As the SGB Investment sector seeks to thrive despite the recent upheavals and particularly the uncertainties created by the COVID-19 Pandemic, it is crucial that stakeholders continue to play their individual roles but more importantly prioritize working together. This workshop focused on the various activities involved in developing the investment pipeline from sourcing to impact and also highlighted how stakeholders could improve connectivity between the actors in the Investment pipeline: Incubators, Accelerators, Business Development Support Providers, and Investors.

**Facilitators**
- John Scicchitano, President, Pangea Ventures
- Nelson Amo, CEO, Innohub
- Yvonne Ofosu-Appiah, Chief Investment Officer, Wangara Green Ventures
- Sharda Vishwanathan, Business Development Lead, coLABS
- Jeff Stine, Managing Director, Vested World

**Introduction**

- **Nelson Amo, CEO, Innohub**

As intermediary organizations, we work with entrepreneurs from sourcing to providing different services that bring them towards investment readiness. While there are many actors currently providing entrepreneurial support at different levels, we want to promote the idea that there's actually a continuum or a series of services involved in developing the SGB investment pipeline.

In looking at the SGB investment continuum, this conversation focuses on one side on the challenges investors face while trying to find the right kind of deals, and on the other side, how SGBs complain about not having investors to do deals with them. Hence, we see a disconnect between the various players involved in getting a deal done. We will also consider all the players involved in the process and explore how we can optimize the role of these players.

**The SGB Investment Continuum**

**Stage 1: Identify**

Key Player: Incubators/Accelerators
Incubators and accelerators start off with designing and promoting various programs within an application, then they receive applications, and select those with whom to work.

**Stage 2: Incubate**

Key Player: Incubators/Accelerators
Here, they train, mentor, and help selected organizations design their growth strategies.

**Stage 3: Deal Readiness**

Key Player: Business Development Providers
This stage involves a full deal room set-up and documentation.
Stage 4: Investor Matching  
**Key Player:** Business Development Providers  
Here, investors are identified and engaged.

Stage 5: Invest  
**Key Player:** Investors  
This final stage includes due diligence, closure, and impact monitoring.

Challenges Along the Continuum  
**Incubators/Accelerators**  
- The early stages of the continuum are poorly funded.  
- Program design challenges.  
- Not always attractive to quality staff and start-ups.  
- They are unable to do seed investments.

**Business Development Providers**  
- Limited pipeline options.  
- Businesses are unable to pay for business development services.

**Investors**  
- Very limited pipeline options  
- Ventures are usually not investment ready

**Framing the Challenge: Connecting Agribusinesses with Appropriate Capital**  
- **John Scicchitano, President, Pangea Ventures**  
In framing the challenges within the SGB investment space, the following are identified:  
**The Entrepreneur:** What do I need for my company to grow and how do I get it?  
**Investor:** How do I build a thick pipeline of investable companies?  
**ESO:** How do I bridge the gap between entrepreneurs and investors?

The problem is that the partners within the space do not see the investment process as a continuum and so there is a lot of unhealthy competition rather than collaboration. There should be more collaboration and actors need to see it as more like a relay race with the services being handed off from one actor to another.

Incubators and accelerators play a critical role in sourcing for great companies, especially in rural areas. It takes time and critical skills like communication and financial literacy on the part of the incubators and accelerators, therefore, there is a need to collaborate with these providers.

**What can Investors do better in this area?**  
Some investors provide technical advisory facilities, but these tend to be for large funds – the challenge is how we can provide scaled-down technical advisory facilities for smaller funds.
Business Advisory Services and Management Consulting
With regards to business advisory services and management consulting in the world, large management consulting firms exist but they do not provide services for SGBs. While they play a role in writing reports and supporting the missing middle growth generally, they are not handholding these organizations and/or providing management consulting services at a scale that is appropriate for the SGBs.

Size of Investment
For ESOs there’s a challenge to find investment sizes for the missing middle, and fortunately, there is an increasing number of investors that are looking at the capital needs of SMEs between $100,000 to $1,000,000. Some organizations do provide some seed funding, perhaps in the range of $10,000 to $50,000, but once that is gotten, there is a wide gap until the company can get to a million dollars or more. The challenge here is how can this gap in the middle be addressed? What can we learn from some of the investors that are finding ways to create funds that are smaller or have smaller ticket sizes?
It is challenging for investors to do these smaller ticket sizes because of the cost of due diligence – but is there a way to find the right provider to give these kinds of funds? Should this be managed by incubators or are there ways to create these partnerships with incubators?

Investor’s Experience

Wangara Green Ventures
- Yvonne Ofosu-Appiah, Chief Investment Officer
Wangara is an impact investing company based out of Accra, Ghana, that invests in early-stage businesses in the local currency, Ghana cedi, in amounts of the equivalent of $50,000 to $500,000, in the first round but there is an opportunity to follow on for up to $1,000,000. Investment is mainly for financial return, and then also for environmental impact. We’ve been in operation since 2018. We made our first few deals in 2020, after screening over 200 companies - so that’s more of a success rate of 1%, and over the years, we’ve seen that one of our biggest pain points has been sourcing quality deals.

Most companies are not investment ready, and then even when they are investment-ready, we realize we are not deal ready yet. Over the years, we have noticed that challenges come mainly from these investee companies or prospects not having the right documents that we need. Most of them also do not have appropriate business plans, and their plans usually will some tweaking. What has worked for us is to form partnerships with incubators and accelerators in Ghana. One way this has been beneficial is with pipeline building. Another is the pre-investment readiness and post-investment readiness support that these accelerators provide.

Our work is in making deals and before we send a deal to the investment committee, we want to make sure that they are deal ready. Accelerators and incubators support us by doing a background check on the entrepreneurs since they have worked with them through some programs and can let us know about the entrepreneurs and their organizations.
coLABs
- Sharda Vishwanathan, Business Development Lead

I lead business development for Co-Lab which is an early-stage gender-focused portfolio that was launched by Green Meadows Capital, a private foundation based in Atlanta. We have committed $5,000,000 to invest in market-driven businesses that have a positive impact on demand and are currently focused in East and West Africa, with a ticket size of $100,000 - $250,000, and our current portfolio spans across seven countries and several sectors that include agro-tech, healthcare, and livelihoods.

In funding enterprises, we look out for four criteria, which are:
- Impact on women (Gender focus)
- Scalability
- Innovation
- Early-stage enterprises

It has been a challenge to find organizations that fit our criteria and are investible. In terms of sourcing and building a pipeline, we have a pre-screen application that we host on our website, where enterprises can submit applications on a rolling basis.

This helps at the initial phase before we invite them to submit a detailed proposal and shortlist them for what we call the “Bulge”, the opportunity to pitch to our investment committee.

What has worked for us?

Partnerships: Collaboration is very key in building the continuum, and in this sense, collaborating with other stakeholders.

Given the stage that we target, we’ve been very intentional about partnering with accelerators and other investors who not only help in referring social enterprises that they have worked with and align with our criteria but also allows us to refer to them a social enterprise that has potential but may not be deal-ready. They help to make these organizations deal-ready and then pass them back to Co-Labs for funding consideration.

Just like what other investors experience, one of the major challenges while evaluating enterprises is them not being deal ready mostly in terms of the financial documentation. In some cases, the person who built the projections and financial model is no longer with the company, and the current team is not equipped to address any questions that investors might have. To this, we see that partnerships can go a long way, in working with each other and helping entrepreneurs and social enterprises to address the gaps and make them ready for funding.

To the question about the funding gap - the difficulty of finding available funding amounts between $100,000 - $500,000 and what the best way is to make that an option. Early-stage enterprises usually do not have the funding to grow, and without growth, they can't qualify for funding or show the traction that they've had.

While this creates a huge gap, it also allows us to design new financial instruments and credit products. At Co-Labs, we do not provide equity or debt but provide revenue share as
investment capital, and we think this helps to bridge that gap. In our conversations with entrepreneurs, we’ve learned that equity is not the right capital for them, because their model does not provide the scale and exit timeline that investors expect, and they do not have the collateral to qualify for debt funds. While it is a risk, we think it worth the risk to put this capital into investments into companies that have the right potential.

In terms of post-investment support, we provide all our portfolio companies with technical support which involves helping them with their advisory board – part of the terms is that we get to appoint one member to the board. We do this by understanding what their challenges are and identifying someone within their region who can fulfill that need to appoint to the board. We provide holistic support to the portfolio pre-and post-investment.

Vested World
- Jeff Stine, Managing Director, Vested World

Vested World invests in East and West Africa, primarily Nigeria, Ghana, Kenya, Rwanda, and Uganda. We do invest in early-stage companies and have written checks from $100,000 to $1,000,000. Primarily, we are focused on a cheque size of 500,000, that’s where most of our investing is taking place. We have’ been investing since 2016, and we focus on traditional industries, often that are utilizing technology to make their businesses more scalable or efficient.

With regards to pipeline development, it is important to know who your investor or potential investors are because investors usually take a different approach to the work they do. First, is the investor a thematic investor or generalist investor? A thematic investor has a narrow focus area like agriculture or health care. Understanding their focus area helps you not to waste your time when you have something outside of their focus area.

Vested World is a generalist investor. Our goal is to build a diversified portfolio and so we are open to new ideas. We are focused during a year on one or two different areas, maybe manufacturing or agriculture, but we remain open to be convinced to look otherwise.

The second area where investors are can be different is, are they a passive investor or an active investor? Passive investors do not typically lead investment rounds, they are looking for investment rounds that other investors have already prepared them to invest in. If you are in the early stages of fundraising, you likely want to spend less time with passive investors because, at the end of every conversation, you will be asked if you have a lead investor.

For active investors, which we are, we identify promising companies that fit within our portfolio, and we often actively work with those companies over a while, which can be three months to three years to work towards an investment. In dealing with active investors, it is always better to build the relationship early because part of the investment process is trust, a good working relationship, and a shared vision.

The third area is advisory services and how companies can get the help they need to build towards bigger accomplishments. There are two sides to this: the strategy and tactical sides. On the strategy side, which is the big picture of where a company is going over a five to ten-year period, early-stage companies should focus on how they would implement their strategic advice gathering system including the people you will talk to and what advice to
accept. Usually, when you are passionate and have the potential to make a big difference in the world, people might be willing to offer strategic advice for free. Advisory boards, peer to peer mentoring, and often investors are sources of relevant opinions. On the tactical side, what you need is highly focused, committed expertise, which costs money. Often the strategic advisers may not have the tactical expertise and so the company needs to hire someone to give tactical advice for a period. Your strategic advisers could be in the best position to link you up to tactical advisers, so it is recommended that you get that layer of your business up and running.

**Key Takeaways**
- There is a need for more collaboration between investors and ESOs.
- Entrepreneurs need to make the best use of the resources and learning which incubators and accelerators provide.
- Actors need to build the right kind of partnerships and relationships across the spectrum.
- The activities of the SGB investment continuum needs to be viewed as a relay race with different actors performing different but interrelated tasks.
- Accelerators need to build capacity to provide multiple levels of support.

**Q&A – Key Questions**

**What is the difference between Investment readiness and deal-readiness?**

Investment readiness is the process that entails an understanding of how to prepare the pitch decks, financial projections, models, business plan, and all specifics around the business model, strategies, growth trajectory, and impact. Investment readiness is subjective and is often different for each investor based on their mission, criteria, sector interests, risk tolerance, etc.

Deal readiness on the other hand is to be fully prepared to participate in fundraising due diligence and term negotiations by having all the required documentation ready. This includes the financial model, business and operations model, pitch deck, historical financials, organizational documents, IP, etc.

One could say while Investment Readiness focuses on the skills and knowledge to take your idea/ business to the next level while deal readiness is keeping ready with all the documentation that a potential investor may request as part of the investment due diligence process.

**Can you comment a bit more on what you expect from potential investors and what investees are currently lacking?**

- We often find that a lot of companies do not have the required financials in place and struggle to share the projections and historical financials as part of the due diligence.
- We have also noticed that financial documents are often prepared by someone other than the person who is pitching thus, the person is often not well-positioned to respond to deep-dive questions around the financials.

- The other point I would like to highlight here is having a good understanding of what is needed for the company to grow and what kind of investment capital would be appropriate to support that growth. To address this, at coLABS, we work towards engaging with the companies on our investment terms, our approach, our reporting requirements, and other important aspects right from the beginning so that they are aware and have a clear understanding if we would be the right partners for them.

I'm interested to hear from those embedded in this sector about blended finance and using donor (World Bank, UKAID, etc) funding towards improving pipelines and getting businesses/projects to a 'bankable' state. Is there a general perception that donor-funded programs are successful in supporting these aims, or are there typical drawbacks/catches/weaknesses of such donor-funded programs?

Sharda Vishwanathan, Business Development Lead, coLABS

In our experience, we have observed that organizations often charge social enterprises for business development services. In some cases, they have a minimum fee that they charge, or they share a percentage of revenue for a said period. The revenue-share has often worked because the payment for the ESOs services depends on the company’s growth and revenue generation. This further brings in the component of having specific operational and impact milestones that track the growth and impact and help ESOs tailor their advisory services accordingly. I think this also aligns with the question of how donor funding can help improve pipeline and supporting investment readiness programs. While there are donor-funded programs successful in furthering these (World Bank, GIZ, etc.), a specific sector focus would add much value and be beneficial as it brings to the core the required expertise and sector experience.

What are the different ways that investors (funds) are working together with financial advisors/management consultants? Some consulting firms like Open Capital have programs that would provide pre/post-investment support to SGBs and hence enable investees to scale quickly/provide a good pipeline for investors.

Sharda Vishwanathan, Business Development Lead, coLABS

- We believe it takes more than capital alone to scale social enterprises for maximum impact. As part of our post-investment support, we offer our portfolio companies technical assistance and strategic guidance. While we help you formalize and build your advisory board of at least 3 people, we require that we appoint one of those members who meet with you on a monthly or quarterly basis.
- Our portfolio manager also has regular check-ins with the portfolio company to understand the growth, areas where additional support is needed, and provide feedforward to help strengthen their business model and work closely with the companies to help pivot where necessary and help scale the company to achieve maximum growth and impact.
- Right from investing which is done in tranches based on agreed-upon milestones up to post-investment reporting requirements, we have created space to help understand the
challenges and provide the portfolio companies the needed strategic support, facilitate introductions for follow-on fundraising, sector connections, partners, and so on.

**Seems there are two general approaches with investors - transactional vs relational. How do we work towards striking a balance? And is it an indicator of how investors will work with their investees within their portfolios?**

*Sharda Vishwanathan, Business Development Lead, coLABS*

At coLABS, we value relationships, transparency, and being agile, and easily adapt to the needs of our entrepreneurs and their customers. Right from the first call we have with potential investees, our effort is to understand the enterprises and the team behind them and see how best we align and can support each other. Even when the investment decision is made and as the funding is disbursed in tranches based on agreed-upon milestones, these are defined in consultation with the entrepreneur. Having a relational/ transformational approach also helps us not just understand the business but the team behind it and always keeps the conversation open, should the company not be a fit for the current funding cycle but has a potential for future consideration.

**What is revenue-share?**

*Sharda Vishwanathan, Business Development Lead, coLABS*

At coLABS, we provide revenue-share investment capital and seek a healthy return on investment within 5 years of investment. Revenue-share takes a percentage of top-line revenue (not net profit); it is similar to a royalty model. Our terms are at a rate of 5% of revenue per quarter for 5 years or until we have received the agreed-upon return. Therefore, we’re looking for the company to be able to scale fast enough within a 5-year term to generate a healthy return on investment (generally we aim for a 3x return over 5 years. For example, if you’re requesting $200,000 from us, we’ll be looking to see if 5% of your reasonable revenue projections in the coming years can give us ~3x return (what we define as a ‘healthy return’) on that amount, which is $600,000. Here is the link to our sample term sheet.