Mobilizing Investment for Development with Transaction Advisory Services

USAID INVEST
AUGUST 3, 2023
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.
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.
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
TRANSACTION ADVISORY SERVICES AND MARKET BUILDING: CROSSBOUNDARY
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.

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

Source: “Investment Facilitation Revisited” by Daniel F. Runde, Jake Cusack, Matthew Tillear, 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 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.

<table>
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<th>Illustrative scoring dimensions</th>
<th>Considerations</th>
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| 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 |

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

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.

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?”

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%.

**East Africa Trade Investment Hub**
Supported 36 deals with 23 reaching financial close (c.$118M)

**USAID Jordan Business Growth Activity**
Supported 16 deals with 7 reaching financial close (c.$10M)

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

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

**USAID Iraq Durable Communities and Economic Opportunities**
Supported 21 deals with 8 reaching financial close (c.$55M)

**Southern Africa Trade and Investment Hub**
Supported 26 deals with 15 reaching financial close (c.$100M)

**Lebanon Trade and Investment Facilitation**
Supported 25 deals with 5 reaching financial close (c.$25M)

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

**Feed the Future Kenya Investment Mechanism**
Supported 29 deals with 10 reaching financial close (c.$101M)

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

**INVEST Tunisia**
Supported 16 deals with 8 reaching financial close (c.$25M)

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

**USAID Jordan Business Growth Activity**
Supported 21 deals with 8 reaching financial close (c.$55M)

**East Africa Trade Investment Hub**
Supported 36 deals with 23 reaching financial close (c.$118M)
TRANSACTION ADVISORY SERVICES FOR SMES: GECA
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: Supporting SMEs

Onboarding firms
Assessing firm capabilities
Identifying strengths and weaknesses
Technical support
Connections to funders
Knowledge sharing
GECA: Transaction data

$19.5 M TOTAL CAPITAL MOBILIZED

6 NUMBER OF INVESTEES

$1.75 M REMAINING CAPITAL SOUGHT

INVESTOR TYPES

Corporate 76%
DFI/IFI 18%
Financial Institution 6%

INVESTEE TYPES

Company 24%
Financial Institution 76%

SUB-PROGRAM AREAS

Financial Sector 76%
Manufacturing and Distribution 13%
Clean Energy 8%
Agriculture 3%
Retail and Hospitality 1%
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.
Resources

Mobilizing Investment for Development with Transaction Advisory Services: Learning Brief

Transaction Advisory Services 101 Resource Guide
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