaculture, hydroponic, and other agricultural farming processes.
- Progress has been made in the development of small-scale or household biogas systems in the region, with commercial systems still nascent.

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
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<tbody>
<tr>
<td>No. of profiled companies</td>
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<tr>
<td>Total sector investment demand</td>
<td>US$6.0m</td>
</tr>
<tr>
<td>Sector demand for equity</td>
<td>US$0.0m</td>
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<tr>
<td>Sector demand for debt</td>
<td>US$4.5m</td>
</tr>
<tr>
<td>Average firm investment demand</td>
<td>US$6.0m</td>
</tr>
</tbody>
</table>

*Includes demand for grant, combinations of debt and grant, and/or combinations of equity and grant
Data/Optimization – Agricultural analytics have the potential to drive efficiencies in the agricultural production process

- Agricultural analytics from data collection and process optimization focuses on developing systems that enhance yield production pre, during, and post planting.
- All profiled companies are South African and a common themes is a strong focus on R&D and smallholder adoption.
- Profiled enterprises provide solutions for pest and disease management, crop identification soil and water management and yield management use cases.
- Precision agriculture is becoming more critical as temperatures rise, water resources deplete, and extreme weather events such as floods and droughts occur.
- Smartphone adoption across the region is still low, therefore USSD, SMS and other technology simplifications are required to reach farmers.

<table>
<thead>
<tr>
<th>No. of profiled companies</th>
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<tbody>
<tr>
<td>Total sector investment demand*</td>
<td>US$3.2m</td>
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<tr>
<td>Sector demand for equity</td>
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<td>Sector demand for debt</td>
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<td>Average firm investment demand</td>
<td>US$788k</td>
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</table>

*Includes demand for grant, combinations of debt and grant, and/or combinations of equity and grant
Energy Infrastructure – Providers focus on off-grid solar generation solutions to enable irrigation and processing in the agriculture sector

- The Southern African region is currently facing an energy generation crisis with frequent and elongated national level power cuts. Shortages in on-grid electricity supply, high tariffs and lack of grid access in rural areas create a significant opportunity for renewables energy suppliers to provide off-grid alternatives for business and at home usage.
- Renewable energy providers are mainly focused on solar power generation to power water drilling and irrigation for the agriculture sector.
- Solar powered agro processing facilities have potential to increase farmer capacity to negotiate pricing through increased access to cold storage and value-added processing such as drying of fresh produce, enhancing incomes.

<table>
<thead>
<tr>
<th>No. of profiled companies</th>
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<tbody>
<tr>
<td>Total sector investment demand*</td>
<td>US$43.6m</td>
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<tr>
<td>Sector demand for equity</td>
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<td>Sector demand for debt</td>
<td>US$10.5m</td>
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<tr>
<td>Average firm investment demand</td>
<td>US$2.4m</td>
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</tbody>
</table>

*Includes demand for grant, combinations of debt and grant, and/or combinations of equity and grant
Fisheries – With fish and protein demand across the region is on the rise, innovations in aquaculture can result in significant water and energy savings

- While demand for fish and other animal proteins increased across the region, fisheries and aquaculture firms are constrained by a lack of improved feeds and inputs, and shortage of water supply, cold storage facilities, technical training and market access.
- These constraints present market opportunity for the profiled enterprises that provide quality feed produced from recycled fish waste, and fish farms which recycle water used in the fish production process.
- Profiled business demonstrate that the development of strong distribution networks through local outlets allows them to access to local markets, with limited cold storage and intermittent power cuts as key challenges.

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<thead>
<tr>
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<th>Value</th>
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<tbody>
<tr>
<td>No. of profiled companies</td>
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<tr>
<td>Total sector investment demand</td>
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<tr>
<td>Sector demand for equity</td>
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<td>Sector demand for debt</td>
<td>US$15.1m</td>
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<tr>
<td>Average firm investment demand</td>
<td>US$6.0m</td>
</tr>
</tbody>
</table>
Inputs/Planting – Access to high quality seeds, growing bases and greenhouse technology can increase farmer yields, with some innovations geared towards domestic food production

- Profiled companies provide seeds for small scale farming to encourage urban households to produce their own food, resulting in an increase in small scale food production and incomes.
- Profiled companies also supply large small-scale commercial farmers with hydroponic and aquaponic farming inputs to reduce water usage by 80% more than traditional agriculture.
- A key subsector focus has been on supplying seeds and agricultural equipment for irrigation. Access to high quality seeds can impact farmer yields significantly. Companies operating in other subsectors such as energy infrastructure and irrigation also provide seeds to farming customers which increases access points for local producers.

<table>
<thead>
<tr>
<th>No. of profiled companies</th>
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<tbody>
<tr>
<td>Total sector investment demand*</td>
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<tr>
<td>Sector demand for equity</td>
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<tr>
<td>Sector demand for debt</td>
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<tr>
<td>Average firm investment demand</td>
<td>US$1.0m</td>
</tr>
</tbody>
</table>

*Includes demand for grant, combinations of debt and grant, and/or combinations of equity and grant
Irrigation technology – Most technologies are geared towards smallholder farmers. However, with limited end user financing and training, access and effective use of technology is limited.

- Irrigation are controlled methods of water supply at regular intervals for agricultural production.
- The region has faced significant water scarcity due to frequent droughts and degradation of surface water resources, necessitating effective water management.
- Profiled companies develop varying irrigation systems targeting smallholder farmers, including irrigation monitoring services.
- One of the profiled companies noted that end user financing on systems could cost between $120 - $9k, reflecting challenges of access to irrigation technology which limit the potential growth of yields and income.

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<tbody>
<tr>
<td>No. of profiled companies</td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>Total sector investment demand</td>
<td></td>
<td>US$10.8m</td>
</tr>
<tr>
<td>Sector demand for equity</td>
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<td>US$8.2m</td>
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<tr>
<td>Sector demand for debt</td>
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<td>US$2.6m</td>
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<tr>
<td>Average firm investment demand</td>
<td></td>
<td>US$1.2m</td>
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</tbody>
</table>