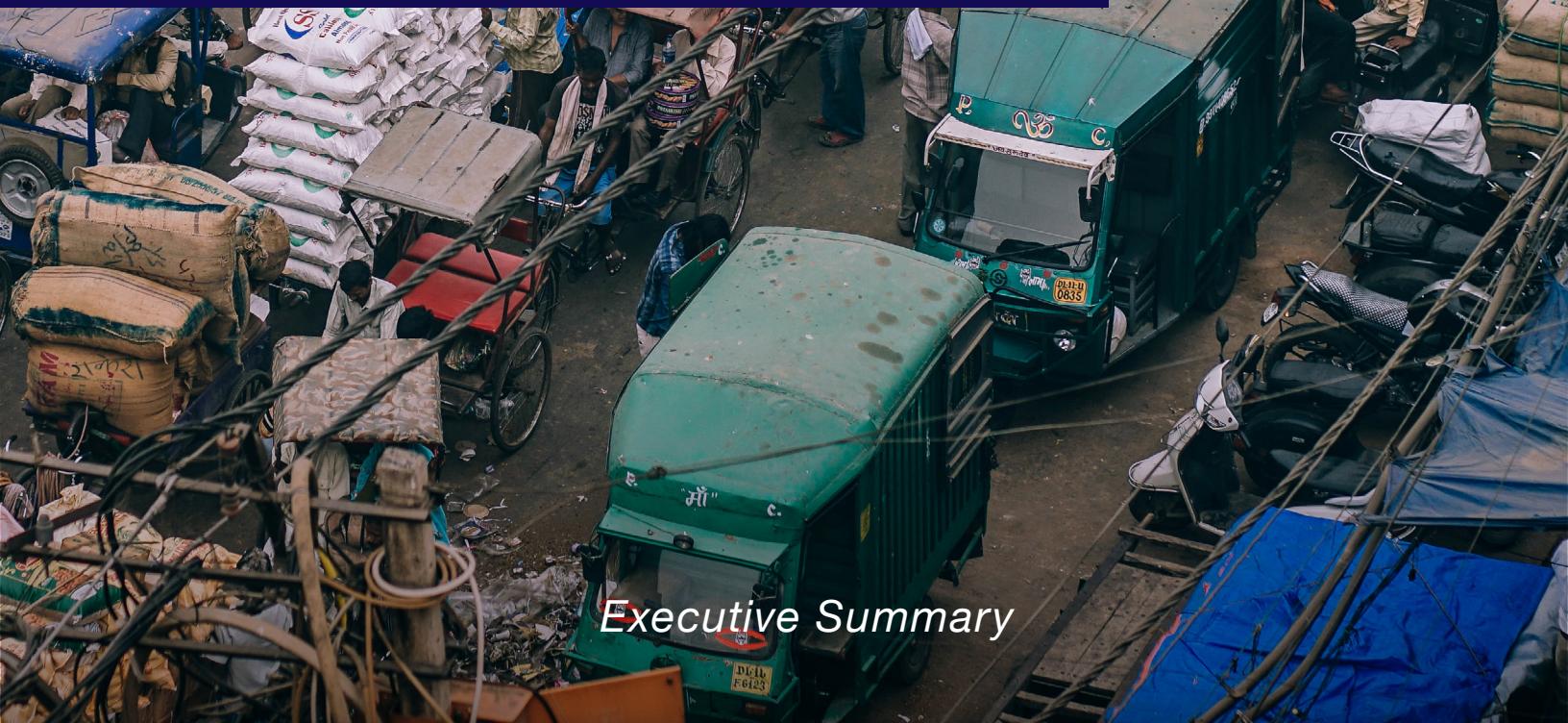




CLOSING THE GAPS:

# Finance Pathways for Serving the Missing Middles

*Executive Summary*



# Diversity in SGB Finance

Small and growing businesses (SGBs)<sup>1</sup> are critical actors for driving inclusive growth in emerging markets. Not only are these businesses found in all sectors of the economy, but they also employ and target many underserved markets that larger businesses either cannot serve or overlook. SGBs have a diverse range of business models and a diverse range of unmet financing needs.

The good news is that the financial actors supporting SGBs have grown in both depth and breadth in recent years. New SGB-focused funds have emerged to serve this historically underserved segment, and more traditional finance providers, such as private equity funds and commercial banks, are increasingly realizing the potential of SGBs to drive both profits and impact.

Moreover, recent research on the [four SGB segments or “families”](#) has brought their diverse characteristics and needs into sharper focus. Each segment reflects a distinct level of innovation, risk, and growth potential. Briefly stated, the segments are:

HIGH-GROWTH VENTURES	NICHE VENTURES	DYNAMIC ENTERPRISES	LIVELIHOOD-SUSTAINING ENTERPRISES
<p>High-growth Ventures have disruptive business models and target large addressable markets. They have high growth and scale potential and are typically led by ambitious entrepreneurs with significant risk tolerance.</p>	<p>Niche Ventures create innovative products and services targeting niche markets or customer segments. These entrepreneurs seek to grow but often prioritize goals other than scale.</p>	<p>Dynamic Enterprises operate in established “bread and butter”<sup>2</sup> industries (such as trading, manufacturing, and retail) and deploy proven business models. They seek to grow through market extension and incremental innovation and have moderate growth and scale potential.</p>	<p>Livelihood-sustaining Enterprises are opportunity-driven, family-run businesses on the path to incremental growth. They may be formal or informal, and they operate on a small scale to maintain a source of income for an individual family. They serve highly local markets or value</p>

Despite these developments, however, the gap between the financing that SGBs need to grow and what is available to them from existing providers remains massive. The International Finance Corporation (IFC) estimates that the micro-, small-, and medium-sized enterprise (MSME) finance gap in emerging markets is approximately US\$5 trillion and that 41% of formal MSMEs have unmet financing needs.<sup>3</sup> The SGB subsegment within MSMEs, a group of businesses characterized by their growth potential, face a \$930 billion financing gap annually.<sup>4</sup> This gap exists for many reasons, but one big driver is a misalignment between the products, strategies, and expectations of different SGB finance providers and their investors and the impact and financial return that different types of SGBs can provide. This is why understanding the characteristics and needs of the different types of SGBs, at different growth stages, is critical to develop and deploy appropriate products as part of well thought-through investment strategies.

This report identifies alternative approaches or “pathways” for providing finance that meets the diverse needs of each SGB segment and investor. It also highlights critical actions that ecosystem stakeholders can take to help support these approaches as well as newly emerging ones that together can help fill the financing gaps within each SGB segment.

1. “Small and growing businesses” (SGBs), a term coined by the Aspen Network of Development Entrepreneurs (ANDE), encompasses formal or formalizing small- and medium-sized enterprises (SMEs) with financing needs between \$20,000 and \$2 million.

2. The term “bread and butter” describes essential industries providing the basic necessities of life; they form the backbone of business activity in developing markets.

3. SME Finance Forum website, accessed November 5, 2019.

4. Based on the Collaborative for Frontier Finance’s analysis of the “MSME Finance Gap” (IFC 2017). This analysis focuses on the credit gap only in lower- and lower-middle-income countries and excludes microenterprises. We believe this is a good proxy for SGBs in emerging markets as the SMEs in those markets share many characteristics with SGBs.

## Opportunities for New Finance Pathways

The massive SGB finance gap cuts across all four SGB segments, but it differs in each. High-growth Ventures, for example, generally need greater early-stage equity financing to fund their highly disruptive and scalable models, whereas Livelihood-sustaining Enterprises may need only small working-capital loans to sustain themselves and manage unpredictable cash flows. This diversity, coupled with growing interest in serving SGBs more broadly, provides opportunities not only to find new ways to better serve these segments but also to zero in on the biggest unmet needs.

- **High-growth Ventures** face financing gaps in the early stages of their businesses due to the high risks of unproven business models combined with the limited patient and catalytic capital required to provide more conducive financial ecosystems.
- **Niche Ventures** have trouble raising finance across a wide range of needs because products and services are highly innovative and their target customer segments/markets are less scalable than the ones of High-growth Ventures. They face particularly acute gaps during their early stages.
- **Dynamic Enterprises** need both working capital and growth capital, but they have trouble accessing funds for these purposes because of the missing combination of collateral, track record, positive cash flow and/or net profit.
- **Livelihood-sustaining Enterprises** also face a large working-capital finance gap as well as an asset financing gap for underserved types of capital expenditures.

Innovations in financial instruments and business models can provide the raw materials for addressing these needs. For example, newer products designed for SGBs, such as royalty-based lending, are growing quickly because they address specific finance gaps while (as compared to other products) reducing risk for finance providers. New technologies, capital structures, and business models are also emerging and demonstrate how finance providers can reduce the risks and costs of serving SGBs. Together these innovations are helping ecosystem stakeholders to rethink how persistent SGB finance gaps can be filled.

This is why understanding the characteristics and needs of the different types of SGBs, at different growth stages, is critical to develop and deploy appropriate products as part of well thought-through investment strategies.

5. See the recent report by USAID on “Revenue Capital: A Guide to the Understanding, Promotion, and Implementation of Revenue-based Finance for Fast-Growth SMEs in the Middle East and North Africa,” available at [https://www.marketlinks.org/sites/marketlinks.org/files/resource/files/508-Revenue-Capital-Guide-USAID-AMEG-2017-Final\\_0.pdf](https://www.marketlinks.org/sites/marketlinks.org/files/resource/files/508-Revenue-Capital-Guide-USAID-AMEG-2017-Final_0.pdf)

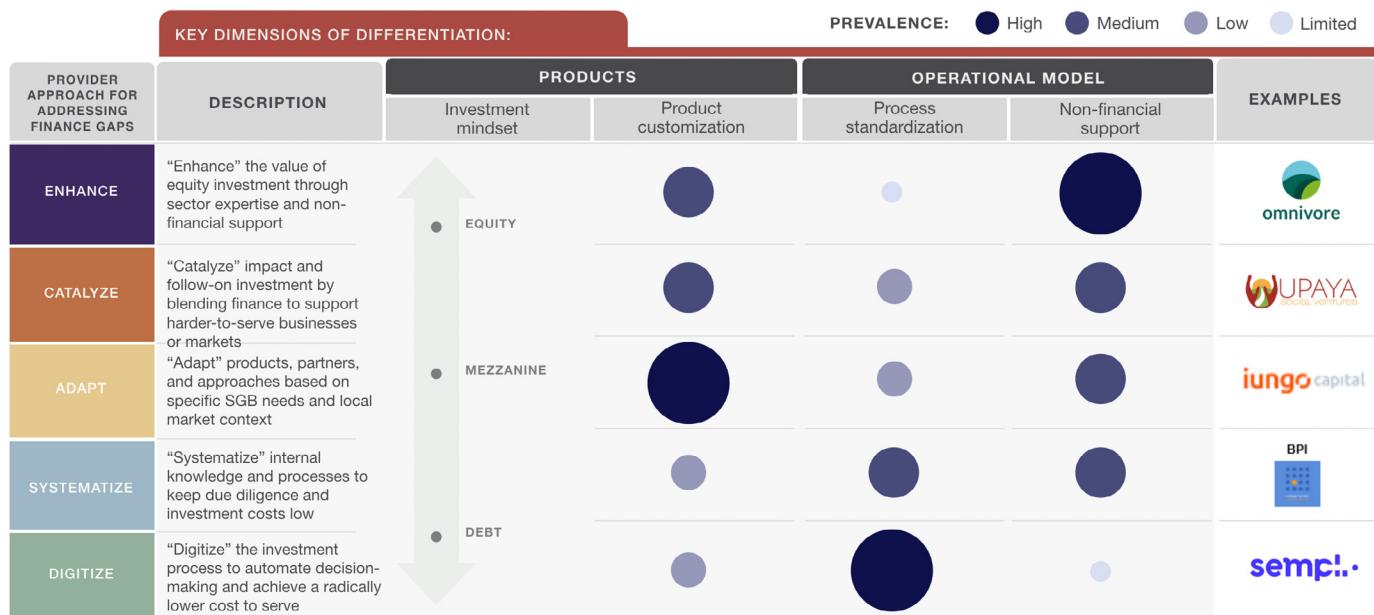
## Five Alternative Approaches for Closing SGB Finance Gaps

Global trends are driving innovations in how capital is deployed to SGBs, particularly with respect to financial products, capital structures, financing strategies, and operational models. Of these, our research shows that the biggest strategic differentiators among SGB finance providers are financing products and operational models.

In analyzing the decisions different providers make within each of these categories, five alternative approaches emerged that can address SGB financing gaps and reduce risk. The approaches are differentiated by how they innovate on traditional finance models to meet the needs of both SGBs and the limited partners buying into these approaches. The alternative models being used are as follows:

- **Enhance** the value of equity investment through sector expertise and non-financial support
- **Catalyze** impact and follow-on investment by blending finance to support harder-to-serve businesses or markets
- **Adapt** products, partners, and approaches based on specific SGB needs and local market context
- **Systematize** internal knowledge and processes to keep due diligence and investment costs low
- **Digitize** the investment process to automate decision-making and achieve a radically lower cost to serve

The following map clearly illustrates these differences. Digitize approaches, for example, offer debt funding, have very rigid, standardized processes, and provide almost no non-financial support. In contrast, Enhance approaches offer equity funding, have very customized processes, and provide extensive non-financial support.



The product and operational model innovations characterizing each approach better meet SGB needs in an effort to provide capital at the right time, of the right type, in the right amounts, at the right terms, and at an affordable cost to entrepreneurs. These SGB needs vary by segment, and can be challenging for finance providers to meet for a variety of reasons, including differing risk/return profiles of SGBs, misalignment of expectations, higher cost of capital, longer return horizons, and lack of sophistication of local financial ecosystem.

Traditional providers such as private equity and venture capital firms, collateralized bank lenders and microfinance institutions have business models that limit their ability to adequately and efficiently serve many of the SGB financing needs. This means that core financing gaps, such as working capital for Dynamic Enterprises or early-stage, patient finance for High-growth Ventures, persist in the absence of innovative approaches for addressing those challenges. To a large extent, the five approaches profiled build on or shift from one of the three traditional approaches highlighted in a way that improves product-market fit through a combination of adjustments, including using different sources of capital and fund structures, deploying a wider set of financial products with greater flexibility, streamlining processes through standardization or digitization, or providing non-financial support.

To provide capital at critical moments, some providers systematize or digitize processes to offer fast and predictable lending timelines, while others use products like convertible debt to delay time-intensive valuations. To provide the right types of capital in the right amounts, many providers reduce risk and transaction costs through collaboration with local angel investors or by using products that balance customization and systematization. To provide capital at the right terms and costs, some providers forge partnerships to provide value-add services, while others employ royalty-based products that tie cost to performance. The five alternative models identified in this research highlight existing combinations of these innovations, but new approaches may employ them in novel combinations or join them with traditional or not-yet-developed components.



Source: Lungo



## OVERVIEW

Enhance-approach finance providers differ from traditional equity investors addressing SGB financing needs by focusing exclusively on emerging markets, often in areas well beyond technology. Enhance providers take a longer than typical time horizon and hence sometimes use evergreen structures. Of the four SGB segments, Enhance-approach providers primarily focus on High-growth Ventures, but they may opportunistically invest in Niche Ventures or Dynamic Enterprises as well.

Enhance-approach providers may offer support not typically offered by investors, including technical assistance where needed. Non-financial support can include professionalizing operations, improving governance, introducing potential partners, actively brokering potential exit opportunities, and strengthening enabling infrastructures.

One example provider, Omnivore Venture Capital, uses an Enhance approach to meet the financing needs of entrepreneurs building the future of agriculture and food systems. Started by two first-time fund managers, Omnivore's founders identified an under-financed segment of early-stage disrupting upstream agritech and downstream agri-processing sectors in rural India, who traditional actors typically overlooked due to the challenging sector and geographic focus. Coming from non-traditional business backgrounds with significant sector-relevant expertise, they have not only been able to identify truly disruptive firms, but they have also been able to provide effective support to rapidly expanding firms in their portfolio.

The map illustrates the focus of enhance-approach providers regarding targeted investees, capital structures, products, and operational models.

### FINANCE INNOVATIONS AND SGB RISK-REDUCTION APPROACHES

1. TARGET INVESTEES			2. CAPITAL STRUCTURE		3. PRODUCTS		4. OPERATIONAL MODEL		NUMBER OF PROVIDERS:		
SGB SEGMENT	SGB STAGE	SGB SECTOR	FUND STRUCTURE	LPs & RETURN EXPECTATIONS	INVESTMENT MINDSET	PRODUCT CUSTOMIZATION	STANDARDIZATION OF PROCESSES	NON-FINANCIAL SUPPORT	NONE	FEW	MANY
Livelihood sustaining	Seed	Sector agnostic	Closed fund	Blended finance (lower cost, diversified risk capital)	Debt	Standardized	Highly standardized operations	No support			
Dynamic enterprises	Early		Evergreen fund	Traditional LPs (higher cost, lower risk capital)	Mezzanine	Moderately customized	Moderately standardized operations	Provide direct support			
Niche ventures	Growth		Flexible; both closed and evergreen funds	Flexible; both blended finance & trad. LPs	Equity	Highly customized	Highly deal-centric operations	Provide support through 3rd party			
High-growth ventures	Mature										

## PRODUCTS

Enhance approaches center on providing equity financing.

### TYPICAL INVESTMENT SIZES

\$825,000 to \$2.2 million USD (not including follow on rounds).<sup>6</sup>

### ECONOMIC PERFORMANCE DRIVERS

Returns from exits drive economic performance. While hands-on nature of the approach can boost business performance the reality is that emerging market context typically produce lower on average exit returns than more developed markets. Keeping due diligence costs low by leveraging in-house expertise and networks is also critical, as is identifying and working with outside partners and experts who can bring expertise to portfolio companies.

<sup>6</sup>. Average investment amounts are based on the data received from the SGB finance providers involved in this research project. It is also important to note the trend of having a much wider range US\$500,000 to US\$6,000,000 that enables them to do follow on investments in markets where follow on investors are scarce.



## OVERVIEW

Catalyze finance providers use pioneering business models to serve the riskiest but potentially highest impact SGBs. They have an “impact first” attitude, and their products and funds often rely on catalytic funding support. These providers use grants or concessional funding to serve early-stage, high-impact businesses, and since they are “impact-first,” their returns to capital providers are intentionally concessionary.

Funding provided by more traditional investors is typically blended with grant funding to 1) provide potential or actual investees with technical assistance to help them stabilize and grow, and 2) subsidize operational costs until the firms reach scale or prove viability for investments using other approaches. Metrics such as jobs created, underserved population needs met, and follow-on investment are particularly critical.

Catalyze strategies take two forms. One category uses catalytic capital to reduce the cost of serving Livelihood-sustaining Enterprises and Dynamic Ventures. These segments are primary targets because they not only create jobs, but they are also run by underserved groups. The second category primarily funds very early-stage Niche Ventures and High-growth Ventures with clear social missions that are often ignored by other investors due to their unproven economics and/or difficult markets. These Catalyze structures address two main finance gaps: 1) Grant and equity funding for very early-stage ventures with a high potential for impact, and 2) affordable finance for businesses with high potential for impact.

One finance provider adopting a Catalyze approach is Upaya Social Ventures (Upaya). Upaya is a nonprofit organization that makes very early-stage investments into companies that can generate jobs for the ultra-poor in India. They source investment capital from philanthropists, most recently raising a pool of recoverable grants in which six foundations committed grant funding to Upaya that was restricted for investment into these companies. If the portfolio supported by this pool of capital generates returns to Upaya, it will repay the foundations with a maximum of 5% return. Upaya uses this patient model to target Dynamic Enterprises that can reach profitability and employ 1,000 people within three years.

The map illustrates Catalyze-approach investors’ resource focus to highlight their differences from other providers.

1. TARGET INVESTEES			2. CAPITAL STRUCTURE		3. PRODUCTS		4. OPERATIONAL MODEL		NUMBER OF PROVIDERS:		
SGB SEGMENT	SGB STAGE	SGB SECTOR	FUND STRUCTURE	LPs & RETURN EXPECTATIONS	INVESTMENT MINDSET	PRODUCT CUSTOMIZATION	STANDARDIZATION OF PROCESSES	NON-FINANCIAL SUPPORT	NONE	FEW	MANY
Livelihood sustaining	Seed	Sector agnostic	Closed fund	Blended finance (lower cost, diversified risk capital)	Debt	Standardized	Highly standardized operations	No support			
Dynamic enterprises	Early		Evergreen fund	Traditional LPs (higher cost, lower risk capital)	Mezzanine	Moderately customized	Moderately standardized operations	Provide direct support			
Niche ventures	Growth		Flexible; both closed and evergreen funds	Flexible; both blended finance & trad. LPs	Equity	Highly customized	Highly deal-centric operations	Provide support through 3rd party			
High-growth ventures	Mature										

## PRODUCTS

Catalyze approaches provide grants, early-stage equity, and sub-commercial financial products.

## TYPICAL INVESTMENT SIZES

\$7,000 to \$46,000 USD.<sup>7</sup>

## ECONOMIC PERFORMANCE DRIVERS

Using instruments such as redeemable grants to recover the start-up costs of promising businesses and early-stage equity to maximize upside is important to driving top-line performance. To keep costs low, catalyst-approach providers create financial structures that blend commercial and non-commercial offerings and use grants to pay for operational functions and/or technical support for riskier SGBs.



Source: Tamul Plates

<sup>7</sup>. Average investment amounts are based on the data received from the SGB finance providers involved in this research project.

## OVERVIEW

Adapt approaches provide SGBs with finance tailored to their specific needs. This approach typically entails providing mezzanine products, such as royalty-based loans, that other financial actors cannot provide, but it may also include debt or equity if those instruments match the entrepreneur's specific needs and market context. Given this flexibility, any individual investment may look quite different from others in a portfolio, especially across geographies.

Adapt-approach portfolios are often more diverse than others because, although they seek out High-growth Ventures, they often pivot to serving Dynamic Enterprises, which already have revenues, and Niche Ventures. They target working capital needs in all segments but particularly in Dynamic Enterprises, as well as operating expenses and asset finance for growing businesses. Many organizations using this approach are first-time fund managers with less experience in traditional finance than organizations using other approaches.

For example, iungo capital is an East African-based firm adopting Adapt approaches to meet traditionally difficult to serve SGB finance needs, such as working capital for Dynamic Enterprises. iungo capital developed a tailored model which combines multiple innovations to X. It uses partnerships with local angel investor networks as both pipeline sourcing and risk mitigation tools, tailors primarily revenue-based loans to be able to provide working capital without collateral, and developed a self-sustaining non-profit technical assistance arm to provide pre- and post-investment support (including for financial accounting of revenues) at a low-cost. Finally, it takes a quasi-evergreen approach which reduces pressure to enter or exit investments prematurely.

The map illustrates where Adapt-approach providers focus most of their resources, thus highlighting their differences from other provider approaches.

## FINANCE INNOVATIONS AND SGB RISK-REDUCTION APPROACHES

NUMBER OF PROVIDERS: NONE FEW MANY

1. TARGET INVESTEES			2. CAPITAL STRUCTURE		3. PRODUCTS		4. OPERATIONAL MODEL	
SGB SEGMENT	SGB STAGE	SGB SECTOR	FUND STRUCTURE	LPs & RETURN EXPECTATIONS	INVESTMENT MINDSET	PRODUCT CUSTOMIZATION	STANDARDIZATION OF PROCESSES	NON-FINANCIAL SUPPORT
Livelihood sustaining	Seed	Sector agnostic	Closed fund	Blended finance (lower cost, diversified risk capital)	Debt	Standardized	Highly standardized operations	No support
Dynamic enterprises	Early		Evergreen fund	Traditional LPs (higher cost, lower risk capital)	Mezzanine	Moderately customized	Moderately standardized operations	Provide direct support
Niche ventures	Growth		Flexible; both closed and evergreen funds	Flexible; both blended finance & trad. LPs	Equity	Highly customized	Highly deal-centric operations	Provide support through 3rd party
High-growth ventures	Mature							

## PRODUCTS

Adapt providers use a wide range of product types but focus particularly on offering mezzanine products, such as royalty-based loans.

## TYPICAL INVESTMENT SIZES

\$10,000 to \$280,000 USD.<sup>8</sup>

## ECONOMIC PERFORMANCE DRIVERS

Balancing longer-term equity investments and more immediate cash-flow needs via revenue-share loans is important for both maximizing upside and ensuring consistent returns. On the cost side, third parties provide hands-on support, particularly in businesses' early stages (e.g., working with local angel networks and technical assistance partners to provide SGBs with specialized support).

8. Average investment amounts are based on the data received from the SGB finance providers involved in this research project.

## OVERVIEW

Systematize approaches provide high-volume, low-cost semi-customized solutions for SGBs by combining standardized investment products with deep in-house expertise on market risks. Their products, based on “off-the-shelf” templates developed over time by fund managers with deep institutional knowledge of specific sectors and markets, consist mostly of debt but occasionally include mezzanine financing. The use of templates allows Systematize-approach providers to make more SGB investments per year than providers using most other approaches can (with the exception of Digitize-approach providers), thus spreading out fixed costs.

This approach typically focuses on serving Dynamic Enterprises and Livelihood-sustaining Enterprises, sectors which tend to have more traditional “bread-and-butter” industries and a deep pool of unmet financing needs. All segments, but particularly Dynamic Enterprises and Livelihood-sustaining Enterprises, receive working capital, and growing businesses receive operating expenses as well.

For example, Business Partners International (BPI) serves Dynamic and Livelihood-sustaining Enterprises by using deep market intelligence to quickly and accurately estimate the risk of a given company profile in its sector and determine appropriate finance instruments and terms from a set of relatively pre-determined suite of products. BPI’s model relies on returns to scale which lower transaction costs through improved risk estimation as well as reduce overhead costs, enabling BPI to provide finance at high volumes but low margins. Furthermore, BPI’s evergreen structure allows it to continually reinvest capital to multiply the amount invested over similar periods for peer providers.

The map illustrates the focus of Systematize-approach providers, thus highlighting their differences from other providers.

### FINANCE INNOVATIONS AND SGB RISK-REDUCTION APPROACHES

NUMBER OF PROVIDERS: NONE FEW MANY

1. TARGET INVESTEES			2. CAPITAL STRUCTURE		3. PRODUCTS		4. OPERATIONAL MODEL	
SGB SEGMENT	SGB STAGE	SGB SECTOR	FUND STRUCTURE	LPS & RETURN EXPECTATIONS	INVESTMENT MINDSET	PRODUCT CUSTOMIZATION	STANDARDIZATION OF PROCESSES	NON-FINANCIAL SUPPORT
Livelihood sustaining	Seed	Sector agnostic	Closed fund	Blended finance (lower cost, diversified risk capital)	Debt	Standardized	Highly standardized operations	No support
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High-growth ventures	Mature							

## PRODUCTS

The Systematize approach offers a wide range of product types, including equity investments where appropriate, but primarily debt-centric mezzanine and loan products. The main difference with Enhance and Catalyze approaches being the limited hands-on support and the less flexible nature of the financing instruments used.

### TYPICAL INVESTMENT SIZES

\$118,000 to \$390,000 USD.<sup>9</sup>

### ECONOMIC PERFORMANCE DRIVERS

High deal volume per year is critical to compensate for lower margins. In addition, well-organized and streamlined internal data and processes help keep operational and overhead costs low.

9. Average investment amounts are based on the data received from the SGB finance providers involved in this research project.



## OVERVIEW

Digitize approaches use technology to radically lower the cost of services. Organized into various business models, Digitize-finance providers may focus on acquiring new customers, tailoring loan underwriting, attracting affordable debt financing, or procuring investment to on-lend to SGB borrowers. Disrupting traditional approaches centered on human-controlled individual or committee decision-making, providers using the Digitize approach use data to drive operational and investment decisions — from digitizing back-end processes to developing proprietary algorithms to evaluate creditworthiness.

Loan products from Digitize-finance providers can be customized according to ticket size, interest rate, and maturity, depending on an individual SGB's needs and analysis. The organizations generally target Dynamic Enterprises with working capital loans and provide those as well as short-term general loans to Livelihood-sustaining Enterprises. All SGBs receiving funds must have been operating for several years, however, because data and business metrics (e.g., bank statements, supplier invoices, etc.) are necessary to make the investment decisions.

SMECorner is an example provider adopting a Digitize approach to meet the finance needs of Livelihood-sustaining and Dynamic Enterprises. SMECorner uses a semi-automated, and highly standardized process for providing secured and unsecured loans to meet SGB working capital and asset finance needs. With scale, SMECorner's automated decision-making based on traditional and alternative data sources, such as customer traffic, will improve in accuracy and strengthen existing margins. By standardizing both processes and products digitally, SMECorner is able to lower transaction costs enough to serve SGBs at small ticket sizes with higher risk.

The map illustrates the Digitize-approach providers' focus, indicating their differences from other providers.

### FINANCE INNOVATIONS AND SGB RISK-REDUCTION APPROACHES

NUMBER OF PROVIDERS: NONE FEW MANY

1. TARGET INVESTEES			2. CAPITAL STRUCTURE		3. PRODUCTS		4. OPERATIONAL MODEL	
SGB SEGMENT	SGB STAGE	SGB SECTOR	FUND STRUCTURE	LPs & RETURN EXPECTATIONS	INVESTMENT MINDSET	PRODUCT CUSTOMIZATION	STANDARDIZATION OF PROCESSES	NON-FINANCIAL SUPPORT
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High-growth ventures	Mature							

## PRODUCTS

Digitize approaches offer standard debt products, although ticket sizes, loan amounts, and maturities can easily be adjusted to meet an SGB's individual needs and investment analysis.

### TYPICAL INVESTMENT SIZES

\$14,000 to \$29,000 USD.<sup>10</sup>

### ECONOMIC PERFORMANCE DRIVERS

Loan amounts tend to be small, and so very high loan volume and repeat SGB clients are important to drive total Loan amounts tend to be small, and so very high loan volume and repeat SGB clients are important to drive total revenues.

Spreading fixed technology costs over many loans helps achieve a radically lower cost to serve, as does constant use of data-driven processes to identify cost savings and new revenue opportunities.

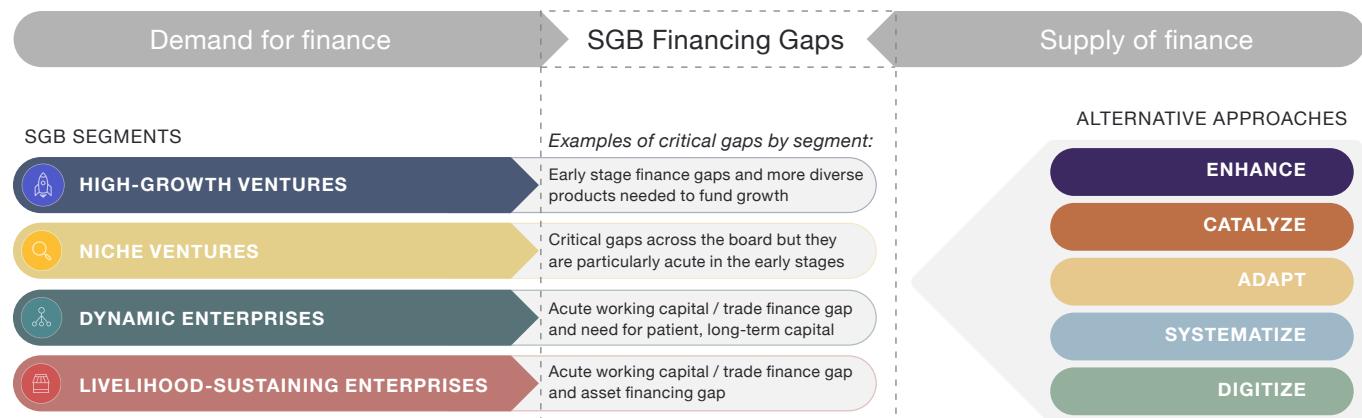
10. Average investment amounts are based on the data received from the SGB finance providers involved in this research project.

# What Funders Can Do to Support Closing SGB Finance Gaps

Funders have important roles to play in helping to fill critical finance gaps for each SGB segment.

International and local funders should provide support to:

1. Drive adoption of alternative approaches (e.g., Catalyze, Enhance, etc.);
2. Encourage identification of new approaches and knowledge sharing.



## DRIVE ADOPTION OF ALTERNATIVE APPROACHES

The actions funders should take to support closing SGB finance gaps differ depending on the specific SGB segment they are trying to serve. Furthermore, while the five approaches discussed are representative of approaches that are working to fill finance gaps, they are not the exclusive set that exists or that should be promoted to scale, with alternative approaches employing leasing or PAYGO products also demonstrating promise.





## NICHE VENTURES

To help fill the critical finance gaps facing Niche Ventures — early-stage finance to demonstrate product-market fit and finance for working capital and operating expenditures for growing companies — funders should:

**Provide concessional and innovative funding to Catalyze approaches** in the form of recoverable grants or pay-for-success convertible notes for sectors where funding is scarcer, such as non-technology businesses.

**Provide technical assistance to help companies demonstrate product-market fit** for disruptive products so they can more easily get finance from traditional and alternative finance providers.

**Educate local investors on the value-add role they can play as well as the potential trade-offs between returns, impact, and risks** to help strengthen local finance ecosystems.

**Act as matchmakers and storytellers** to help connect entrepreneurs to appropriate sources of capital that may be hard for them to find or access on their own.



## DYNAMIC ENTERPRISES

To help fill the critical finance gaps facing Dynamic Enterprises — short-term working capital, trade finance, and patient capital needed for growth — funders should:

**Provide financial support to help Adapt models to become more firmly rooted** in new markets.

**Advocate for more tax-friendly regulations on self-liquidating products** to drive innovation and adoption.

**Facilitate convenings for local commercial banks to learn about Systematize models** and how they balance deep learning with standardized debt products.

**Expand support for blended finance models that provide technical assistance** both pre- and post-investment.

**Facilitate potential partnerships between Digitize models and traditional banks** interested in increasing SGB lending to help build new “click-and-brick” models.



## LIVELIHOOD-SUSTAINING ENTERPRISES

To help fill the critical finance gaps facing Livelihood-sustaining Enterprises — short-term working capital, trade finance, and capital expenditures for specialized assets — funders should:

**Fund and support technical assistance programs through Catalyze and Systematize models** to help businesses become investment-ready and improve performance.

**Facilitate convenings for MFIs and local commercial banks to learn about Systematize models** and how they balance deep learning with standardized debt products.

**Provide targeted R&D grants to help demonstrate the product-market fit of new Digitize data-driven lending models** that can be scaled.

**Facilitate potential partnerships between Digitize approaches and traditional banks** interested in increasing SGB lending to help build new “click-and-brick” models.

## ENCOURAGE IDENTIFICATION OF NEW APPROACHES AND KNOWLEDGE SHARING

Funders can also facilitate the emergence of new SGB financing models through these four actions.

- Identify and share promising new SGB finance approaches.** Use this research to more explicitly identify, evaluate, and share additional innovative approaches that SGB finance providers are using in emerging markets.
- Establish benchmarks for financial and impact performance.** Understand what realistic financial and impact returns look like for different approaches to help diversify and drive more investment into the sector.
- Drive improvement in operational performance for new models.** Continue to incentivize business process improvement, new technology adoption, and information sharing among SGB finance providers to improve operational performance and fund economics within the industry.
- Actively support pioneering intermediaries and provide incentives to attract new entrants.** Expand support both to help scale the impact of existing pioneer SGB finance providers and to attract new SGB finance investors to the market.