Mobilizing Investment for Development with Transaction Advisory Services

USAID INVEST

AUGUST 3, 2023


Photo credit: Ekotek

Agenda

- Welcome
- Introduction (USAID)
- USAID INVEST and transaction advisory services
- Transaction advisory services and market building (CrossBoundary)
- Transaction advisory services for SMEs (GECA)
- Q&A
- Close

Objectives

Increase understanding of the value of TAS support and the relationship to achieving development objectives.

Provide tangible examples of how USAID and implementing partners can work effectively with TAS providers.

INVEST: Overview

INVEST is a flexible buy-in mechanism designed to address the challenges that make it difficult for USAID to work alongside the private sector.

- INVEST works with the private sector to **mobilize capital** for development and is a key mechanism that USAID can use to engage the private sector.
- INVEST is **fast and flexible** and can respond with tailored approaches to USAID and market needs.
- INVEST fosters **operational and technical innovation** for better development outcomes and impact across USAID.
- INVEST is the result of **co-creation** and is driven by a research and learning mandate.

OVER THE LIFE OF THE PROJECT…

66 BUY-INS
Across 36 MBIOs

$1.03 BILLION
Value of private capital mobilized for development

87.4 PERCENT
Overall obligation to INVEST*

579 PARTNERS
In the USAID Partner Network

96 NUPs
Subcontracted with INVEST

82 COUNTRIES
of INVEST implementation

INVEST: Technical services

Providing demand-driven services in four main areas:

INVESTMENT OPPORTUNITY ASSESSMENTS: INVEST helps USAID understand market conditions and identify investment opportunities. 64% of buy-ins to date.

TRANSACTION ADVISORY SERVICES: INVEST helps link capital suppliers to businesses that need investment to grow. 36% of buy-ins to date.

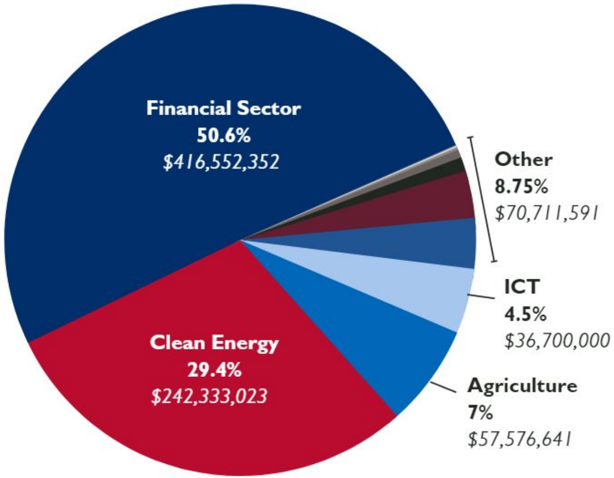
STRUCTURING FUNDS AND FINANCIAL INSTRUMENTS: INVEST designs or structures blended finance funds, investment platforms, and other financial products. 33% of buy-ins to date.

TECHNICAL ASSISTANCE: INVEST helps strengthen the commercial viability of a project at pre- or post-investment stages by developing the capabilities of fund managers or the businesses and projects in which they invest. 39% of buy-ins to date.

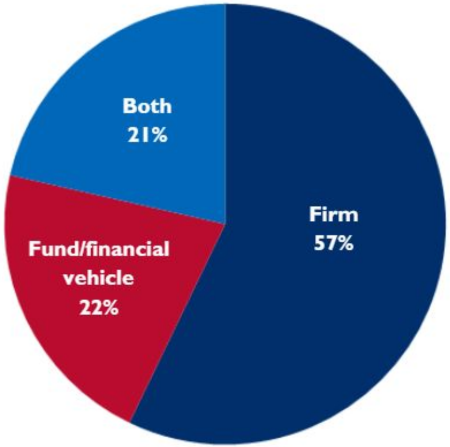
Transaction advisory through INVEST

USAID INVEST has mobilized **$1.03 billion** in capital for development overall; **73%** was raised with the aid of transaction advisors, resulting in **78 closed transactions** to date.

CAPITAL MOBILIZED VIA TRANSACTION ADVISORY BY SUB-PROGRAM AREA



SUPPORT FOR FIRMS AND FINANCIAL VEHICLES



Learning and adapting

Solicitations

✔ How we form strategy

Partner selection

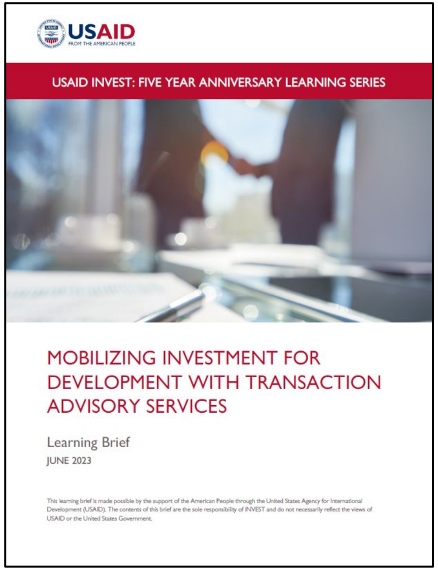
✔ How we access the right expertise

Scopes of work

✔ How we define objectives and key deliverables

Performance-based agreements

✔ How we incentivize financial and development outcomes



USAID
FROM THE AMERICAN PEOPLE

USAID INVEST: FIVE YEAR ANNIVERSARY LEARNING SERIES

MOBILIZING INVESTMENT FOR DEVELOPMENT WITH TRANSACTION ADVISORY SERVICES

Learning Brief

JUNE 2023

This learning brief is made possible by the support of the American People through the United States Agency for International Development (USAID). The contents of this brief are the sole responsibility of INVEST and do not necessarily reflect the views of USAID or the United States Government.

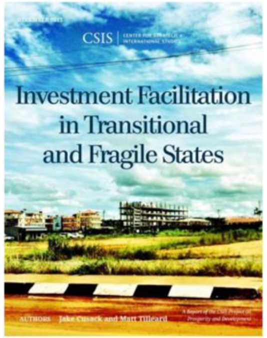
TRANSACTION ADVISORY SERVICES AND MARKET BUILDING: CROSSBOUNDARY

USAID
FROM THE AMERICAN PEOPLE

In the last decade, investment facilitation (third party payment and/or provision of transaction advisory services) has become mainstream.

The theory of investment facilitation originated from four key observations:

- Capital supply is abundant at the high level.
- Return on investment is possible even in very difficult markets.
- Transaction costs and information asymmetries are significant barriers that prevent capital from flowing into otherwise investable opportunities and slow the construction of bankable opportunities.
- Supporting intermediaries/advisors that address these costs and asymmetries can unlock new or stalled pioneer deals with substantial development impact.

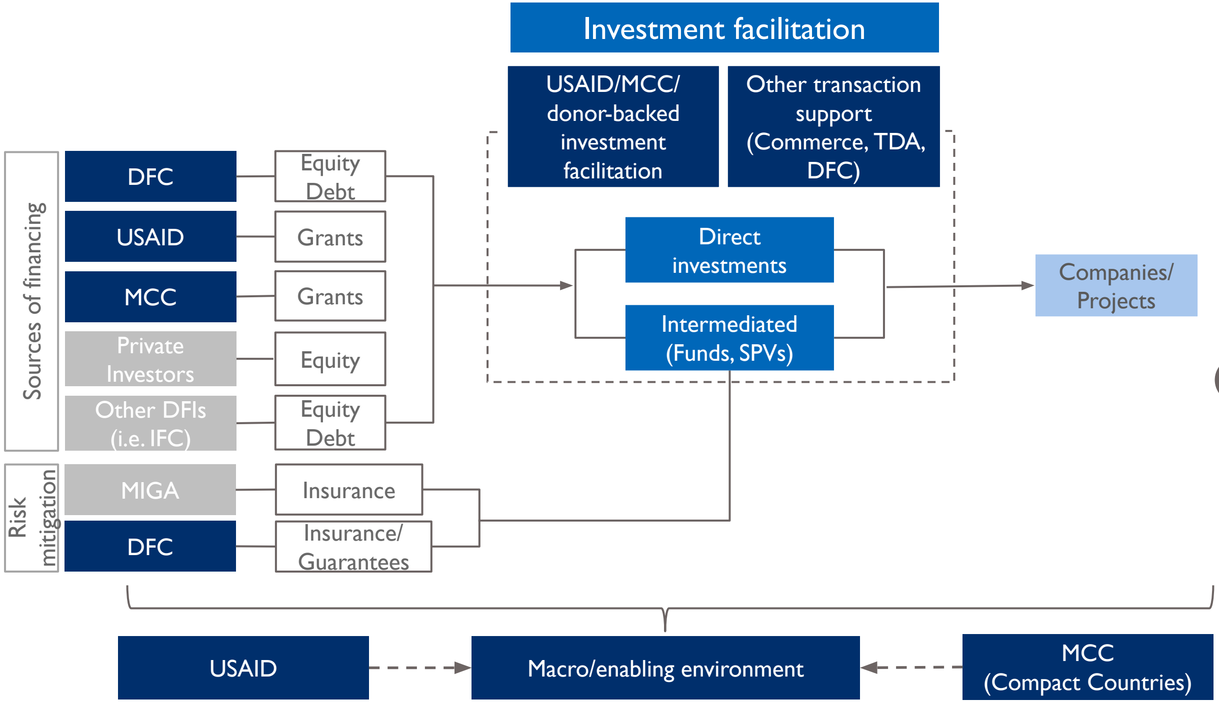


Investment facilitation focuses on addressing often neglected firm level barriers and transaction costs.

Level	*Barriers*	*Challenges faced*	*Example solutions*
Macro-level constraints	A lack of public goods, worsened by sub-optimal policy decisions and legal barriers	1. Poor enabling environment (e.g., policy, regulatory) 2. Lack of physical infrastructure (e.g., transport, energy, water) 3. Lack of soft infrastructure (e.g., educated workforce)	• WB Country Partnership Frameworks (CPF) • USAID Country Development Cooperation Strategies (CDCS)
Sector-level constraints	Coordination failures or stalled ecosystems leading to lack of investable projects	1. Nascent or non-existent industry stalled by coordination failures 2. Small market size or lack of integration with regional/global markets 3. Value chain gaps requiring vertical integration	• USAID Lebanon Water, Sanitation, and Conservation (WSC) • IFC Upstream • DFI-owned vertically integrated platforms
Firm- or transaction-level constraints	Lack of capital for risk/return	1. Perceived risk and pioneer/first mover challenges 2. Structural risk/return challenges 3. Timing/liquidity mismatches	• BII Catalyst • IFC Blended Finance Facility • World Bank Nigeria Electrification Project (results-based subsidy) • Open Road Alliance (bridge loans)
	Transaction costs	1. Lack of pipeline stemming from lack of bandwidth, expertise, or geographic presence 2. Information asymmetries and lack of trust/credibility 3. High transaction costs relative to deal size	• Shell Foundation • Africa Resilience Investment Accelerator (ARIA) • USAID DRC Investment Facilitation Platform

Source: "Investment Facilitation Revisited" by Daniel F. Runde, Jake Cusack, Matthew Tilleard, September 2019, CSIS

Investment facilitation supports providers and seekers of capital in unlocking transactions.



Targeted firm-level assistance for investors and companies to **reduce transaction costs and/or information asymmetries**

And **catalyze developmentally beneficial investments**, without the donor necessarily granting or investing directly into the company or project.

Both investors and entrepreneurs face fixed transaction costs and information challenges in executing a deal that investment facilitation can mitigate.

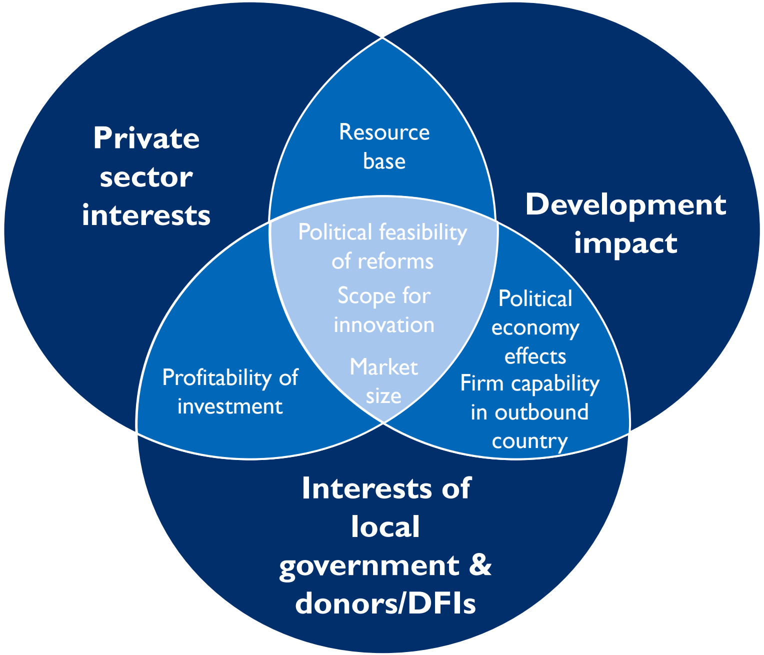
Investment process stage	Origination	Due diligence	Structuring and negotiation	Value creation and realization
Investor ("buy-side") portion of process	Scan market and identify pipeline of potential deals	Conduct due diligence and fill information gaps	Choose investment instrument and structure	Close transaction and begin value creation
Example investment facilitation activities	•Providing country / sector overview materials •Capital mapping and investor profiling •Developing investment pipelines and profiling opportunities •Analyzing value chain •Market sizing •Networking	•Analyzing market and competitors •Developing business plan and financial model •Conducting financial and commercial due diligence •Holding investor road shows	•Acting as an "honest broker" •Mitigating information asymmetries •Sharing example template legal documents •Researching comparable transactions •Relationship management	•Creating 100-day value creation plan •Providing governance recommendations •Providing status reports •Monitoring investments •Positioning strategically for follow-on investment
Company/ Project ("sell side") portion of process	Understand universe of available capital options	Pitch and position for investment	Understand and negotiate terms	Build business for follow-on investment

Investment facilitation is using targeted firm-level assistance for investors and companies to reduce transaction costs and/or information asymmetries in order to catalyze developmentally beneficial investments, without the donor necessarily granting or investing directly into the company or project.

Source: "Investment Facilitation Revisited" by Jake Cusack, Daniel F. Runde, and Matthew Tilleard, September 2019, CSIS

"How should we choose which sectors to focus on and which deals to support?"

Sector selection can be based on intersection of impact, private/government interests, and feasibility.



Within sector and geographic focuses, scorecards can be useful to rate and select specific deals.

Illustrative scoring dimensions	Considerations
Impact	• Contribution to economic growth, infrastructure, and job creation • Contribution to inclusion of underserved populations • Pioneering impact and innovation
Additionality	• To what extent is the support needed to unlock or expedite the transaction
Commercial viability	• Investment readiness • Strength of management team • Transaction milestones to date

Source: Scaling Up Investment for COVID-19 Economic Recovery and Jobs in Africa, CrossBoundary and Tony Blair Institute, 2020

Pioneer deals can overcome 'first mover disadvantages' in ways that benefit the entire ecosystem.

Addressing common questions:

"These transactions are too small, they are not going to create systematic change?"

"Isn't it picking winners if we help a few select companies get investment?"

First entrants ease the entry of new firms in the same industry by absorbing some of the fixed costs of new market creation, including customer education, local workforce training, and establishing supplier and distributor networks

They also create reliable demand for adjacent products and services, creating industry clusters that benefit smaller firms and encourage additional investment

Successful pioneering firms can exert upward pressure on governments to enact and implement a favourable enabling environment for private business

Successful transactions can have a strong positive effect on the entrepreneurial ecosystem and culture by serving as role models for other potential entrepreneurs and investors

Given pioneering firms have the power to generate ample social benefit and beyond firm-level, there is a strong rationale for providing public subsidy to lower entry and transaction costs

Source: "Pioneer Firms in Fragile and Conflict-Affected States" by Paul Collier, Neil Gregory, Alexandros Ragoussis. March 2019

Small transaction size, lower probability of success, and the longer time to close stifle the transaction advisory ecosystem in frontier markets. Providing success fees alone is not enough.

Size of the deal

- Small companies/transactions cannot afford to pay retainer and upfront fees.
- For example, a $5 million dollar deal with a 2% success fee, with a 50% chance of close in the next two years = probable payout of only $50K for two years of work, is difficult for an advisor to take on.

Probability of success of the transactions

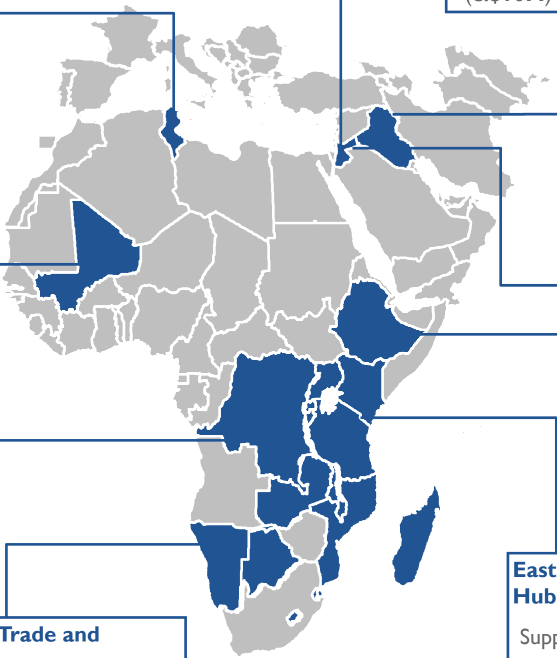
- In frontier markets, deals are often more complex and success rates of capital raises even for well established companies are below 50%.
- Unless there is an IF platform, advisors typically only work on larger high-probability transactions for companies that can already afford an advisor.

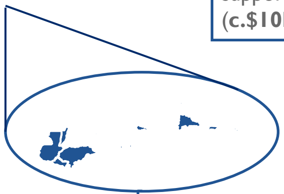
The volume/portfolio of transactions and speed with which they close

- In developed markets, high transaction volume and speed, so the risk of failed closes is more easily absorbed by advisors
- In emerging markets deals have taken 4+ years to close – which would have been an impossible working capital burden to carry without the support of investment facilitation platforms.

Portfolio-level investment facilitation model helps to address these issues, with some predictable payment for deliverables for the advisor, allowing them to pick a portfolio of deals with maximum additionality and development impact, rather than only "cherry pick" already well-advanced deals.

Over the last decade, we have closed 80+ transactions across eight different investment facilitation platforms in Africa and the Middle East, with an average close rate of 44%.





INVEST Tunisia

Structured first-loss tranche supporting 5 early stage companies (**c.$10M**)

Haiti INVEST

Supported 18+ companies mobilizing $27M (**c.$27M**)

El Salvador INVEST

Supported 8+ companies, raised $100M, closing $12M to date **(c.$12M)**

Mali Investment Facilitation Platform

Supported 23 deals with 10 reaching financial close (**c.$50M**)

DRC Investment Activity

Supported 13 deals with 6 reaching financial close (**c.$24M**)

Southern Africa Trade and Investment Hub

Supported 26 deals with 15 reaching financial close (**c.$100M**)

USAID Jordan Business Growth Activity

Supported 16 deals with 7 reaching financial close (**c.$10M**)

USAID Iraq Durable Communities and Economic Opportunities

Supported 21 deals with 8 reaching financial close (**c.$55M**)

Lebanon Trade and Investment Facilitation

Supported 25 deals with 5 reaching financial close (**c.$25M**)

Feed the Future Kenya Investment Mechanism

Supported 29 deals with 10 reaching financial close (**c.$101M**)

East Africa Trade Investment Hub

Supported 36 deals with 23 reaching financial close (**c.$118M**)

CROSSBOUNDARY

TRANSACTION ADVISORY SERVICES FOR SMES: GECA

USAID
FROM THE AMERICAN PEOPLE

“CREATING OPPORTUNITY FOR HAITIAN SMES AMID INSTABILITY”

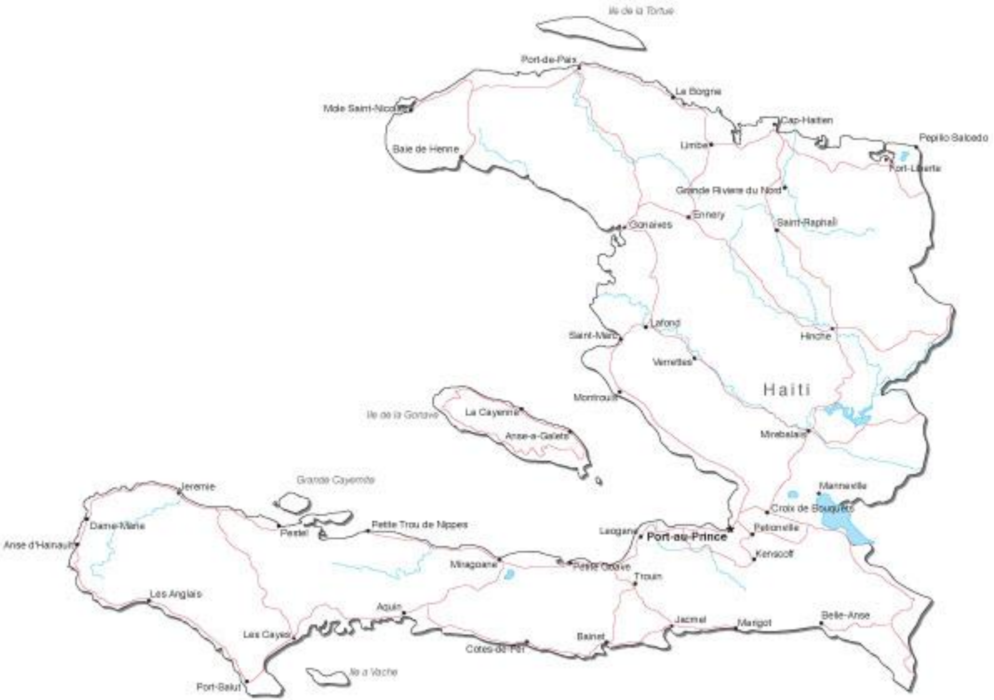
Gestion Etudes Compatibilite Audit (GECA) was created in 2012 by a group of young women professionals with different backgrounds to provide a range of services to clients. GECA’s offerings include legal, fiscal, accounting and procedure writing services.

GECA

QUALITY
100 %
SERVICE
PERFORMANCE
CUSTOMER
SATISFACTION
EXPERIENCE
RELIABILITY

Who are we

GECA: Supporting SMEs



Onboarding firms

Assessing firm capabilities

Identifying strengths and weaknesses

Technical support

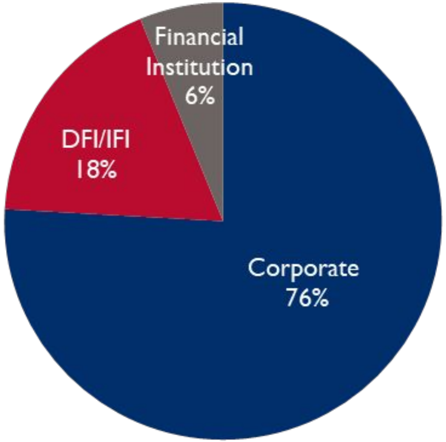
Connections to funders

Knowledge sharing

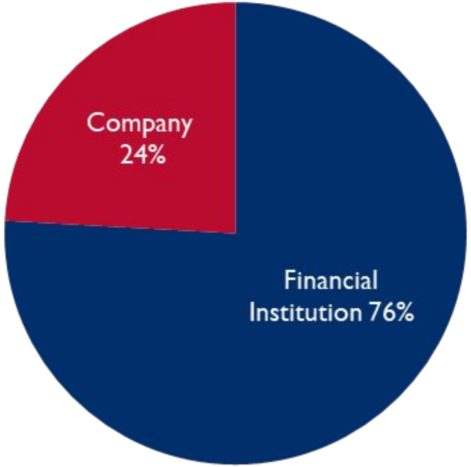
GECA: Transaction data

$19.5 M	6	$1.75 M
TOTAL CAPITAL MOBILIZED	NUMBER OF INVESTEES	REMAINING CAPITAL SOUGHT

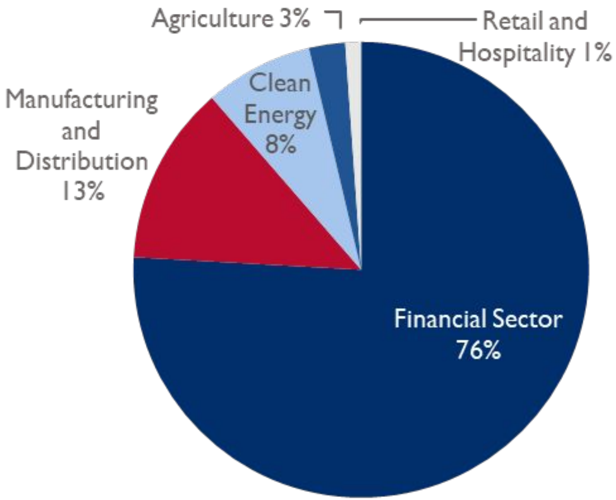
INVESTOR TYPES



INVESTEE TYPES



SUB-PROGRAM AREAS



La Perle S.A.

La Perle S.A. specializes in the production of sanitary products for commercial and household use. GECA facilitated three investments for La Perle from a financial institution and a DFI/IFI. These investments allowed La Perle to grow from 15 to 44 employees.

Photo credits: La Perle

Resources

[Mobilizing Investment for Development with Transaction Advisory Services: Learning Brief]

[Transaction Advisory Services 101 Resource Guide]

Nora Brown
INVEST Chief of Party
nora_brown@dai.com

Beatrice Duret
Managing Partner and CFO, GECA Haiti
bdgentil@gecahaiti.com

Sharon D'Onofrio
INVEST Director of Learning
sharon_d'onofrio@dai.com

Jake Cusack
Managing Partner, CrossBoundary Group
jake@crossboundary.com