



PRINCIPLED INTEREST:
A DEVELOPMENT FINANCE LEARNING SERIES



MARKETLINKS

Trends in Development Finance in 2021: Perspectives for Investing in Frontier Markets



January 21st, 2021

*Welcome! We will begin shortly.
Please complete the poll*



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A DEVELOPMENT FINANCE LEARNING SERIES



Sashi Jayatileke

Team Lead, Development Finance
USAID/PSE Hub

»»» AGENDA

- Review lessons from 2020
- Moderated Panel Discussion on collaboration and inclusive tactics to attract investment to high impact areas
- Audience Q&A

OPENING QUESTIONS



Sashi Jayatileke
Team Lead, Development
Finance
USAID/PSE Hub



Monique Aiken
Managing Director
The Investment Integration
Project

1. **What can we learn from all that happened in 2020, particularly the pandemic?**
2. **What do you think we should learn from this as we start 2021?**

Resilience Capital Ventures



Moderator: Monique Aiken
Managing Director
The Investment
Integration Project



Dr. Gillian Marcelle
Managing Member,
Resilience Capital
Ventures

Mobilizing all forms of capital: moving beyond finance

Dr. Gillian Marcelle

Managing Member

Resilience Capital Ventures LLC

Resilience Capital Ventures is active in three domains:

Financial Advisory capital raising, advice and guidance for Funds; deal origination and structuring for Project Finance transactions; Knowledge Partner for Specialist Platforms and Facilities, particularly for integration of ESG, impact and blended finance strategies;

Strategic Advisory services for commercial and mission focused ventures;

Advocacy on gender equality, racial justice and accountability in the finance and investment industry for better alignment with the Sustainable Development Goals.

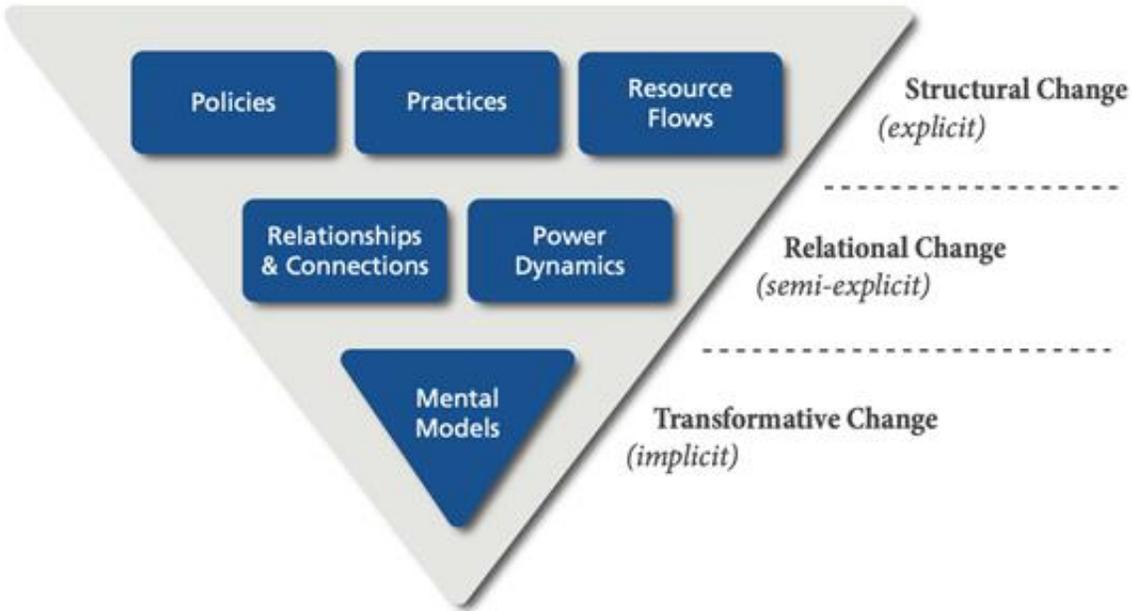
Catalyzing Financial Capital for Development

Systems Change

Shifting the conditions that hold the problem in place:

Systems Change Conditions –Definitions:

Six Conditions of Systems Change



Policies: Government, institutional and organizational rules, regulations, and priorities that guide the entity's own and others' actions.

Practices: Espoused activities of institutions, coalitions, networks, and other entities targeted to improving social and environmental progress. Also, within the entity, the procedures, guidelines, or informal shared habits that comprise their work.

Resource Flows: How money, people, knowledge, information, and other assets such as infrastructure are allocated and distributed.

Relationships & Connections: Quality of connections and communication occurring among actors in the system, especially among those with differing histories and viewpoints.

Power Dynamics: The distribution of decision-making power, authority, and both formal and informal influence among individuals and organizations.

Mental Models: Habits of thought—deeply held beliefs and assumptions and taken-for-granted ways of operating that influence how we think, what we do, and how we talk.

*[Source](#): "The Water of Systems Change." FSG.org. 2018.

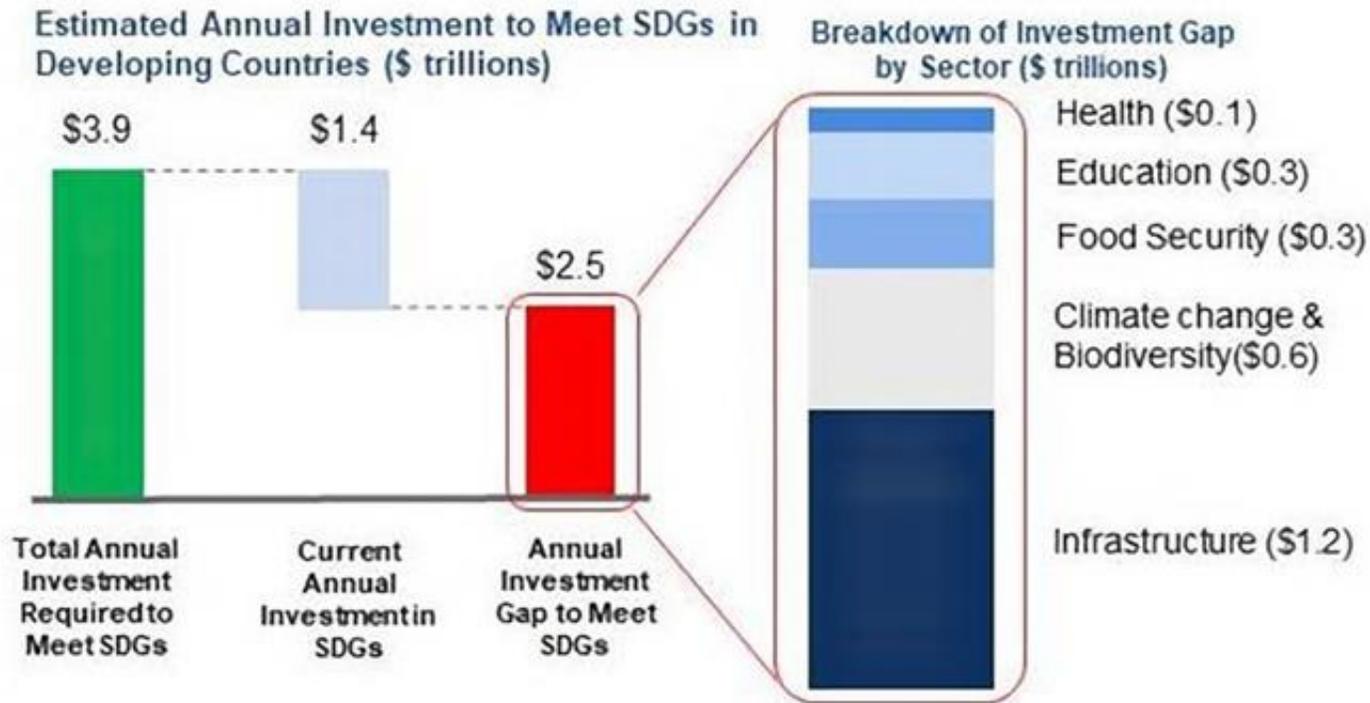
Sustainable Development



**Source: "Sustainable Development Goals: 17 Goals to Transform our World." UN.org. 2015.*

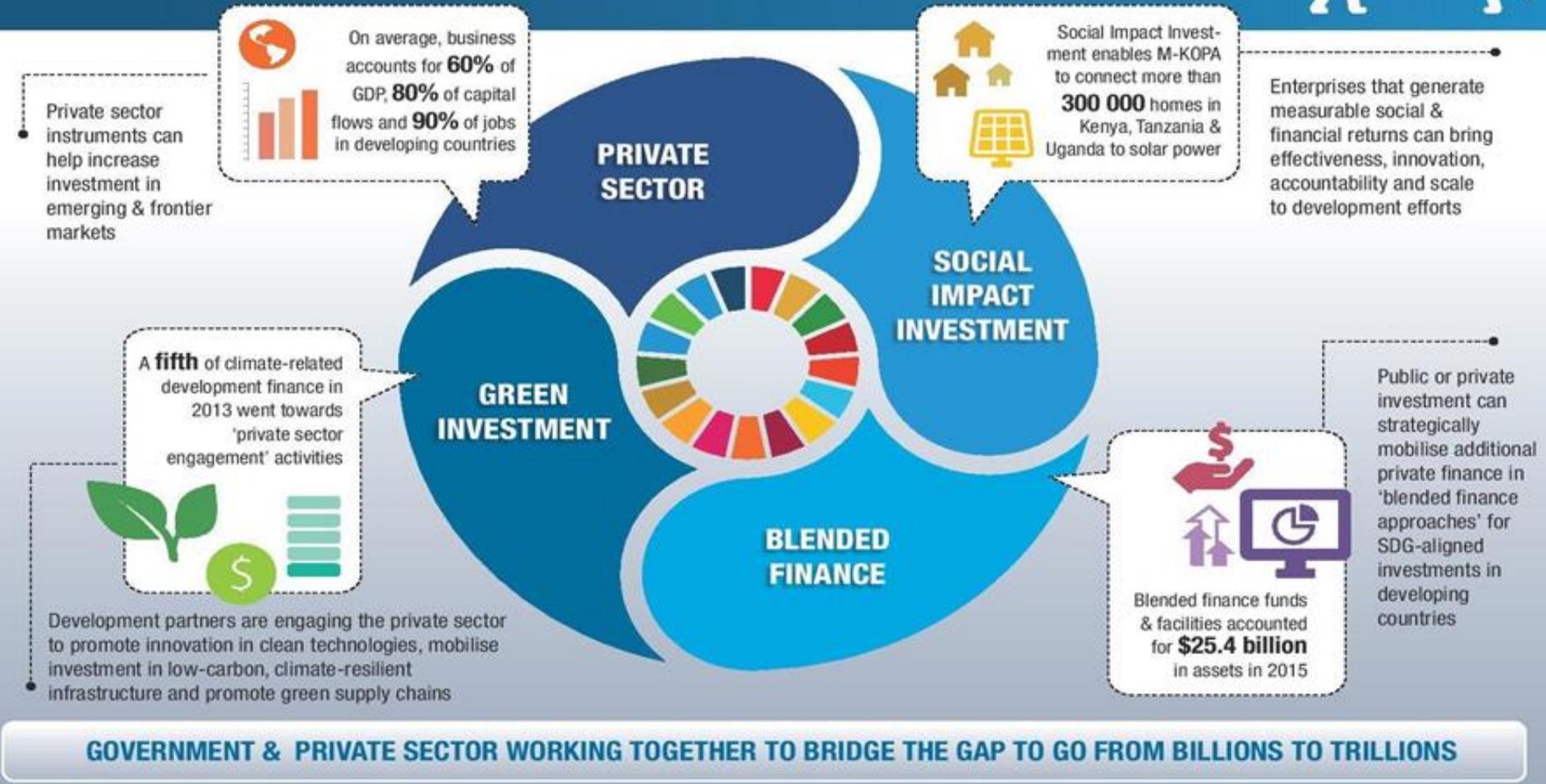
Sustainable Development Goals and Financing the SDGs

Sectors critical to achieving the SDGs remain significantly underfunded, in particular infrastructure, which accounts for over 40% of the gap



*Source: "Sustainable development funding is broken. Here's how to fix it." WEF. 2019.

The Private Sector: The Missing Piece of the SDG Puzzle



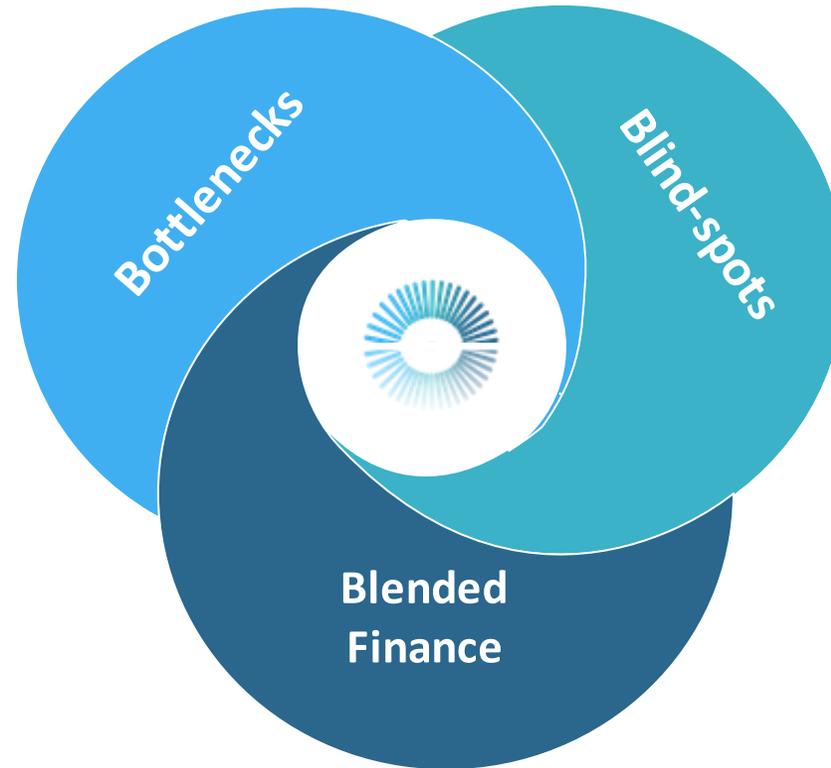
*Source: "The Missing Piece of the SDG Puzzle." OECD. 2017.

Triple B[©] Framework

Triple B[©] Framework

Blended Finance is defined as an investment strategy that deploys financial capital in combination with other forms of capital - knowledge, political, social, cultural, network and relationship - using systematic processes aimed at producing optimal beneficial services from assets held by individual or collective owners.

(Dr. Gillian M Marcelle)

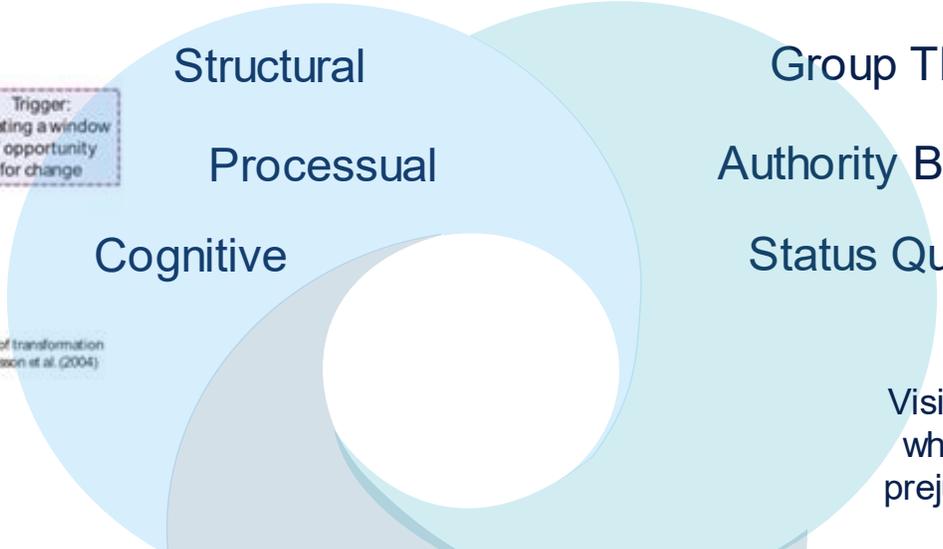


Resilience Capital Ventures

proposes that mitigating bottlenecks, removing blind-spots and deploying blended finance is the approach needed to tackle the challenge of misalignment among the various parties and thereby bringing about improved outcomes from the investment process.

Bottlenecks

Blind-spots



Group Think
 Authority Bias
 Status Quo Bias

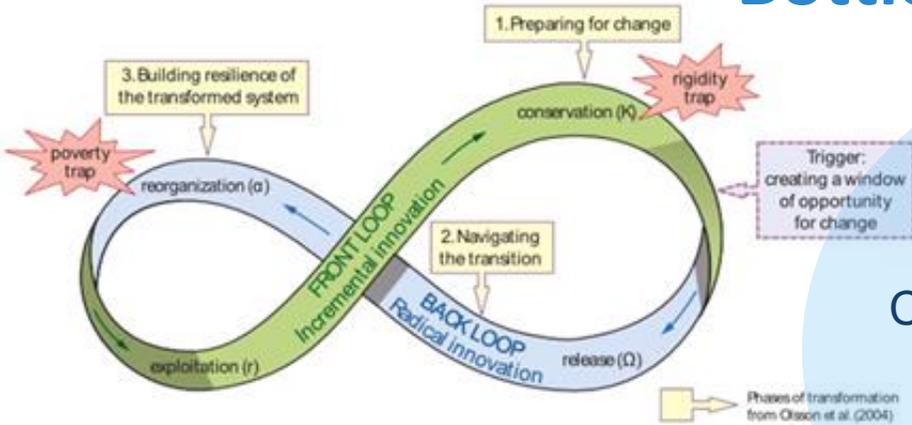
Vision is hindered or obscured, subjects about which a policy or decision maker is ignorant, prejudiced, inefficient, often with unawareness.



Blended Finance

Knowledge
 Network
 Political

Social
 Cultural
 Relationship



Barriers that slowdown or hinder capital mobilization and deployment processes.

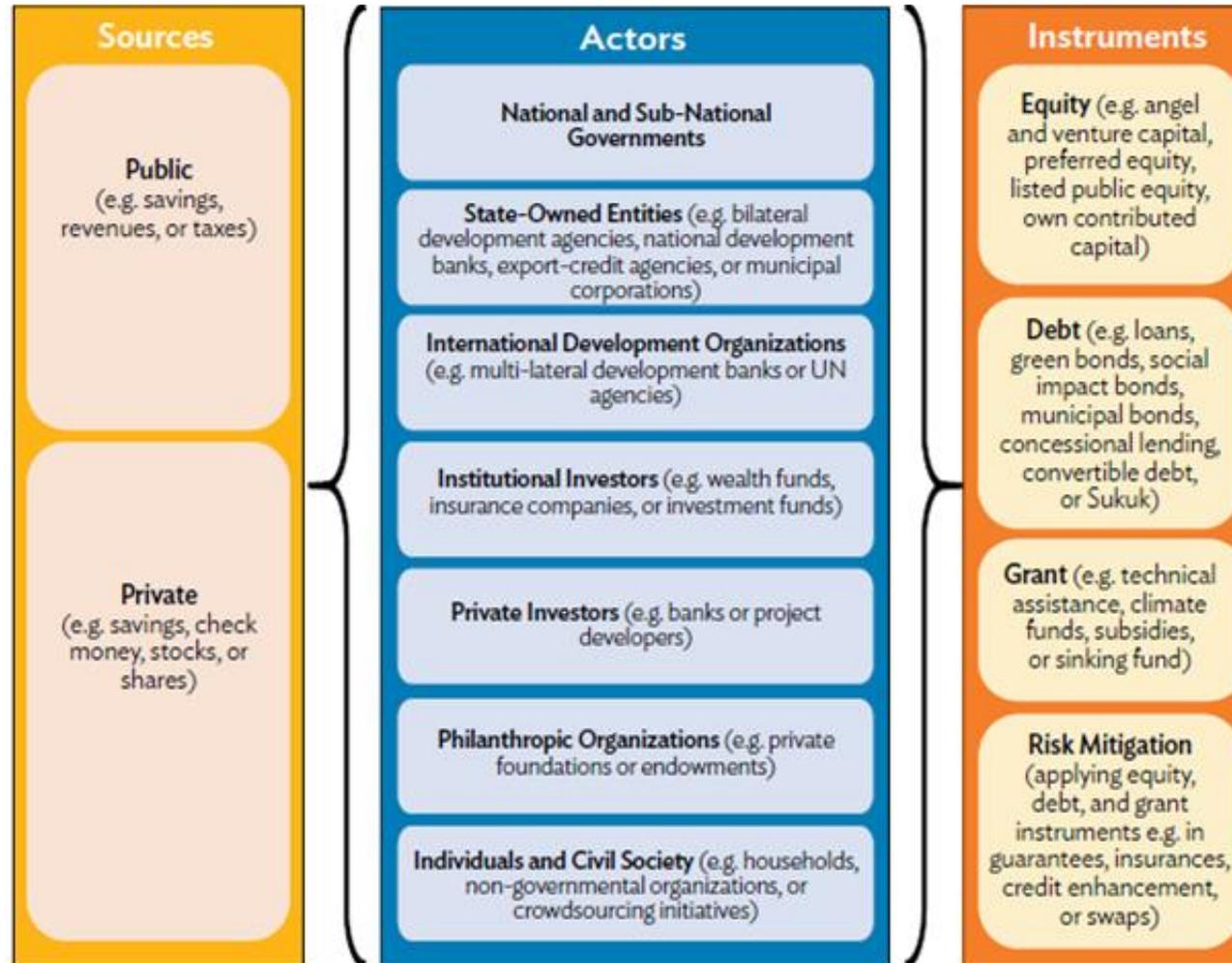
Existing definitions of blended finance focus on the varieties of financial capital, distinguishing between commercial and development finance.

IFC: “Combining concessional finance from donors or third parties alongside DFIs’ [development finance institutions] normal own account finance and/ or commercial finance from other investors, to develop private sector markets, address the Sustainable Development Goals (SDGs), and mobilize private resources.”

**Source: “DFI Working Group on Blended Concessional Finance ...” Convergence. Oct ‘19.*

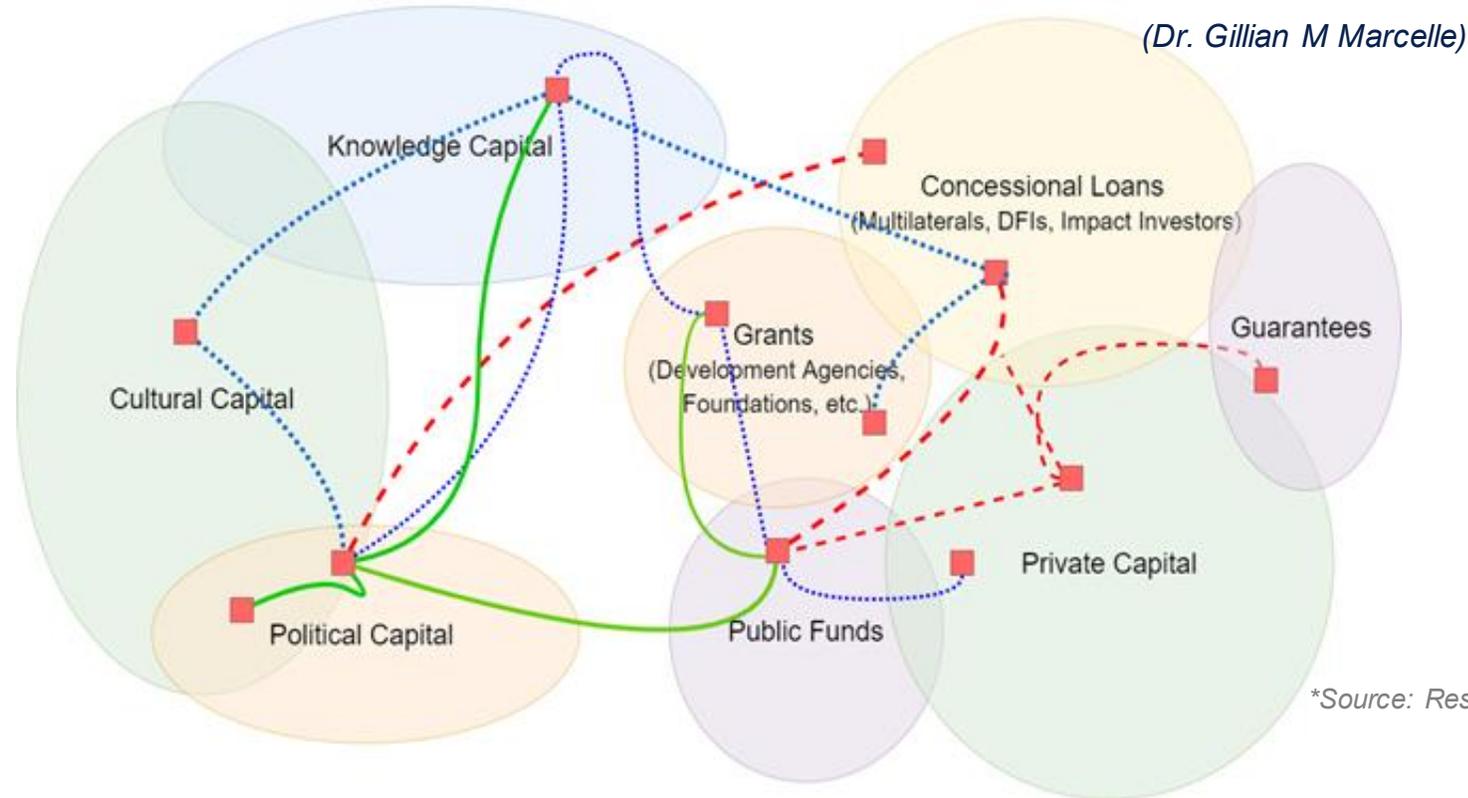
OECD: “The strategic use of development finance for the mobilization of additional finance toward sustainable development in developing countries,” with ‘additional finance’ referring primarily to commercial finance.”

**Source: “OECD DAC Blended Finance Principles.” OECD.org. Oct ‘17.*



*[Source](#): Adapted from the “New Climate Economy.” World Resources Institute/Overseas Development Institute. ~2018.

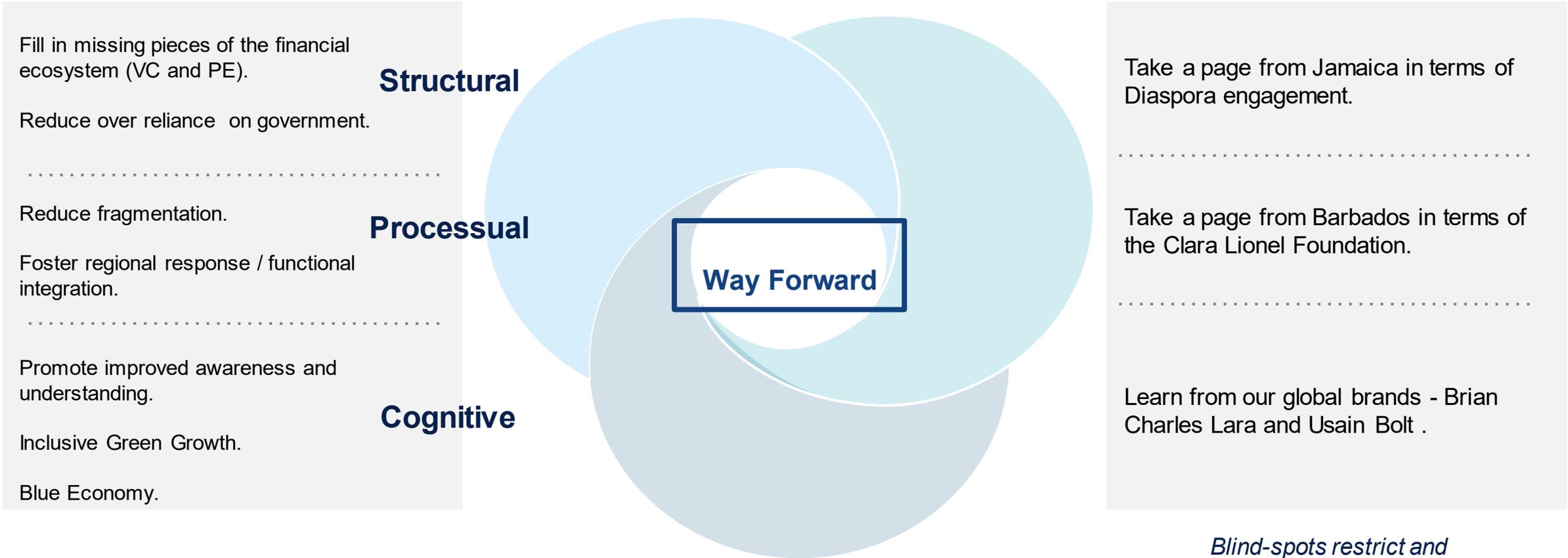
Blended Finance is defined as an investment strategy that deploys financial capital in combination with other forms of capital - knowledge, political, social, cultural, network and relationship- using systematic processes aimed at producing optimal beneficial services from assets held by individual or collective owners.



We suggest that blended finance works best when designed to involve the mobilization and deployment of various forms of capital in combination with financial capital.

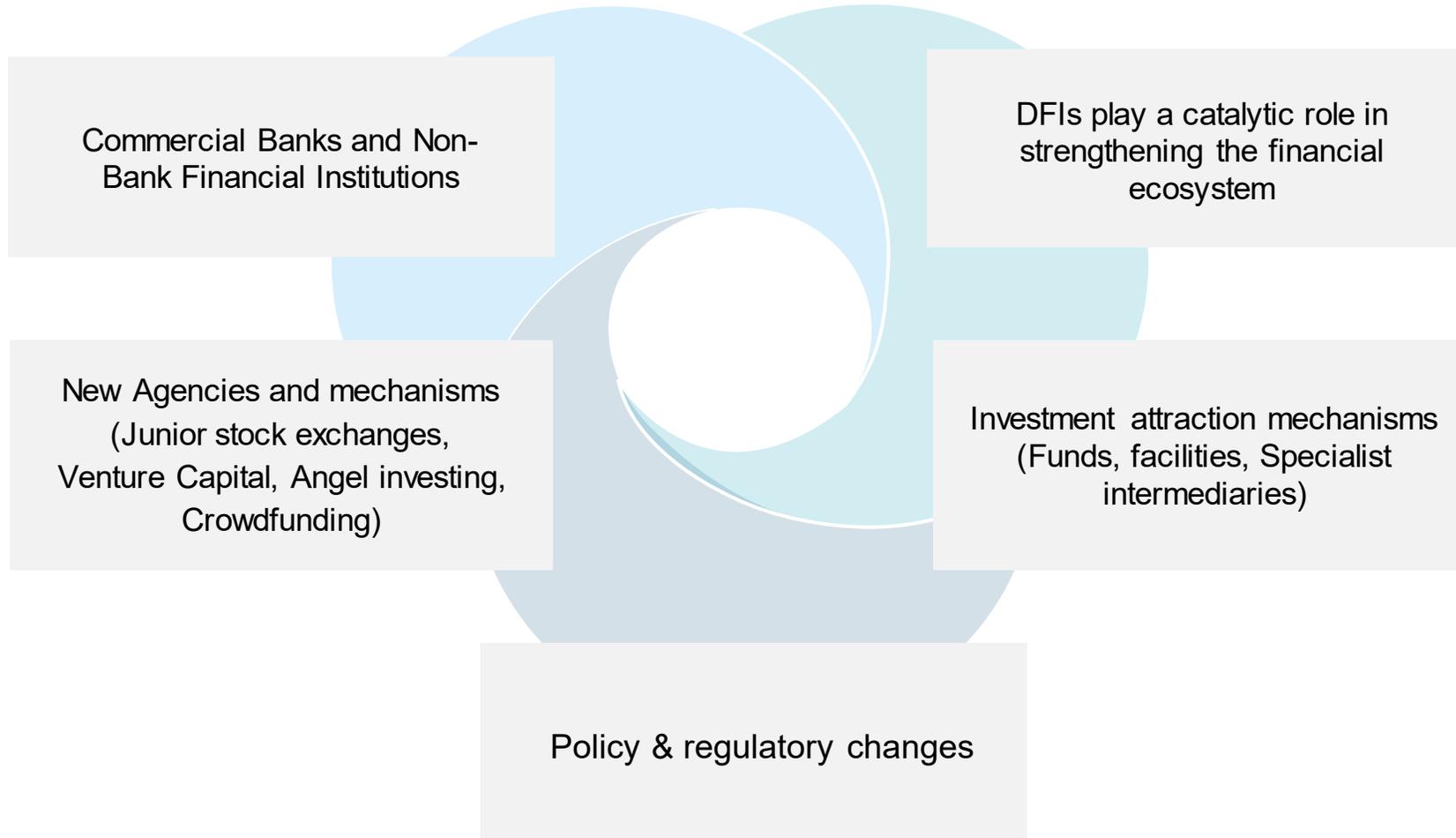
Bottlenecks

Blind-spots



Blind-spots restrict and prevent dynamic action.

Blended Finance



Thank You

Dr. Gillian Marcelle

Managing Member

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– Boutique capital advisory firm in Washington, DC –

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SA SME Fund



Moderator: Monique Aiken
Managing Director
The Investment
Integration Project



Dr. Claudia Manning
Principal
SA SME Fund

About The SA SME Fund

- R1.4 billion Fund
- Investors - 50 large corporates and the Public Investment Corporation (PIC)
- Fund fully committed March 2020;
- 13 Fund Managers in VC and Growth (Equity and Debt)
- Currently raising capital for new R750m Fund of Venture Capital Funds
- Experienced management team: management comprises majority black and women professionals with deep investment experience



Ketso Gordhan
CEO

Over 20 years PE and impact investing experience



Caryn Winter
CFO

14 years international finance experience



Thiru Pather
Principal

CA with over 13 years investment experience incl. 7.5 years fund management with PIC



Claudia Manning
Principal

20 years of investment and governance experience including PIC, DBSA Boards



Lumka Mlambo
Principal

16 years of investment experience and 6 years of investment banking experience



Ryan Harrison
Associate Principal

Start-up entrepreneur with DD experience

SA SME Fund's objectives

Help build venture capital asset class in SA



The largest institutional investors in VC in SA

Catalyze and fund innovative models



University Technology Fund – first fund commercialising SA university IP

Raise a new Fund of Venture Capital Funds - blended finance



Fund-raising on track; \$2m USAID First Loss secured; SA SME Fund also providing R50m First Loss Capital

Leverage additional capital for SMEs and Startups



Aim is to match initial investment R1.4bn

Invest in 200+ black SMEs



On track

Create and incubate new fund managers

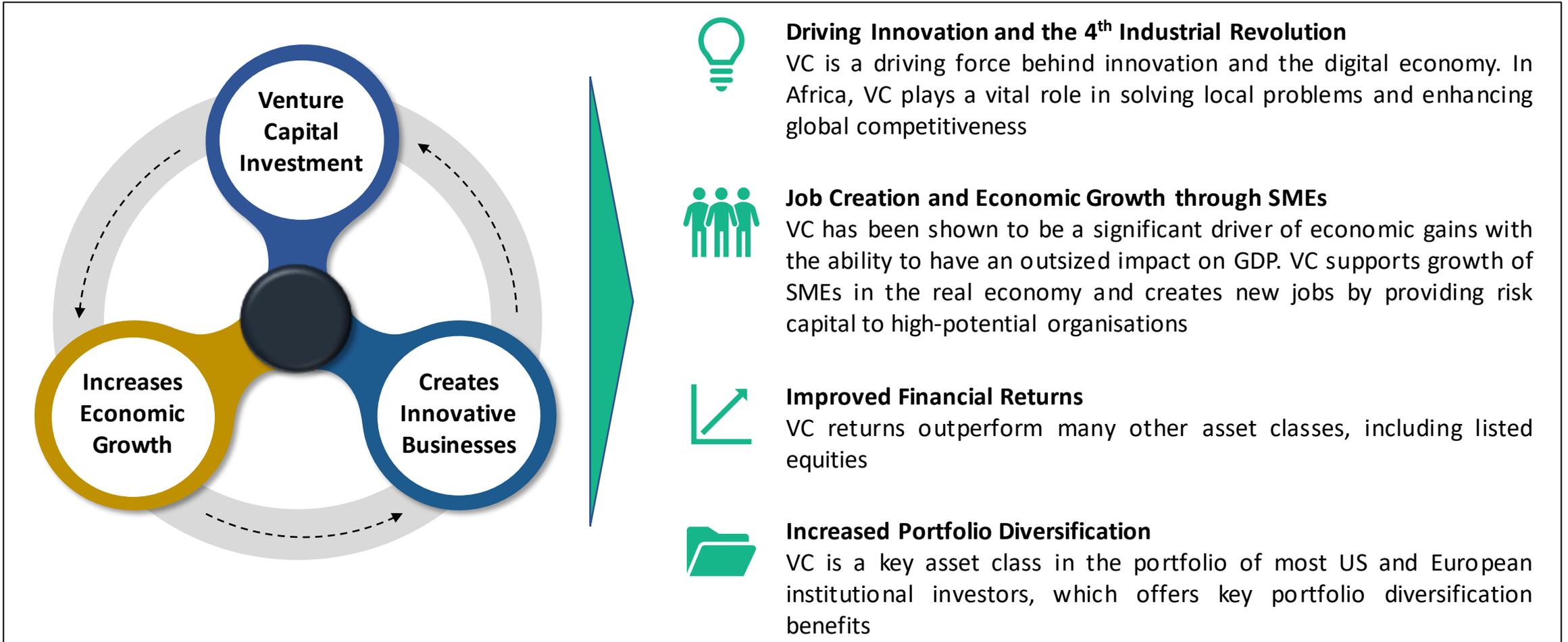


5 of our investments are in first time funds, SAVCA Fund Manager Programme

Why Venture Capital?

VC addresses unemployment and lagging SME growth by driving innovation and economic prosperity

The Virtuous Cycle of Venture Capital



South African VC Industry

While South African VC has already shown its potential, the space remains severely underdeveloped



While South African VC shows initial signs of success...

- The value of investments into VC more than tripled over the past 5 years
- In 2019, 50% of VC exits were profitable with an average 4X money multiple
- South Africa's most experienced VC Fund provided >50% returns
- VC is beginning to mature in South Africa, as the leading VC firms reach 10+ years in the market

... key challenges remain preventing the sector from realizing its full potential

Lack of VC Investment

- Limited pool of risk capital available as VC is poorly understood
- Small number of fund managers and the successful ones are under-resourced
- Limited success of government initiatives to increase private investment

Low R&D Conversion

- Low conversion of IP to sustainable start-ups
- Little capital available to enable research concepts to commercialise

Weak VC Ecosystem

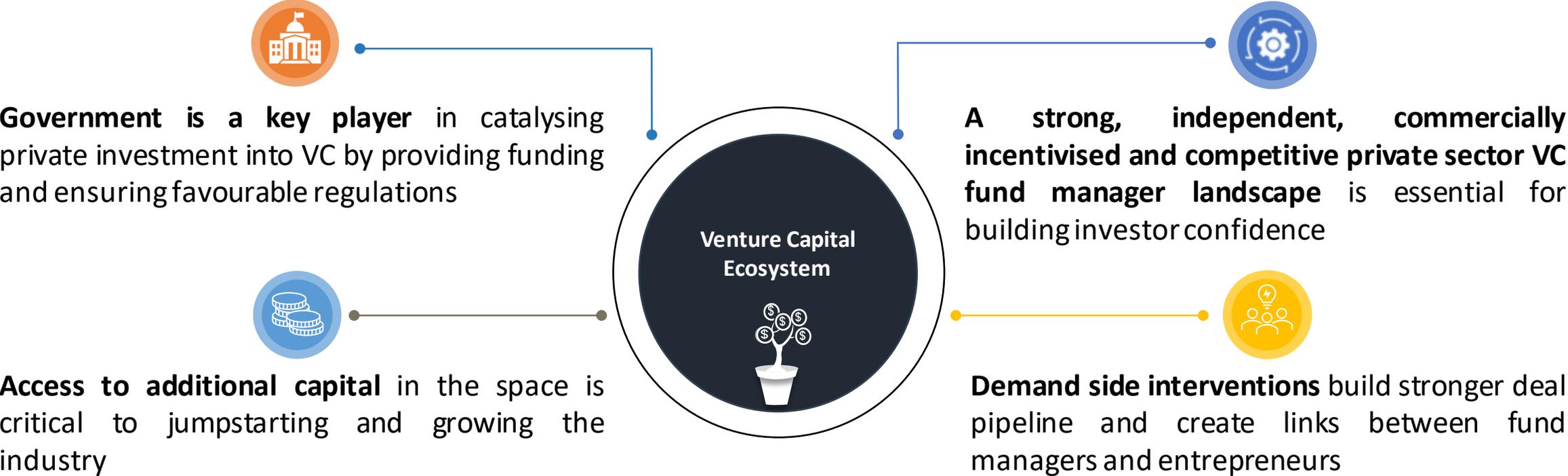
- The graduation rates from incubators remain low
- The link between capital spent on incubation and the number of successful start-ups is weak

Source: SAVCA Industry Report 2020

Investment Thesis

Successful Venture Capital requires a robust ecosystem, currently lacking in South Africa

Key Drivers in VC Ecosystem Development



The SA SME Fund of Venture Capital Funds will be a driving force in developing the South African VC Ecosystem

Investment Thesis

The SA SME Fund of VC Funds grows South Africa's VC ecosystem while offering attractive risk-adjusted returns

Key Objective

Invest in diverse VC fund managers in South Africa, both emerging and established, who support entrepreneurs with high growth potential, thereby generating attractive financial returns in lockstep with meaningful socio-economic impact

SA SME Fund of VC Funds' Focus

- 1 Accelerate the growth of the South African VC industry**
 - Fund of Fund structure multiplies impact by investing into numerous individual funds
 - Strengthen existing, established Fund Managers
 - Support experienced new Fund Managers

- 2 Increase Black and female participation in the sector**
 - Ownership: voting rights, economic interest
 - Management: board participation, tiered management
 - Skills development: learning and leadership programs

- 3 Mitigate risk of capital loss for investors**
 - First loss capital provides significant downside protection to investors
 - The Fund of Fund structure limits exposure to specific sectors and first time Fund Managers and absorbs institutional capital

- 4 Access to an array of innovation opportunities**
 - Allow LPs to gain exposure to multiple sectors, strategies, and fund managers through one vehicle
 - Provide broad exposure to the market-wide ecosystem unavailable to LPs invested in a single fund

Source: Foreign Affairs – The Fourth Industrial Revolution by Klaus Schwab

The Fund's Impact (con't)

Underlying Fund Managers' impact is aligned with the SDGs

SA SME Fund of VC Funds is SDG and GIIN Iris+ Aligned

<p>3 GOOD HEALTH AND WELL-BEING</p>	
<p>4 QUALITY EDUCATION</p>	
<p>8 DECENT WORK AND ECONOMIC GROWTH</p>	
<p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p>	
<p>10 REDUCED INEQUALITIES</p>	
<p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p>	

Investment specific indicators

- agreed at investment
- often sector specific
- continually monitored
- reported annually

Examples from previous investments

Entrepreneurship

- Access to finance for non-banked entrepreneurs, 1/3 women

Health

- Affordable healthcare for all
- Medical devices for rural clinics
- Low cost vaccines manufactured locally

Community services to the poor

- Community safety devices
- Commuter transport services offering efficient, safe and low-cost transport

Further Discussion



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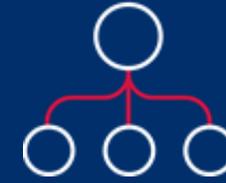


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Q&A



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SSIR: [The Dangerous Allure of Win-Win Strategies](#)

[The innovation lens and widening the solution space](#)

[Mobilizing all forms of capital - the Triple B framework](#)

[The 5 Rs Framework for USAID's Program Cycle](#)

[Five Point Framework](#)

[GIIN's Report on Impact Investing Decision-Making: Insights on Financial Performance](#)

[Innovation Possibilities in Times of Crisis](#)

[MPC Caribbean Clean Energy Ltd](#)

[Blended Finance Pathways](#)

[MPC and Clinton Foundation Blended Finance Partnership](#)

BEFORE YOU GO!



Please take a moment to answer the poll questions