



**FUND DESIGN:**

**BUILDING FOR THE UNDERSERVED  
AFRICAN MARKET WITH A GENDER LENS**





**UN Women** is the United Nations entity dedicated to gender equality and the empowerment of women. It supports UN member states as they set global standards for achieving gender equality and works with governments and civil society to design laws, policies, programmes and services needed to ensure that the standards are effectively implemented and truly benefit women and girls worldwide.



**FinDev Canada** is Canada's bilateral development finance institution (DFI), with a mandate to support the growth and sustainability of businesses in developing markets. FinDev Canada works to help create jobs, promote women's economic empowerment, and contribute to a cleaner and greener environment. The institution's Technical Assistance Facility is funded by Global Affairs Canada.



**Lelapa** is an advisory firm specialising in FinTech regulatory policy and innovative financing mechanisms for African businesses. Lelapa's flagship project is the implementation of regulations for investment-based crowdfunding across Africa with the African Crowdfunding Association. In 2017, Lelapa created the **Women in African Investments Group (WAI Group)**, a 140-plus membership-based community for women executives in the investment industry in Africa. It supports peer learning, networking and influences the industry towards deploying more capital to both women fund managers, and women-owned businesses in Africa. The WAI Group has a wealth of experience from its members (DFIs, private equity and venture capital funds, SME funds, angel networks, etc) on the barriers and enablers of growth for women-owned businesses.



# FOREWORD



**Anne-Marie Lévesque,**

***Director of Gender and Impact Management at FinDev Canada, and former chair of the 2X Challenge***

The global momentum for gender lens investing is going strong. According to [Project Sage 3.0](#), there are currently 138 private funds globally raising capital with a gender lens, twice as many as in 2017. Together these funds raised more than \$4.5-billion in 2019 alone. On the public side, there is perhaps no better example of this momentum than the success of the [2X Challenge](#), a major commitment by development finance institutions (DFIs) to unlock resources to advance women's economic empowerment and gender equality. What started out as a \$3-billion mobilisation challenge is now a global movement which is inspiring other investors to put more money into the hands of women.

And yet considerable challenges persist. Despite this momentum, gender lens fund managers – most of them women – still struggle to raise capital. The Project Sage data shows that almost two thirds – 61% – of gender lens funds were first-time or emerging fund managers (understood as first funds from a given team with this thematic focus), which are perceived as higher risk and therefore represent a barrier for many investors, including DFIs. As a result, only 25% of funds surveyed by Project Sage had reached their fundraising targets. This adds to the existing evidence around the lack of funding going to women entrepreneurs; the International Finance Corporation ([IFC](#)) estimates that a mere 6% of private equity funding in Africa goes to women-led businesses, for example, while at least 31% of businesses in the region have female participation in ownership.

So, when the opportunity arose to hold a direct and open dialogue between African women fund managers and 2X Challenge DFIs about the challenges and pain points of fund design and fundraising with a gender lens, FinDev Canada jumped at the chance to work with our partners at UN Women and Lelapa. As a gender lens investor, we believe it is essential to seek out – and listen to – the voice of women in the markets where we operate, and that their perspectives and lived experiences should be reflected as faithfully as possible in a report such as this one.

The insights and recommendations coming out of this dialogue might be an uncomfortable read for some investors and capital allocators. That is a good thing. Our conversations raised thought-provoking (and necessary) questions about the hidden effects of seemingly “neutral” financial structures on funds that do not necessarily fit the traditional mould because they are designed by women, for women. If we want to continue deploying more capital with a gender lens, we need more of this type of constructive dialogue between fund managers and investors to take place. We hope this report is just the beginning of the conversation, and that it will lay the groundwork for the testing and scaling of innovative solutions that will ultimately lead to more capital in the hands of women.



## FOREWORD

***Elena Ruiz Abril,***

***Policy Advisor for Women's Economic Empowerment at UN Women***

The gender gap in access to finance in Africa is estimated at \$42-billion. If this is to change, we need to do things differently, we need to think differently, and we need different actors at the table to come up with game-changing solutions and strategies. The dialogue organised by UN Women, FinDev Canada and Lelapa in November 2020, for which this report presents the results, has contributed to this by bringing together two types of constituencies who usually have difficulty finding the space to talk to each other: development finance institutions who play a catalytic role in bringing finance to hard-to-reach segments; and women fund managers, who are strategic in investing in women-led businesses across Africa.

The \$42-billion gender credit gap is made up of many other gaps. Gaps in expectations from women-led businesses about what banks and commercial finance can do for them; and gaps in expectations about ROI from investors that support the women-led business segment. Dialogues such as this are contributing to bridge that gap.

UN Women supports this process because we think that a truly grass-roots approach to gender lens investing and innovative finance is needed to achieve SDG5. We believe that it is critical to give voice to women-led businesses and women fund managers to find solutions that influence the finance landscape in the region so that more and different finance flows to women-led SMEs in Africa.

This conversation takes place at a moment in time when businesses are suffering from the blow of a historic pandemic, and co-creation of solutions is more important than ever. However, this is a long-term conversation, one that should help us identify systemic changes that are needed to rebuild post COVID-19 and close the gender gaps that exist.



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## AUTHOR'S ACKNOWLEDGEMENTS

We were honoured to facilitate this important dialogue between fund managers and development finance institutions (DFIs) and thank the organisers for their confidence in us. The workshop would not have taken place without the leadership of Khetsiwe Dlamini, former Chief of Staff at UN Women and Founder at Triple C Advisory; Elena Ruiz Abril, Policy Advisor for Women's Economic Empowerment at UN Women; Anne-Marie Lévesque, former 2X Challenge Chair and Director of Gender and Impact Management at FinDev Canada; and Natasha Bernardi, Associate Impact Officer at FinDev Canada.

We also thank the members of the 2X Challenge for their participation in the workshop. The 2X Challenge, launched in June 2018, is a major new commitment of the DFIs from the G7 countries to unlock resources that will help advance women's economic empowerment and gender equality. We trust that the participants will use these findings to influence the way that capital is allocated under this initiative.

We are equally grateful to the members of the Women in African Investments Group (WAI Group) who have contributed significantly to our understanding of the issues in this report. We would like to thank in particular the emerging female fund managers whose experiences continue to shape the gender lens investing movement.

This report is targeted primarily to a fund manager and development finance audience. However, we have endeavoured to make it accessible to a broader audience by providing a technical glossary.

**Elizabeth Howard**

**Founder, Lelapa | Acting CEO, African Crowdfunding Association**



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*If DFIs want to increase the number of women-led funds in the market as well as support women-led SMEs, then the under-served SME market segment is a good place to start. The pipeline of both GPs and SMEs is huge.”*

Elizabeth Howard, Ag. CEO, African Crowdfunding Association; Founder, Lelapa and Women in African Investments Group

## GLOSSARY OF ABBREVIATIONS, DEFINITIONS AND TECHNICAL TERMS

GP	General partner
LP	Limited partner
DFI	Development finance institution
GLI	Gender lens investing
FI	Financial Institution
SMEs	Small and medium-sized enterprises
FUM	Funds under management
PCV	Permanent capital vehicle
FoF	Fund of Funds
IRR	Internal Rate of Return
ROE	Return on equity
ROI	Return on investment
ICT	Information, Communication and Technology
CFF	Collaborative for Frontier Finance
EFFM	Emerging female fund manager – for the purposes of this report, this term refers to female GPs who are in the process of raising their first fund. Elsewhere, the term “emerging” may include those who are raising their second or third funds too
Underserved market segment	For the purposes of this report this term refers to SMEs with risk capital requirements between \$100 000 and \$1-million. Such SMEs are often referred to elsewhere as the “missing middle” or “small and growing businesses”
Intermediary	For the purposes of this report, this term refers to all organisations that provide capital to SMEs, for example funds, investment companies, angel networks and crowd-investment platforms
Experienced intermediary	For the purposes of this report, this term refers to an intermediary that has a long-term track record of investing
Risk capital	For the purposes of this report, this term refers to equity and equity-like investment instruments as well as uncollateralised debt. We exclude microfinance and traditional bank loans from this definition
Mezzanine finance	This term refers to investment instruments that have features of both debt and equity, such as revenue-share agreements, uncollateralised or flexible loans, equity instruments with self-liquidating features etc
Concessionary capital	For the purposes of this report, this term refers to investments that are made with an expectation that returns will be below market returns
Blended finance	This term refers to the use of concessional finance in combination with commercial finance in order to fund projects that would not qualify for investment on purely commercial criteria



*“Open-ended vehicles and flexible financing instruments help us manage the exit issue. In our market there simply are not many exit opportunities for SMEs.”*

Evelyne Dioh, Managing Director, WIC Capital

## EXECUTIVE SUMMARY

**This workshop brought together more than 50 development finance institutions (DFIs) and general partners (GPs) for an open, honest dialogue on investing with a gender lens in small and medium-sized enterprises (SMEs) in the underserved African market.**

Participants brought a broad range of perspectives on this problem, from individuals overseeing fund and gender strategies within DFIs, to established and emerging fund managers operating in Africa. The nature of the discussion was important in itself, as GPs were able to express their views outside of their usual fundraising conversations.

Similarly, DFIs were able to give more insight into past and current challenges regarding this market segment. The candid views built rapport and deepened mutual understanding.

The discussion revealed that the design of a fund is not neutral with respect to gender. DFIs and GPs that seek to invest with a gender lens should ensure that their choice of fund structure is appropriate to capture the opportunities offered by women-led SMEs.

At the current stage of market development, many women-led businesses have risk capital requirements well below \$1-million. This market segment is chronically underserved by investors partly because the traditional fund model that they employ is not adapted to small-sized investments.

While many emerging fund managers recognise the need for alternative fund structures in this segment, they nonetheless opt for traditional models that comply with the needs of limited partners (LPs). This is largely because emerging fund managers – particularly women – face a host of barriers to fundraising and do not wish to compound risk perceptions with an atypical fund model.

These factors combine to exacerbate gender inequalities at the portfolio level. This in turn limits the presence of women-led SMEs in larger deal sizes downstream, making it difficult for DFIs to reach their goals on gender equality in access to finance.

The workshop provided a number of short- and medium-term solutions to mitigate these challenges, including measures to boost the discovery of viable alternative fund models for the underserved segment, and interventions to support the successful emergence of female fund managers in Africa.

These measures effectively form a dual gender lens at GP and portfolio company levels. They require a cohesive strategy across gender and fund teams within DFIs, and, critically, an ongoing candid dialogue between DFIs and GPs that places the needs of women-led SMEs front and centre.

Other important stakeholders are foundations and grant-making organisations, as well as those putting in place the enabling environment for innovative fund structures and intermediaries serving small businesses to flourish.



## TOP INSIGHTS

- 1 A facilitated dialogue between DFIs and funds is an effective format for candid, honest and open discussion. This is important at the early stages of the gender lens investment (GLI) journey where discussions on gender issues may occur separately from those on investment strategy.
- 2 The limited supply of capital to the underserved SME segment as a whole exacerbates gender inequalities in access to capital due to the high presence of women-led SMEs in this segment. This can in turn limit the emergence of larger women-led SMEs in the pipeline of private equity funds.
- 3 The choice of fund structure is a non-neutral element affecting the presence of women-led SMEs in fund portfolios. This is highlighted when fund design is approached from the viewpoint of women entrepreneurs' needs. This is important to consider alongside broader guidance for gender-responsive investment processes.
- 4 A key hindrance to increasing the flow of capital to the segment is the rigidity of the traditional fund model whose parameters are determined by supply-side preferences rather than demand-side realities. The shortage of proven alternative investment models for the segment and aligning returns expectations remain a challenge for DFIs and intermediaries.
- 5 Investments in the underserved segment should be considered as a distinct asset class given the necessary departure from traditional fund models and the unique risk-return environment.
- 6 Gender lens strategies promoting investments in women-led SMEs can often be at odds with the traditional fund model due in part to the requirement for smaller-sized investments; however, emerging female fund managers with GLI strategies reported being under pressure to present traditional funds to reduce their perceived risk. This contributed to a perceived misalignment between the "gender" and "funds" departments within DFIs.
- 7 Recent commitments to gender lens investing are an opportunity for a larger group of DFIs to revisit the assumptions and limitations of traditional fund models, allocate resources to experimental models and address the barriers facing emerging female fund managers.

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*We got into this underserved segment of the market because there was a clear void.”*

Diago Dieye, Fund Manager, Teranga Capital



## TOP RECOMMENDATIONS

- 1 The space for continued open dialogue between DFIs and funds should be maintained to reconcile demand- and supply-side realities, and track gender lens initiatives in the underserved segment.
- 2 DFIs should provide transparent communication on their positioning regarding commercial and concessional finance in the underserved segment. This would boost partnerships and blended finance initiatives to increase capital deployment in the segment.
- 3 DFIs should work towards a benchmarking of intermediaries' performance in the underserved segment to facilitate carved-out allocations to the segment, normalise risk and anchor expectations for new fundraising. This would help define the underserved segment as an asset class.
- 4 Gender inequalities at the fund level should be addressed by DFIs and others with: allocation of capital to a track-record building facility, incubation/acceleration of emerging female fund managers with peer learning and shared services, support for alternative fundraising mechanisms ("club pools", crowd-investment vehicles) and reductions in the cost- and time-to-close of emerging managers.
- 5 Development agencies, foundations and DFIs should allocate resources toward non-traditional investment models, via pilots, experimental structures and new partnerships to increase discovery of viable business models for intermediaries providing capital to the underserved market.



*“ We are starting a very important conversation with this workshop. A key part of our strategy and 2X commitment is to use our capital to bridge gaps in gender lens investing.”*

Anne-Marie Lévesque, Director of Gender and Impact Management at FinDev Canada, and former chair of the 2X Challenge



“

*When we started 15 years ago we used closed-ended vehicles. The inefficiencies of this model created a lot of loss. We now use evergreen structures and mezzanine finance instruments that allow us to generate returns earlier on.”*

Matt Cumming, Regional Investment Manager: East Africa, Business Partners International

## I. BACKGROUND TO THE REPORT

Under the banner of the 2X Challenge, UN Women, FinDev Canada and Lelapa convened more than 50 participants including funds and investment companies (intermediaries) and DFIs for a workshop on demand-led fund design. This virtual workshop took the unique format of a facilitated dialogue which allowed for each participant to speak candidly from their position on the following intersecting challenges:

- i. Investing risk capital<sup>1</sup> in the underserved segment of the African SME market
- ii. Ensuring that these investments flow to women-led and -owned SMEs (W-SMEs) notably via women-led and -owned intermediaries
- iii. Bridging the gap between these intermediaries and DFIs to unlock greater investment volumes and impact in this segment

With roughly 80% female participation, the dialogue captured the perspectives of intermediaries that were at different stages in their fundraising and provided an opportunity for them to engage their existing and potential LPs outside of the usual investor relations or fundraising pitch discussions. This helped overcome power dynamics that might close the space for GPs and other intermediaries to discuss certain barriers, request feedback or be more assertive about the need for their particular fund model. Importantly, the discussion brought together the “gender” and “investment” teams within DFIs. This is critical at the early stages of the gender lens investment journey where these two teams may find themselves operating in silos, and apparent inconsistencies in their strategies may be overlooked.

All participants shared the goal of investing in the underserved African market segment, and the debate was structured around demand-centred fund design, i.e., the selection of fund parameters based on the needs of underserved SMEs rather than those of the fund’s limited partners. This feature gave entrepreneurs a proxy voice in discussions with LPs, and allowed participants to consider the specific needs of W-SMEs and hence better appreciate the ways in which a given fund structure may or may not be responsive to those needs.

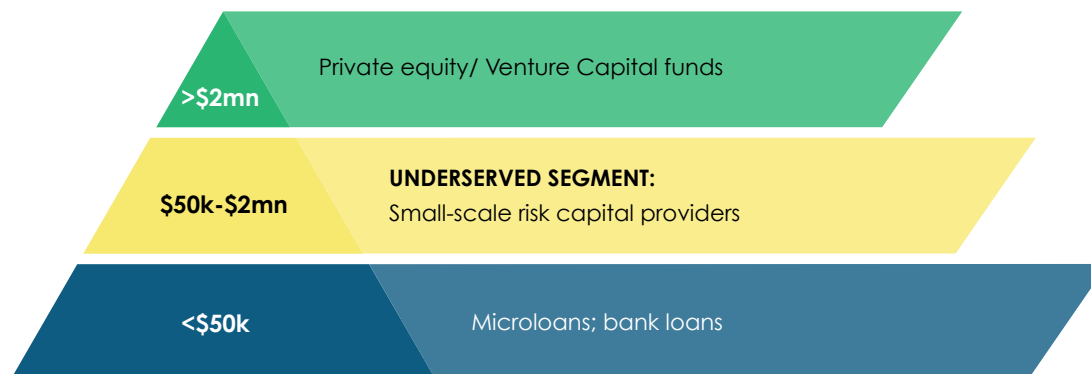
### INSIGHT

# 1

A facilitated dialogue between DFIs and funds is an effective format for candid, honest and open discussion. This is important at the early stages of the gender lens investment (GLI) journey where discussions on gender issues may occur separately from those on investment strategy.

## II. THE DEMAND-SIDE: DESCRIBING THE UNDERSERVED SEGMENT

Prior to the workshop, Lelapa conducted 16 interviews with existing and emerging intermediaries about their experience structuring funds that enabled capital deployment to the underserved segment. We defined “underserved segment”<sup>12</sup> here as SMEs with risk capital requirements between \$100 000 and \$1-million. This could be lower (\$50 000) in smaller markets such as Senegal, or higher (\$2-million) in markets such as South Africa<sup>3</sup>.



Participants described their SME pipeline with characteristics that are well documented in the literature: a potential for fast or sustainable growth driven by external investment was impeded by a lack of collateral, gaps in management skill sets, high pre- and post-investment technical assistance needs, and often a desire by management to maintain majority ownership or control. A salient feature for this market segment is that human capital transformation – hiring, coaching, upskilling – is a key lever of growth and impact. Investors in this segment had very high levels of involvement in their portfolio companies.

When asked to share demand-side gender-specific insights, the majority of participants agreed that women entrepreneurs were more numerous in the underserved segment than in higher deal size categories, although the reasons given for this were nuanced: many believed that this was because women did not have access to capital at the outset of their ventures (compared to their male counterparts), and the slow, “bootstrapped” progress kept them in the “missing middle”.

Others explained this with sectoral, generational and cultural factors: societal expectations about jobs deemed suitable for women influence the sectors in which they start businesses – notably education, hospitality, health, agribusiness, consumer goods – which may not foster as many exponential-growth businesses as, say, the ICT sector. Full-time entrepreneurship was also a relatively recent possibility for women, resulting in “pipeline” constraints analogous to the experience of women-led Intermediaries and female business leaders in general.

### INSIGHT

## # 2

**DFIs should provide transparent communication on their positioning regarding commercial and concessional finance in the underserved segment. This would boost partnerships and blended finance initiatives to increase capital deployment in the segment.**

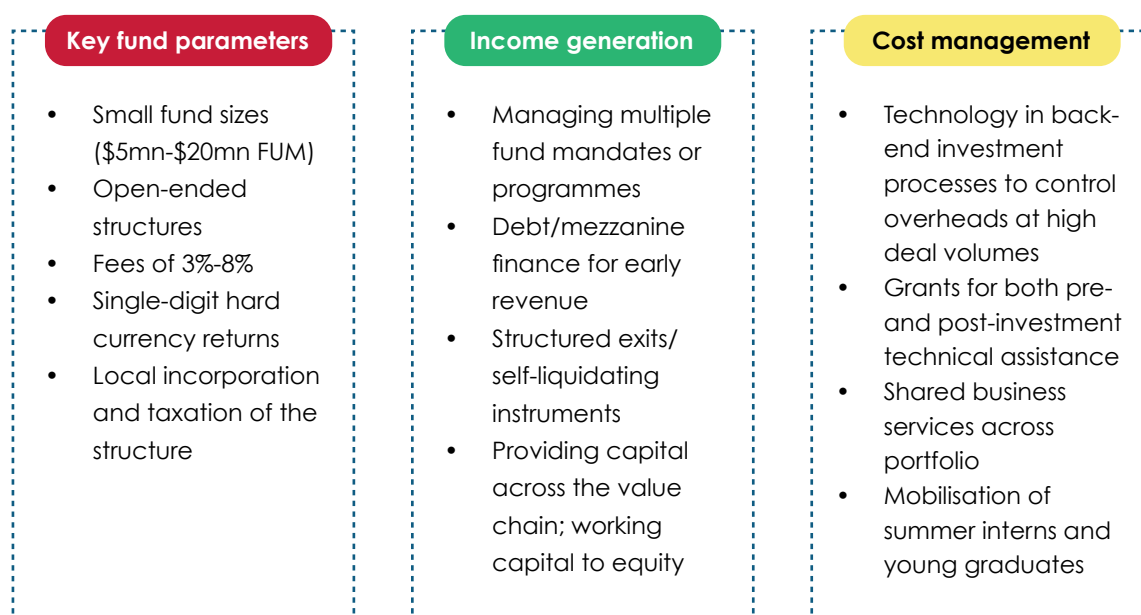
Participants stressed the need for investors to adapt their traditional investment processes and instruments to women entrepreneurs who may prefer a more relational than transactional approach, may emphasize value over price, or may be optimising their business subject to various family constraints or patriarchal structures. New gender lens investment guides provide fund managers with advice on implementing a gender lens across investment processes. The CDC Group/IFC<sup>4</sup> guide recommends to “consider how to influence progress towards a gender outcome with investment products and structures” and to “ensure exit maintains gender lens strategy”.

### III. FUND DESIGN AS AN ENABLER OF GENDER LENS INVESTING

Underscoring these steps, this workshop pointed out the importance of revisiting fund design itself as an element of a comprehensive gender lens investment strategy. A gender-responsive fund design may include the use of mezzanine instruments to enable broader exit options and exit timelines, notably founder buy-backs, as well as small-sized investments with follow-on rounds to prevent early dilution of ownership.

Indeed, participants that focused exclusively on GLI highlighted that there simply are not many large women-owned businesses and few with 50% female staff, 50% female management or which serviced a primarily female market. Even when the GLI strategy was catalytic, i.e., to transform SMEs by bringing in female ownership, one still had to start with small-sized cheques.

Such fund design choices are common with existing intermediaries in the underserved segment<sup>5</sup>: the latter often required a departure from traditional fund economics, taken here to be a closed-ended fund, “2+20”<sup>6</sup> fee structure, FUM above \$75-million and target IRR above 20%. To maintain both their viability and focus on small-sized transactions, existing intermediaries have adopted the following features:



Participants also debated the merits and challenges of the PCV structure. The arguments for open-ended structures included:

- A longer runway to absorb loss-making pre-investment activities
- The ability to fundraise at a slower pace while concurrently deploying capital and managing portfolio companies with limited staff and resources
- Compatibility with a broader range of demand-responsive investment instruments
- Exits at mutually beneficial points along the growth curve
- Operational efficiencies afforded by the longer-term outlook, for example, investing in local human resources could be justified more easily than if there were a risk of losing the team if a second fund failed to be raised

All participating PCVs were locally-incorporated and staffed for cost and tax efficiencies. Four PCVs with FUM below \$10-million had found success in attracting local capital from individuals and corporates, some of which viewed the commitments through a Corporate Social Responsibility lens. In at least one case, local investors had lower returns expectations than DFIs; another model mobilised returnable donations from retail investors via a digital platform. These models raised questions about the positioning of DFIs vis à vis both foreign and local retail investors in terms of risk aversion: retail investors could “de-risk” investments on behalf of the DFI, or vice-versa.

Importantly, several emerging intermediaries expressed a preference for a PCV structure but had nonetheless opted for patient closed-ended funds, for example “8+1+1” or “10+2”<sup>7</sup> horizons, as alignment with LP needs was prioritised over demand-side realities. Closed-ended funds typically rely on third-party exits and the generating of returns toward the end of the fund's life; however, structured exits may mitigate this and better align the fund with SME lifecycles and founder preferences.

## INSIGHT

### # 3

The choice of fund structure is a non-neutral element affecting the presence of women-led SMEs in the portfolio. This is highlighted when fund design is approached from the viewpoint of women entrepreneurs' needs. This is important to consider alongside broader guidance for gender-responsive investment processes.

Three participants from DFIs with well-defined mandates to provide capital to intermediaries in this segment related their learning and challenges:

- There was a high cost associated with servicing this segment, notably due to pre-deal investment-readiness costs, which necessarily required concessionary capital
- It was a challenge internally to advocate for both concessionary capital and equity capital (rather than debt) for the fund, and this advocacy needed to be done on an annual basis
- After initially expecting double-digit returns, DFIs had reduced expectations to single-digit returns and placed an emphasis on sustainability of the GP, which was a positive development
- The definition of SME was prone to shifting, and there needed to be a thoughtful segmentation and matching with types of finance

Regarding the particular difficulties in partnering with PCVs, DFIs highlighted the following issues:

- A 10-year holding period was challenging for certain DFIs
- Equity-based PCVs introduced uncertainties about exit mechanics; debt-based PCVs were simpler to consider
- Alignment of incentives with management teams was not obvious
- First-time management teams may lack experience in managing the PCV as a sustainable business
- The business model of the PCV may provide its own challenges, as cash generation at the portfolio level may take up to a decade before it covers the GP's costs

Maximising returns under these constraints was a balance that had not yet been found within existing fund models; additional resources were required to discover new ways to place capital and to identify new intermediaries. The recent commitments to GLI were viewed as an opportunity in this regard. Indeed, to the extent that there are more W-SMEs in the underserved segment, the insights above may imply that inflexibility with regard to fund models inadvertently perpetuates gender inequality in access to capital for SMEs.

## INSIGHT

### # 4

A key hindrance to increasing the flow of capital to the segment is the rigidity of the traditional fund model, the parameters of which are determined by supply-side preferences rather than demand-side realities. The shortage of proven alternative investment models for the segment and aligning returns expectations remain a challenge for DFIs and intermediaries.

At the time of the workshop, GLI initiatives at the SME level were in progress within at least two existing PCVs and made possible through a combination of Technical Assistance grants and debt capital provided at below-market rates by development agencies and foundations. A report by the Collaborative for Frontier Finance noted that 95% of local capital providers to SGBs in SSA were willing to prioritise gender and more than half of them already did. On the other hand, some DFI participants noted that their non-fund FI partners such as commercial banks were less open to a conversation about gender. In the absence of a broader range of intermediaries through which to target this segment, DFIs may indeed encounter difficulties reaching W-SMEs in an effective manner.



*“The track record issue comes up all the time. We deal with it by proving our resonance with the market in Nigeria and have about 200 women-led businesses in our accelerator. Developing a strong pipeline of investment-ready businesses is an important track record. First-time Female Fund Managers in Africa have to be creative in developing track record while they fundraise.”*

Thelma Ekyior, Managing Partner, SME.NG

*“We’re not going to be perfect every time when we come into the room. Our backgrounds and track record in previous investment and operations roles needs to be taken into account.”*

Lisa G Thomas,  
Managing Partner, Samata Capital



## IV. THE UNDERSERVED SME MARKET SEGMENT: A NEW ASSET CLASS?

Some practitioners believe that the economics of investments in the underserved segment differ in such significant ways from those of venture capital and private equity that they should be viewed as a separate asset class<sup>8</sup>. Existing intermediaries stressed the need for greater education of DFIs and other LPs regarding risk capital in this segment. There needed to be not only an academic understanding of country risk, foreign exchange risk and company risk, but an acceptance of the real-world manifestation of those risks: risk capital necessarily implied patience and hence portfolios that were often weaker; foreign exchange risk necessarily implied volatility (which was too expensive to hedge) and hence net returns that were often below expectations.

A new consensus amongst DFIs regarding realistic returns expectations, i.e. single digit net returns in hard currency, was called for. Similarly, a consensus about acceptable fees in this segment would anchor expectations and open up a broader range of fund structures that could be presented to DFIs. By shifting the focus from short-term returns to sustainability of the GP, emerging intermediaries would have room to innovate on the business model of the fund or vehicle itself. Indeed, some intermediaries felt that DFIs did not always realise the type of work required to invest in such SMEs, with fund managers often assuming the role of “co-manager” at the SME.

### INSIGHT # 5

**Investing in the underserved segment should be considered as an asset class in itself given the necessary departure from traditional fund models and the unique risk-return environment.**

Such an understanding would naturally be gained through experience, and a need was identified for experienced DFIs to educate newcomers in order for the latter to build a view on their role as either concessional or commercial. Support to intermediaries typically took the form of guarantees for small loans and debt finance at below-market rates provided to small PCVs via commercial banks; concessional capital was not usually offered to small funds although some DFIs were advocating internally for grants and technical assistance pools. GP participants argued that guarantees were ineffective in reaching the underserved segment as SMEs lacked collateral for bank finance.

A further difficulty was the need for DFI capital to be catalytic, i.e., to harness additional private sector capital, which in this segment was particularly challenging to meet when combined with high minimum cheque sizes from DFIs (generally above \$20-million, with exceptions). The question of a dedicated allocation of funds for intermediaries in the underserved segment was raised: this may encourage competition between funds of the same size and mandate, rather than competition with larger funds that was deemed inefficient from a resource perspective – particularly for emerging intermediaries. Effective communication from DFIs on their positioning regarding commercial and concessional finance would also aid the formation of partnerships and blended finance programmes.

The interviews and virtual workshop provided a valuable opportunity to examine GLI in the underserved segment from the perspective of women-led Intermediaries. This is important for 2X Challenge participants who seek to increase the number of women-owned fund managers in the market which, according to the CFF<sup>9</sup>, remains marginal at 1% of local capital providers in SSA. In addition, the WAI Group notes that its members – female fund managers – are most active in the small-sized fund segment (less than \$25-million). This growing pipeline of women-led intermediaries is a boon for an industry lacking in diversity; however, the CFF notes that only 11% of women-led funds have raised more than \$5-million for their vehicles despite a growing industry commitment to GLI, reflecting difficulties in capitalising on this opportunity.



Participating emerging female fund managers (EFFMs) highlighted the following challenges encountered during fundraising:

**2** Fund design was largely LP-driven despite some GII strategies requiring non-traditional fund models – the EFFM often diluted her GII strategy to fit the traditional model, even when she believed it was less realistic, in order to reduce her perceived risk

**4** The lack of a specific allocation, or carveout, for either the underserved segment or for EFFMs, meant that time was lost competing with funds in a different risk/return paradigm

**6** Few opportunities to have a discussion with DFI funds teams outside of the fundraising conversation meant that building a relationship was challenging

**8** Narrow interpretation of track record: EFFMs often lacked experience in the exact fund strategy that they proposed, but had relevant experience from previous roles and deals that they felt was overlooked

**1** Heavy reliance on DFIs for their first fundraise; limited options for “club rounds” using existing networks to build track record in the deal size considered to be relevant

**3** Mixed messaging coming from the “gender” and “funds” teams within DFIs led to frustration as headline commitments under the banner of GII did not translate into fundraising support for EFFMs

**5** Inefficiencies in the fundraising journey that emerged from opaque mandates or lengthy investment processes incurred costs that were borne asymmetrically, with EFFMs struggling to self-fund for three to five years

**7** In communicating and marketing their fund pitch, EFFMs felt that the language around gender and impact was shaped by DFIs (and used in turn by EFFMs) but that the corresponding risk-taking ability was not forthcoming

**9** Gender and race barriers to building a track record: EFFMs faced barriers entering mainstream private equity firms and consequently were less likely to build the track record and partnerships that would be favourably looked upon by LPs. They were also less likely to have the personal wealth required to raise a first round from family and friends



**“** Building relationships and trust with DFIs abroad can be a challenge. We need opportunities to put ourselves on the map and demonstrate our relevance to the market.”

Andia Chakava, Investment Director, Graça Machel Trust

Participants from DFIs acknowledged the difficulties and highlighted the lack of direct experience managing a GP business itself as an important track record gap, particularly as 10-year commitments or PCVs were required for investments in the underserved segment. DFIs still needed to support experienced intermediaries to demonstrate the case for investing in the segment internally.

There was also a debate at some DFIs about the sustainability of a large number of small intermediaries in the market, given the importance of scale. However, the fund size deemed “viable” by a given fund manager would naturally depend on that fund’s structure. A more revealing question would be to compare, for example, the total transaction cost associated with executing an identical \$250,000-sized investment across a diverse range of intermediaries including traditional and innovative structures. The universe of minimum viable fund sizes (and deal sizes) for an innovative structure might differ from that of a traditional fund.

## INSIGHT

### # 6

Gender lens strategies promoting investments in women-led SMEs can often be at odds with the traditional fund model due in part to the requirements for smaller-sized investments; however, emerging women fund managers with GLI strategies reported being under pressure to present traditional funds to reduce their perceived risk. This contributed to a perceived misalignment between the “gender” and “funds” departments with DFIs.

“

*Getting to first-close is a big hurdle, but given the focus on our track record, we also need capital to build that track record.”*

Cathy Goddard, Founder and CEO, FyreFem Fund Managers



“

*We have come a long way as an industry with the 2X Challenge to be talking about gender. But at the end of the day there is still a disconnect between the progress made on gender and what the investment teams actually want to fund.”*

Zee de Gersigny, Director, Early Stage Capital Providers Network Director at | Collaborative for Frontier Finance and former Managing Partner at Victus Global Capital

## V. INSIGHTS FROM EMERGING FEMALE FUND MANAGERS

Participants had the opportunity to share ideas and potential solutions for DFIs to two challenges: de-risking the underserved segment, and implementing a dual gender lens, that is, at the SME and GP levels. At the outset, GP participants cautioned against vocabulary that may exacerbate risk perception, such as “first-time fund managers” – a term that ignored previous SME portfolio management experience – and “de-risking” – a term that implied an ex-ante knowledge of risks and return that may be premature given that relatively few investment models had been tested. In addition, the lack of transparent industry data made comparisons with other market segments tenuous.

**In addition to the insights above, GP participants shared the following recommendations:**

1

- Introduce greater transparency at individual DFIs on investment mandate and exclusions

2

- Adopt a long-term view of normalising risk-taking in the underserved segment by committing experimental capital to test a variety of structures and identify sustainable GP business models

3

- Consider that pipeline bottlenecks at larger deal sizes may result in DFIs overpaying for assets, and that this is likely aggravated by underinvesting in the SME pipeline at smaller deal sizes

4

- Consider that a gender lens strategy is a risk mitigant in itself, thanks to diversity in market knowledge

5

- Consider that a demand-responsive approach to fund design should result in fund structures that reflect the societies in which they operate, which may be an additional risk mitigant

6

- EFFMs should join peer support groups to reduce the cost of acquiring relevant knowledge, networking and finding potential fund partners

**Solutions for DFIs to increase capital allocation to the underserved segment – and via EFFMs – included:**

- Make the investment criteria in this segment less onerous for DFI teams, or increase internal capacity

1

- Consider allowing more market operators to manage technical assistance pools for SMEs

2

- Increase subsidies for women-owned SME business support and investment readiness programmes

3

- Encourage the use of small-sized debt and debt-like instruments (less than \$300 000) to build track record

4

- Create a dedicated window and competitive process for investment models that are inclusive of the underserved segment – and apply a dual gender lens to this window

5

- Allocate a pool of capital that is managed by EFFMs that are salaried

6

- Design a Fund of Funds (FoF) structure to enable EFFMs to build a small track record, potentially through asset purchase, with technical assistance to the EFFM in an “incubator” model

7

- Encourage mentorship of EFFMs by experienced intermediaries

8



**“** *Not only is there a huge shortage of capital in this segment, most of the businesses are not investment-ready. This means we've had to use flexible financing tools in our fund.”*

Elena Haba, Head of Acceleration & Seed Funding at Comoé Capital

Alternative fundraising strategies were already in use by EFFMs for whom the traditional fundraising strategy offered very low odds of success and a certain high personal cost: raising a small “club round” from individual investors to reach first close was used successfully by WIC Capital and M&A Capital, two women-owned intermediaries based in francophone West Africa.

M&A Capital pioneered the use of “crowd-investment vehicles” in Senegal by creating a simplified stock company (“Société aux actions simplifiées”) for each transaction and inviting local individual investors to become co-investors alongside M&A Capital. The average fund size of each vehicle is \$150 000, with on average 20 co-investors per vehicle. Contributions from the individual investors range from \$3 000 to \$17 000. Liquidity and exit opportunities are provided by dividends and share buybacks by M&A Capital after a minimum lock-up period.

M&A Capital has a diversified sectoral strategy across the portfolio, employs a lean operational model and charges no management fees to its shareholders. A common business services suite is used across the portfolio to further reduce costs. Such vehicles provide local investors with an accessible means to support SMEs whose products directly improve their communities, for example, the creation of two high-end bakery-pâtisseries that were the first of their kind in each town<sup>10</sup>. Importantly, the simplified fundraising process reduced overall transaction costs and time-to-close.

While this alternative fundraising mechanism requires an enabling regulatory framework in order to reach its potential on the continent<sup>11</sup>, it is a promising solution in developed markets where such a framework is already in place. For example, Backstage Capital, an established VC fund focused on underrepresented founders and led by women of colour, raised over \$4.8-million from more than 7 000 retail investors using a crowd-investment vehicle<sup>12</sup> under Reg CF (Regulation Crowdfunding) in the United States. The relatively small size of the vehicle is made possible through reduced transaction costs offered by the equity crowdfunding platform on which the vehicle was listed. An additional motivation to use this mechanism is a willingness to distribute VC gains more equitably<sup>13</sup>. Similarly, Passion Capital, a women-led VC, used European crowdfunding regulations to crowdfund £2.6-million of their funding round from 669 investors.

This highlights the strategic importance of organisations that are putting in place the enabling framework for new fund models to be tested.

## INSIGHT

### #7

Recent commitments to gender lens investing are an opportunity for a larger group of DFIs to revisit the assumptions and limitations of traditional fund models, allocate resources to alternative and experimental models, and address the barriers facing emerging female fund managers.

## VI. RECOMMENDATIONS

In summary, the insights above help make the case for the following actions:

1

The space for continued open dialogue between DFIs and intermediaries should be maintained to reconcile demand- and supply-side realities, and track gender lens initiatives in this segment.

2

DFIs should provide transparent and consistent communication on their positioning regarding commercial and concessional finance in the underserved segment. This could help the forming of partnerships and blended finance initiatives to increase capital deployment in the segment.

3

DFIs should work towards a benchmarking of intermediaries' performance in the underserved segment to facilitate carved-out allocations to the segment, normalise risk and anchor expectations for new fundraising. This would help define the underserved segment as an asset class.

4

Gender inequalities at the intermediary level should be addressed by DFIs with: allocation of capital to a track-record building facility, incubation/acceleration of emerging female fund managers with peer learning and shared services, support for alternative fundraising mechanisms that reduce the cost- and time-to-close of emerging managers.

5

Development agencies, foundations and DFIs should allocate resources toward non-traditional investment models, via pilots, experimental structures and new partnerships to increase discovery of viable investment business models in the underserved segment.

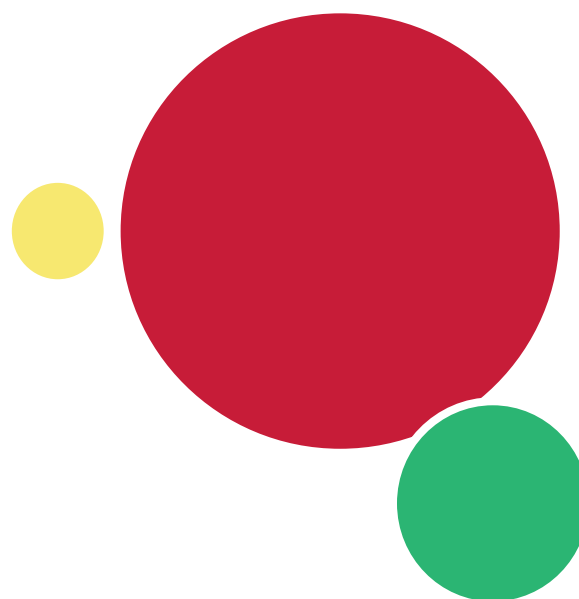
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*A challenge with Fund of Funds models is getting the structuring right. We've had to think innovatively about that over the past year.”*

Jen Braswell, Director, Value Creation at CDC Group



Appendix A. List of participating organisations	Appendix B. List of Interviewees
Victus Global Capital	Victus Global Capital
Business Partners	Business Partners
WIC Capital	WIC Capital
Comoé Capital	Comoé Capital
Teranga Capital	Teranga Capital
SME.NG	SME.NG
Samata Capital	Samata Capital
Graça Machel Trust	Graça Machel Trust
Kiva Capital	Kiva Capital
Grassroots Business Fund	Intaba Capital
Intaba Capital	Fyrefem Fund Managers
Fyrefem Fund Managers	M&A Capital
Secha Capital	Athenaga Capital/ BIDUK
M&A Capital	Ory Okolloh Mwangi
Athenaga Capital/ BIDUK	Collaborative for Frontier Finance
Ory Okolloh Mwangi (fund in progress)	DFC
FinDev Canada	
CDC Group	
FinnFund	
SwedFund	
DEG	
Obviam (SIFEM)	
DFC	
IFC	
Shell Foundation	
Small Foundation	
Mastercard Foundation	
Collaborative for Frontier Finance	
Triple C Advisory	
Altree Capital	



<sup>1</sup>We define « risk capital » as equity and equity-like instruments as well as uncollateralised debt. We exclude microfinance and traditional bank loans from this definition.

<sup>2</sup>Note: the term "missing middle" is often used to describe this segment.

<sup>3</sup>Note: For an GP that already targeted this segment, "underserved" typically represented the pipeline that was rejected on account of insufficient grant funding to conduct pre-investment technical assistance.

<sup>4</sup>See CDC Group/ IFC (2020) "A Fund Manager's Guide to Gender-smart Investing" page 47.

<sup>5</sup>For example, Business Partners International, GroFin, SEAF, M&A Capital, WIC Capital, Grassroots Business Fund, Teranga Capital and other intermediaries targeting the underserved segment use open-ended investment structures with various models for technical assistance programmes that support portfolio companies before and after investment.

<sup>6</sup>This formula refers to a GP's management fees (2% of funds under management) and "carry" (20% of returns above a given hurdle rate).

<sup>7</sup>These formulae refer to the number of years of a fund's investment period, and the number of years that the fund reserves for exiting the investment. For example, "10+2" refers to a ten-year investment period and a two-year exit period.

<sup>8</sup>See "The Case for Mezzanine Finance", Benink and Winters for the Dutch Good Growth Fund (May 2016)

<sup>9</sup>See "Emerging Market Small and Growing Business Capital Provider's Survey Results", Collaborative for Frontier Finance (June 2020) available at <https://www.frontierfinance.org/resources>

<sup>10</sup>See video (in French): <https://www.youtube.com/watch?v=ps7rcDeeA1I>

<sup>11</sup> A regulatory framework for securities-based crowdfunding, including crowdinvestment vehicles, is being considered in several African jurisdictions. An interactive map of these countries is available online from the African Crowdfunding Association: [www.africancrowd.org](http://www.africancrowd.org)

<sup>12</sup> See: <https://republic.co/backstage>

<sup>13</sup> See : <https://impactalpha.com/arlan-hamilton-opens-backstage-capital-to-retail-investors/>

