



Blupass

altern



## Innovative funding solutions for young entrepreneurs

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18 November 2022



Team Europe initiative

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**Investing in Young  
Businesses in Africa**

**Working Group on  
Pipeline Development**

Survey Key Findings

18 November 2022

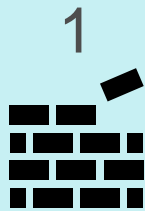


Ministry of Foreign Affairs

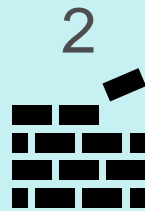


# Three building blocks of TEI IYBA

**Finance and technical support  
for entrepreneurs and  
early stage businesses**

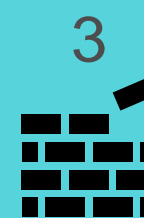


Very early stage;  
pre-seed  
financing



Early stage;  
Seed or 'Series A  
and B' financing

**Entrepreneurship  
ecosystem  
development**



Includes TEI IYBA  
ecosystem support  
programme

# Survey Results: 4 Clusters of key findings

Survey results could be summarised into 4 clusters of key findings:

1

## CLUSTER RESULT #1

### DFIs/ DB Internal/ Process constraints

- Limited capacity to identify and process ESB deals
- Lack of risk appetite
- Policy priority?

2

## CLUSTER RESULT #2

### Investment readiness of early-stage businesses

- Lack of financial literacy/ business planning
- Lack of leadership/ skilled personnel
- Value chain approach

3

## CLUSTER RESULT #3

### Challenges on Intermediaries side

- Long and costly ESB Coaching period
- Too few VC/ Business angels ESB investors
- Focus on Series A and B

4

## CLUSTER RESULT #4

### Public / Banking ecosystem below par

- Lack of dedicated public institutions to support ESB and start ups
- Business climate and credit systems are averse to ESB

# Survey Results: Cluster finding #2: Investment readiness of Early Stage Businesses (ESB)...lack of leadership/ skills

**Key Finding #4,5,6: Early-stage entrepreneurs and start ups also come to the investment stage with clearly identified financial, marketing, and leadership weaknesses, which need to be addressed through patient skills training and business coaching**

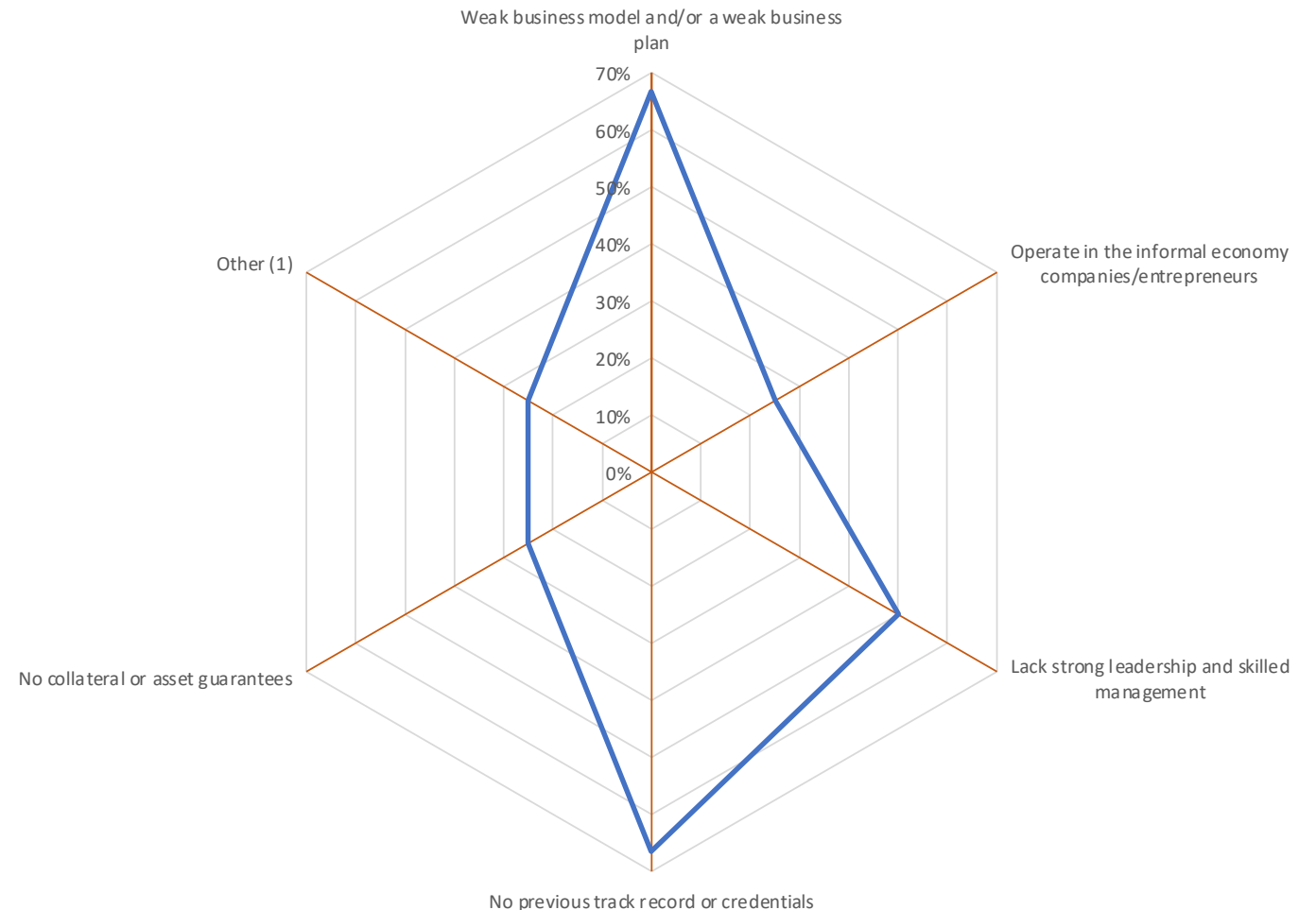
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## Key Finding #5:

**Key constraints identified by both the VC Funds and the Business Incubators:** a) ESB tend to have weak business model and/ or weak business plans; b) for the incubators, the entrepreneurs mostly operate in the informal sectors; c) they often lack leadership and skilled management and qualified personnel; d) lack of previous track record and credentials (spray and pray model) and e) VC Funds point also to a lack of collateral, existing assets or asset guarantees.

**Bottleneck: lack of business maturity and management readiness of ESB.**

## MAIN CONSTRAINTS IN ACCESSING FINANCING FOR GROWTH (VC SEGMENT)



# Survey Results: Cluster finding #3: challenges of the financial intermediaries, Microfinance and VC stage investors

**Key Finding #7,8,9,10:** Financial intermediaries and anchor investors (such as VC, MFIs and incubators) are critical to enable ESB to raise capital and evolved into full grown businesses. The coaching element is pointed as key, as does patient capital.

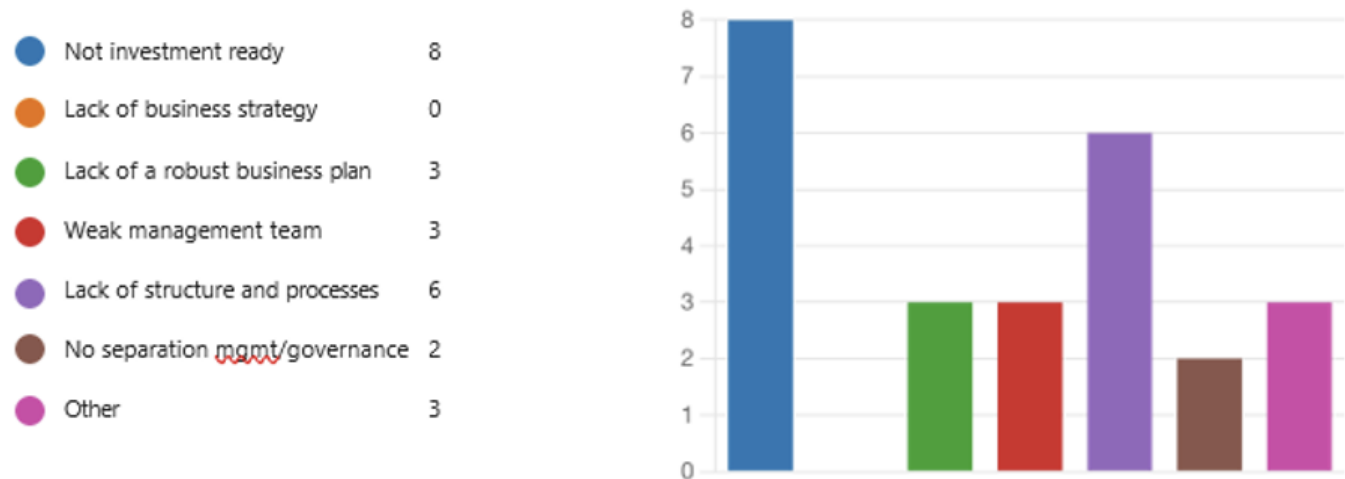
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## Key Finding #7:

**Resource bottleneck: limited capacity and resources from the part of a number of African financial intermediaries (esp. VC funds) to deliver on the patient business coaching/ training to ESB.**

The business coaching provided on top of the funding is a critical factor for success. Key success factors: (1) Track record of the entrepreneur with his activity (2) Vision and clarity of the entrepreneur regarding the practical development of his products and market; (3) Size of funding need (more or less equivalent to 1-2 years expected turnover); (4) Value-chain approach – that is demonstrated knowledge and experience with providers as well as initial market access.

**FIGURE 17: WHAT ARE THE MOST IMPORTANT REASONS FOR THE LIMITED INTEREST FROM THE LOCAL FINANCIAL SECTOR IN SUPPORTING AND FINANCING EARLY-STAGE ENTREPRENEURS?**



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- SARL founded in 2017 in Ivory Coast
- BeManager:



Cloud base Digital Solution  
+ Network Young Accountants (2021)



537 clients



Partnerships with financial institutions  
and charter accountants







Eliza



Sofia



Pablo

- Association founded in 2010 in Guatemala
- 3500 entrepreneurs supported
- Catalyzer (2018):
  -  US\$1,077,045 Capital disbursed
  -  71 entrepreneurs in 35 businesses
  -  300 jobs preserved or created



# Questions and Answers

# Survey Results: Cluster finding #1: DFIs/ Dev. Banks constraints: internal processes, risks, policies...

**Key Finding #1, 2, 3: DFIs and other European Development financial instruments rarely make direct equity investment or grants into ESB themselves, relying on qualified intermediaries and local investment institutions**

1

## Key Finding #1:

**DFI segment bottleneck: DFIs and cooperation agencies rarely make direct equity investments or grant contribution to early-stage businesses themselves.** In fact, 40% invest in ESB through VC and Private Equity funds, and the remainder is being done through incubators, local or regional banks and other aggregators.

TYPE OF THIRD-PARTY INTERMEDIARY WORKING WITH DONORS TO TARGET ESB

Local or regional banks	2
Incubators and accelerators	4
Business angels	1
VC, private equity & impact funds	7
Other	3



# Survey Results: Cluster finding #3: Microfinance funds and DFIs who on-lend to MFIs, need to deal with increased write off risks, and also credit risks and AML risks of countries where the need of financing ESB is the highest...

3

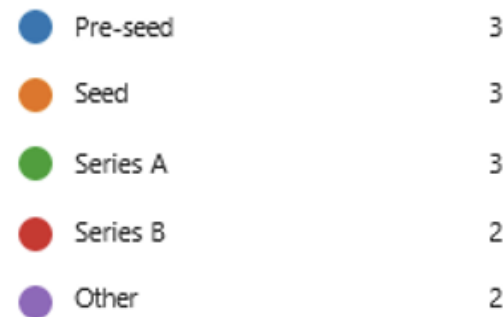
## Key Finding #10 :

**Microfinance:** Although 50% of their target clients are in the pre-seed and seed segments, some Sector focused MFI also targeted Series A and Series B businesses.

**Bottlenecks (A)** for MFI are the % of “Portfolio at Risk” (PAR ratio) which is often elevated in Africa, and worsened by economic crises, climate change, COVID, etc.

**Bottlenecks (B)** DFI and Fund lending to MFIs may be reduced by increased credit risk of African countries.

FIGURE 21: TO WHICH TYPES OF ESB ARE MICROFINANCE INSTITUTIONS CURRENTLY INVESTING IN/LENDING TO



# Survey Results: Cluster finding #4: Public Support ecosystem is weak and commercial bank credit lines for ESB inexistent.

4

## Key Finding #12:

**Bottleneck: the public and private ecosystem for supporting early-stage business, more often than not, is too small, with lack of public institutions tailored to the need of small businesses and startups.** The private ecosystem (Business Incubators, VC Funds) is too small and need to palliate lack of public support and investment in making a conducive business climate for young entrepreneurs to flourish. This coupled with lack of access to bank credit for ESB, makes the business climate unsuited for serving ESB segment.

Main obstacles identified by the DBs, DFIS and development agencies when financing ESB in Africa

