Financing your business model in developing markets

A guide to funding and cash flow enablers in low income markets

access2innovation

DIBD INTERNATIONAL BUSINESS DEVELOPMENT

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PREFACE

Many economies in Africa, Asia, and Latin America are growing rapidly—creating opportunities for local populations and companies alike.

Although these markets may not be fully developed or easily accessible for Danish companies, their opportunities often outweigh their risks. These business opportunities will be captured by companies that are ready to meet imminent challenges, leverage local resources, and move beyond business as usual.

Obviously, one of the major barriers to entering these markets is financing. How do you set up a viable business strategy when your potential customer is living on less than two dollars a day?

In this booklet we introduce two pivotal topics important to companies' success in these markets: where to source financing for your business model and how to use a range of innovative financial tools to enable your company to ensure a steady cash flow. This booklet is not an exhaustive account of funding opportunities, but an inspirational guide with a clear message: Funding is out there waiting for promising business cases.

Jacob Ravn
Head of Secretariat
access2innovation

The following organizations are official project members of access2innovation:

Aalborg University
Care Denmark
Copenhagen Business School
Danish Red Cross
Danish Water Forum
Energy City Frederikshavn
MS ActionAid Denmark
Northern Jutland Food Network
The Confederation of Danish Industry
University of Copenhagen
VE
VE-Net (the renewable energy network)
WWF

The contents of this booklet reflect the experiences of DIBD. Partner organizations might have other individual approaches.

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INTRO-DUCTION

How do I attract investors? How do I operate in an informal economy? How do I sell to someone who only has enough money for tomorrow?

These and similar questions present themselves for companies entering low-income markets. This booklet guides companies on how to work with these challenges and turn them into advantages using innovative business models.

Get your business ideas off the ground

Increasingly, companies are generating products and services for developing markets around the world. The business models of these companies, by default, often have the potential to stimulate social change and economic progress. However, the track record of pioneering companies shows that breaking the code and developing commercially viable business models is challenging—and often requires companies to think beyond the business-as-usual model. Therefore, your company should be aware that, in developing markets, financing and securing a steady cash flow are often deal breakers, and require innovative thinking.

This booklet provides inspiration and information for your company regarding how to address two primary hurdles when growing business in developing markets: sourcing external funding and ensuring a steady positive cash flow.

External funding

For many companies, doing business in low- or middle-income markets is unchartered territory and represents a higher initial risk than venturing into other markets. To share the risk or justify the investment, companies can source various types of external funding. Securing external funding allows companies to conduct studies, make investments, create employment, and transfer technological knowledge—opportunities which might not have been available otherwise. In other words, external funding often becomes the key ingredient enabling companies to move the business forward in risky markets.

This booklet guides you on how to deflect this risk in its section on external funding. The information will increase your understanding of the mindset of different funding institutions, and based on this information, the booklet aims to equip you to target the right funding sources and pitch projects appropriately. In addition, the booklet guides you one step closer to securing external funding through its presentation of available external funding opportunities, particularly those relevant for Danish companies.

> “Financing and securing steady cash flow in developing markets are often deal breakers and require innovative thinking.

Equally as important as securing funding is the generation of steady cash flow. Whether commercial or donor capital, all funding institutions hold high important in how your business ideas will ensure income generation.

Cash flow enablers

The ability to realize projected cash flow rests on a properly designed business model. Therefore, developing markets represent an attractive opportunity to create new business models and thereby increase your competitiveness. On occasion, companies succeed in exporting their existing business models to these markets; however, the opposite is often the case. As a consequence, your company must carefully consider whether the design of the business model matches the local context of the market, culture, customers, political framework, and so on.

To become successful and overcome the challenges in these markets, your company must be ready to think and act differently than it may in other settings. Success is most often not simply about translating your training manuals into the local language. Instead, for example, you must imagine that you have to adapt to high-transaction costs, because of such issues as poor infrastructure or lack of contracts due to the size of the large informal markets.

This booklet will help you with ideas about how to think differently when designing your business model. Particularly it looks at how you design the revenue streams of your business model, called "cash flow enablers", as extra efforts often need to be made at this point, compared to your normal business model. The described enablers can reduce encountered risks and support income generation by assisting clients and end-users in buying your products and services.

Focus of the booklet

This booklet takes the vantage point of the access2innovation initiative. This means it primarily targets companies interested in developing products and business models that generate profits and social returns. The focus is especially on East African markets, but much of the content will be relevant for entering other developing markets in low- and middle-income countries as well.

We hope that you find the booklet inspiring and enjoy the reading. ■

access²innovation

Designing new business models in partnerships

Two sections in this booklet hold particular relevance for the companies, NGOs, and other stakeholders involved in access2innovation.

The external funding section is relevant for the partnerships that join forces through access2innovation, as these partnerships—which could involve your company—can boost the innovative project development process by securing external funding. The identified funding opportunities typically have criteria aimed at innovation and social impact, which means that the business ideas developed through access2innovation are particularly relevant.

The cash-flow enablers section holds particular relevance for the innovation process the NGOs and businesses must go through. The key reason is that poverty-alleviating business models typically require innovative measures, such as enabling the end-users (from a business perspective) or beneficiaries (from an NGO perspective) to pay for the product or services. This can be seen, for instance, in the rapid emergence of mobile money transfers and how this has unlocked the ability for many people to pay for new services, such as electricity, insurance. and daily goods.

BACKGROUND INFORMATION

This booklet has been created with the purpose of encouraging companies to engage in the growing markets in Africa, with the perspective of blending business and development.

The organizations Access2Innovation and The Confederation have been instrumental in the creation of the booklet.

access2innovation

access2innovation is a strategic network hosted at Aalborg University that aims to create sustainable solutions for developing markets, with partnerships among businesses, researchers, and civil society organizations.

access2innovation was founded in 2007 as part of a research project at Aalborg University in Denmark. The initiative spawned several new companies in its first few years, and the organization is now expanding its activities even further.

The main perspective of projects in access2innovation: access2innovation is driven by a bottom-up approach in which civil-society organizations compile information about possible business opportunities in developing markets. These opportunities are then presented to relevant researchers and businesses so that they can create sustainable and commercially viable solutions.

Research has shown that customers in many developing markets act differently from developed market consumers. Thus, businesses should approach these younger markets by tailoring innovative business approaches. Support for this strategy is accessible through access2innovation.

The Confederation of Danish Industry

This booklet has been researched and authored by the BOP (Base of Pyramid) Learning Lab at the Confederation of Danish Industry (DI). The BOP Learning Lab was founded in 2007 and focuses on engaging Danish companies in development markets, with a specific emphasis on low- and middle-income customer segments.

The BOP Learning Lab has assisted small and large companies in creating BOP strategies from conceptualization through implementation and has designed a number of tools for companies interested in pursuing low-income markets.

The BOP Learning Lab is part of a global network of learning labs that pool their experiences. It draws on the expertise of the DI International Business Development (DIBD), a business advisory unit with over fifteen years of expertise in developing and emerging markets, with offices in India, China, Brazil, and Russia.

WHEN MARKETS CANNOT BE CAPTURED **– CREATE THEM**

The Funding Toolbox supplements the Market Creation Toolbox. Whereas entering new markets always requires tough learning and changing of routines and processes, experience shows that your company can avoid many of the obstacles and misunderstandings that make the difference between success and failure.

Most often, problems occur far away from the target markets. They occur in the home office between well-meaning business professionals who develop products and business models that look great on paper, but seldom work on the ground. These common challenges are addressed in a practical, easy-to-use guide: the Market Creation Toolbox.

The title is rooted in the experience that developing markets are rarely captured; instead, they need to be created. The toolbox will help you understand how this is done. Based on best practice from successful business ventures, the toolbox provides a step-by-step guide on how to involve local stakeholders and create in-depth customer insights that can feed directly into the design of the business model. Depending on the company, type of product, and time frame, this can be either a long or short process, but it will probably require you to leave your comfort zone and seek information and ideas directly from and with your target market. This toolbox is designed to help you with this collaborative task. Find the toolbox at **boplearninglab.dk**

EXTERNAL FUNDING OPPORTUNITIES

What's the best way to start a new business idea in a developing market? Or reach new customer segments with your existing business?

External funding is particularly helpful in developing markets in low- and middle-income countries, because these markets are more risky than those in developed countries. This section will provide you with information and an inspiration list on the types of funding that can be obtained for project activities in developing markets.

The purpose of external funding

Your company can access a wide range of external funding opportunities if you have an interest in developing projects and doing business in developing countries. External funding is a broad term for the ways a company can obtain money from outside the company, such as loans, equity investments, grants, etc. The main considerations when seeking external funding is typically how the means of funding fits the strategy of your company and the level of risk you and the company are willing to accept.

An important element that you must consider when developing new business in these parts of the world is that it is often a much more extensive task than in well-developed countries and markets. Thus, securing external funding is not only a way to leverage your existing business efforts, but a critical part of succeeding in these more difficult and risky markets. However, you should always remember that high returns often go with risk.

In developed markets, funding is rarely linked to social impact. This is not the case in developing markets. Many of the relevant external funding opportunities have requirements focusing on social impact. The following presentation of funding institutions predominantly focuses on funding that requires your business ideas to include social objectives.

> External funding is a broad term for the ways a company can obtain money from outside the company, such as loans, equity investments, and grants.

Four distinct types of institutions

To provide an understanding of the different sources of funding, four distinct types of external funding are presented that can be utilized in the context of creating new projects in developing markets—particularly in East Africa. The types of funding are:

- **Grant agencies:** Donor capital focusing on training, knowledge transfer, and feasibility studies.
- **Development finance institution:** Commercial capital focusing on co-investments with companies in projects that must have a development agenda that fits the objectives of the institution.

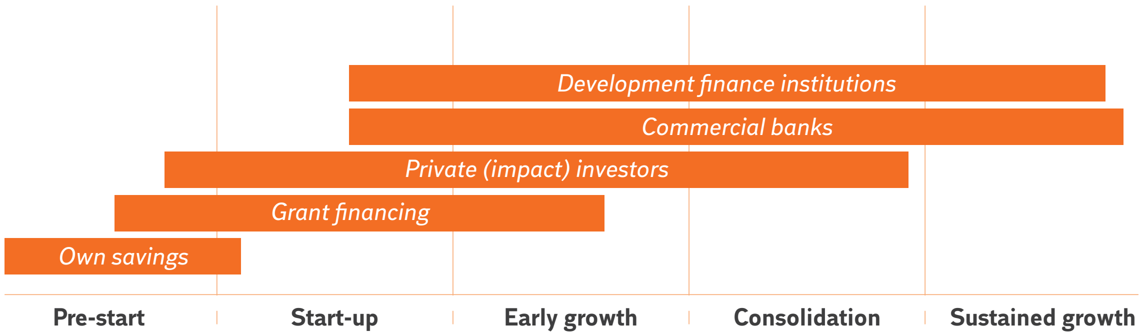


Diagram of project development stages and how external funding opportunities match

- **Private investment fund:** Commercial capital focusing on specific sectors with investments in Danish or local companies through a mix of equity and debt.
- **Commercial banks:** Commercial capital focusing on offering loans or instruments to companies that can provide a successful track record of business transactions in developing countries.

The next section and the list of additional funding institutions provide insight into how these institutions think and the criteria that they employ when choosing whether to select a project. As you prepare to search for funding, it is important to know how to approach these institutions. The booklet does not give detailed descriptions of how to put together a proposal or how to do complicated calculations for your business. Instead, it profiles the different institutions to be used as a guide and tool on how to ask the right questions.

Consider your type of external funding

Some companies think of grant money as a free ride to start projects in emerging markets; however, your company should carefully consider what type of funding matches the strategies of your business model. As the figure above shows, as many as five different funding categories can be applied in the start-up phase.

Therefore, your company must wisely investigate the available types of funding that can support your business model. In this context, the most important factor to consider is that the structure of the capital should fit the strategy and ambition of your company.

This typically means choosing between debt and equity (investment and holdings), in developing markets. However, grant financing and other quasi-instruments such as those offered by development financing institutions can play an additional and new role that must be considered to increase risk-sharing and reduce volatility.

Your company should also pay particular attention to the growing number of private "impact" investors. This label can be attached to a small but growing number of investors who value financial return on investments as well as social return. This type of funding typically involves trading money for shares or equity stakes in the company; your company will also gain access to knowledge and expertise, facilitated by these investors. Often these investors reside in the targeted markets, such the East African countries, and can provide sound local knowledge and support partnerships with local companies. These investors are typically backed by larger funds, which mean that they are willing to take some risk if they spot a sound and attractive business idea with social objectives. ■

Financing your business model

The next chapters introduce you to four types of institutions relevant for business model financing. In addition, through research and mapping, the booklet has produced a list of relevant funding institutions.

GRANT AGENCY

In contrast to all other sources of funding described in this section, grant agencies do not have commercial criteria at the heart of their decision making. They typically provide a smaller sum of money for feasibility studies that can assist your company and local stakeholders in developing the business model. In addition, some larger grants are available, which are typically used for implementing the business idea if the feasibility study can document a viable project.

Grant agencies are increasingly willing to support businesses to take an active role in creating social and economic development. If your business idea has a strong direct or indirect development impact, it might be wise to seek grant funding.

Focus of program managers

Grant agencies, regardless of how they are administered, are obviously not about making profits. Their basic drive is to achieve whatever mission has been established in terms of alleviating poverty, transferring know-how, etc. However, incentives of program managers are also linked to timely and correct disbursement of funds to projects that meet the requirements. Hence, securing a good case/ project flow that enables disbursement of funds is a high priority for program managers.

Get in line

Grant agencies have defined strategies for the disbursement of funds. This includes specific project requirements in terms of format and scope. Very few grant agencies will go beyond the defined boundaries of the programs, even if a proposed project is likely impact development that lies at the heart of the agency's purpose.

Learn the lingo

As with any other external funding institution, the grant agency will call for a number of requirements from the recipient. Typically, they will have fairly stringent rules on the creditworthiness and reputability of applicants as well as formal requirements for the projects in terms of development effects, such as on local ownership or sponsors.

When pitching a project to grant agencies, companies need to understand and formulate the value proposition from a development perspective. For many companies, speaking this type of "donor lingo" is a new language. However, the jargon often translates into things most companies can relate to. For instance, "decent jobs" basically implies that you treat your staff well. Grant agencies follow trends as everyone else does. Currently, job creation is at the heart of many agencies' agendas, meaning that labor-intensive business ideas are often prioritized, as opposed to, e.g., highly specialised knowledge transfer to a few people. The best advice is to initiate a frank dialogue, to assess whether the current key priorities fit your company before applying.

Keep your eyes on the ball

A note of caution on grant money in general is that it never comes free and should be weighed against benefits. First, project owners have a tendency to shape their projects around the requirements presented by grant agencies. If these are not strategically aligned with the project's objectives, the mismatch often creates projects that neither the company nor the agency is committed to in the long run.

Second, there are almost always strings attached in terms of reporting requirements that are more time consuming than originally anticipated. Public officials understandably want to be able to measure the impact of the money spent on various grant schemes. Therefore, most schemes have rigid requirements for milestones, ongoing reporting, and project evaluations. Typically, the non-fiscal reporting will not be subject to auditing, but the burden of documentation still rests on the grant recipients.

Finally, due to the nature of the work flow in grant agencies, companies need to decide whether the desired timeline is flexible enough to accommodate potentially long approval processes.

Too often relations between companies and grant administrators drown in formalities. This is a shame. On the plus side the agencies often have significant experience with development efforts and have a large local network that can be leveraged by the companies. Grant agencies are interested in and dependent on the success of their funded projects. It is therefore worth building a good relationship with the administrator and ensuring that the focus for both parties is on the common goals. ■

CASE A BLOOMING BUSINESS

The Danish horticultural company PKM has developed a successful partnership with a local company in Kenya centered on the growing of stock plants. To get the project up and running, PKM needed to develop a sound business plan, upgrade the expertise of its local partners, and invest in upgrading the facilities. Financial support from Danida's Business Partnership program (previously B2B) was a key factor for making the project the success it is today. The initial financing proved the business case for PKM and reduced the risk of entering a new foreign market. The venture started in 2007 with a focus on growing a specific plant, Schlumbergera. The first project was a success, and the partnership was quickly expanded to cover other plants. The reason for PKM to move some production to Kenya was the high cost related to horticultural farming in Denmark compared with the relatively lower cost and favorable conditions in Kenya. Furthermore, Kenya is known for its expertise in flower production. To support their accessing the funding and developing the business plan, PKM received assistance from DI Business Development (DIBD).

EXTERNAL FUNDING OPPORTUNITIES

GRANT AGENCIES

You can use the provided list of grant agencies to get an idea of available funds and the criteria that your business idea and company must have to cooperate with them.

All the listed grant agencies are relevant for Danish companies and business ideas focusing on Africa. Some are more relevant than others, but ultimately, the relevance of the grant is determined by your business model and project focus.

Name and Web	Funds available	Criteria
Africa Entreprise Challenge Fund www.aecfafrica.org	The fund uses so-called "investment competition" in which companies are invited to apply for grants in certain sector- or country-specific areas when the window is open, much like calls for proposals, but here what counts is the quality of the response, not price. The grants are between $250,000 and $1.5 million. However, some windows have special funding limits. Successful applicants are expected to contribute a minimum of 50 percent of the total cost of the project, unless otherwise stipulated. The contribution should be mainly money (not assets) or "in-kind" resources such as staff time or equipment. Businesses that are willing/ able to contribute greater than the 50 percent minimum are more likely to receive support. The fund also offers repayable grants, which effectively are zero interest loans.	The company applying must demonstrate two years of audited accounts; however, exemptions can be made in cases with clear evidence that a new company has the capacity, experience, and resources to implement a new project. The best project submitted in the window time frame is awarded the grant. The sector-specific areas are agribusiness, renewable energy and adaptation to climate change, rural financial services, and media and information. Beside the general competitions, there are also country-specific windows. Generally, each window is open more than once for applications. The awarded project should benefit people living in the rural areas in Africa or people in the specified country in the case of country-specific windows, be innovative, and also show why this project was not possible to do with normal commercial funding.

Name and Web	Relevant information	Criteria
The Austrian Development Agency Business Partnership www.entwicklung.at	The Austrian Development Agency can support 50 percent of direct project costs up to EUR 200,000. It also supports feasibility studies with up to 50 percent of the costs, not exceeding EUR 20,000. The grant is offered to enterprises investing in or importing goods from developing countries that intend to make a considerable contribution to their development, e.g., mobilization of capital and expertise, building up supply chains, and creating jobs that can help improve the standard of living of the local population.	Project must meet all of the following criteria: - Make long-term investments in or import goods from a developing country - Involved activity is based on a business model that is expected to generate turnover and profits - Include measures that contribute both to improving the local social/ecological/economic environment and the success of your company - Take place in one of the countries on the DAC List for ODA Recipients of OECD, which includes the majority of countries in Africa, Asia, Latin America and South Eastern Europe

Name and Web	Relevant information	Criteria
DeveloPPP by BMZ (German Federal Ministry for Economic Cooperation and Development) www.developp.de	The program DeveloPPP works in two distinct ways: **(1)** through competition and **(2)** negotiation with the grant agency. The competition should be perceived as a way to fund feasibility studies. Projects may receive up to 200,000 euros per project. The company has to bear at least 50 percent of the project cost and is responsible for the realization of the project in terms of finance, content, and labour. The competitions are hosted several times a year and can have two focus areas. The develoPPP. topic covers selected topics for which the BMZ provides targeted funding. These topics include vocational education, training, and human resources development, Green City – urban environmental protection, rural development, raw materials, resource conservation and climate protection, energy, and innovative ideas from the private sector. The other competition, develoPPP.innovation, is open to proposals from all other topic areas. Special attention is given to the proposals' innovative character. Approaches that show extraordinary commitment or great entrepreneurial creativity have the best chance of gaining support. The proposing company should be capable on a professional level, as well as financially, to utilize the results of the study and carry out the planned investment. If the company decides to continue the project, the program category develoPPP.alliance is relevant. This entails strategic alliances, which require complex project planning and highly professional management. In return, however, the development effect is greater, which is why for these develoPPP. alliance projects, more public funding is available.	Companies must adhere to the following requirements: - Demonstrate a successful market presence of at least three years - Have at least ten employees - Have an annual turnover of at least 1 million euros - Plan a long-term commitment in the partner country Projects should take place in one or more countries in Africa, Latin America, Asia, the Middle East, or Eastern Europe. Furthermore, all projects must meet the following five requirements: - All measures must be compatible with the defined development goals and objectives of the German government - Competitive neutrality must be ensured. The cooperation with DEG, GIZ, and sequa is open to all companies and communicated transparently - Companies are obliged to make a considerable financial contribution (private sector contribution of at least 50 percent of overall costs) and/or provide staff to carry out projects

Name and Web	Relevant information	Criteria
Danida Business Partnership Program http://um.dk/en/danida-en/activities/business/partnerships	Danida Business Partnerships serves to lower the risk of entering into new partnerships by contributing toward relevant expenses, e.g., related to the transfer of knowledge and skills, covering up to 50 to 75 percent of the costs of activities. Accordingly, Danida supports the development of a viable business model for partnerships, including a wide range of specific activities. The grant is approved for two different project phases divided into a preparation phase and an implementation phase. Examples of activities that may be supported during the preparation phase include partner identification; visits to the partner country; market analyses; risk analysis, e.g., due diligence; development of business plans; testing of business models; and baseline for indicators. In this phase, Danida will cover 75 percent of actual costs, up to a maximum amount of DKK 750,000. In the subsequent implementation phase, support from Danida is a maximum of 50 percent of expenses—a maximum of DKK 5,000,000 in support, including support given in the preparation phase. This may be extended to DKK 10,000,000 for regional partnerships or on an exceptional basis for large partnerships. Concrete activities will vary depending on the needs to implement the business model and may include one or more of —but not be limited to—the following elements: technical assistance and training, cost of establishment, base of the pyramid (BoP), innovative approaches, and environmental improvements.	Danida Business Partnerships supports partnerships that create value for companies while at the same time add overall value to society. Support will be given to activities that are linked to companies' core business to ensure long-term viability. Thus, all partnerships need to have a commercial orientation, and the overall performance of the partnership has to contribute with a positive change on the local community. Support from Danida Business Partnerships must illustrate how the implementation of the proposed business model will contribute to the following development effect criteria: increased employment and a positive effect on the local society. Next to the effects that the business model will generate, the applicant must demonstrate results in one to three of the following six criteria: strengthened competitiveness for the local partner, increased use of green technology and improved protection of external environment, added value through value chain and/or cluster approaches, increased food security through improved availability and accessibility, improved gender equality and women's empowerment, and enhanced regional economic integration. In addition to the developmental effect criteria, Danida has formulated a set of requirements that the company must fulfill, such as two out of three years positive net result and a minimum of five employees in the company. These and other criteria must be consulted in the eligibility criteria documents.

Name and Web	Relevant information	Criteria
Sida "innovations against poverty" www.sida.se	The program is for small, innovative entrepreneurs, as well as larger firms, from the international innovative sustainable business community. Companies may apply for financial support from three different modules aimed at different stages of the innovation path. Grants are provided in the explorative phase. The grant is a 50 percent grant of a maximum of 200,000 EUR over a three-year period. Innovations Against Poverty has two parallel application processes, one for small grants (under €20,000) and one for large grants (€20,000–€200,000). Small grants - Small grants are more suitable for early-stage projects where the evidence for a positive development effect has not yet been established through a pilot project or feasibility study. Large grants - Large grants support business ideas that have been thoroughly researched and demonstrate that the potential positive effect can be defined both in terms of numbers/indices and the mechanism for how the effect can be achieved. - In cases where the development potential is exceptionally high, the Innovation Against Poverty team may be prepared to fund a less well-evidenced model. - Large grants may not be suitable if the number of people directly affected by the project (at full scale) is rather small (i.e., less than 1,000), even if these benefits are very significant.	Grants are provided for innovations in products, services, and business models that can benefit the people at the base of the pyramid and contribute to fight poverty and climate change. Companies may be active in all sectors in which innovation leads to poverty reduction—from agriculture and infrastructure to health and education. The grants are awarded through calls for proposals in which a business plan has been submitted. The process is competitive in nature; grants are awarded to the best business plans that meet the criteria of the program. Eligibility criteria concern the potential to become a profitable business, the commercial track record of the organization/project team, the level of innovation, and the development effect. A project will, for instance, score higher if the positive effect is aimed at women. Furthermore, the project will be assessed to determine if it will be able to achieve commercial sustainability and developmental results without the grant.

Name and Web	Relevant information		Criteria	
EEP-Energy and Environment Partnership www.eepafrica.org	The EEP Program supports projects that aim to provide sustainable energy services to the poor and combat climate change with grants of up to EUR 200,000. Grants are awarded through calls for proposals for private companies (among others). The main beneficiaries of the EEP Program are the private and public sector and civil society at different local, regional, and/or international levels.	The core projects to be financed include: - Pre-feasibility and feasibility studies - Pilot and demonstration projects - Project developer co-funding contribution is a key requirement	The EEP funding facility has the following mid- to long-term targets: - Improve access to modern, reliable, and affordable energy services, especially for people living in underprivileged areas and for vulnerable groups (women, children, adolescents, and other marginalized groups) - Improve energy security in the Southern and East African regions - Reduce negative environmental extremities as a result of the energy system (for example greenhouse gas emission (GHG) and local pollution)	The project should take place in South and East Africa, and to qualify for EEP support, projects should also demonstrate high innovation in delivering energy services, facilitating technology transfer, and encouraging cooperation and local stakeholders' participation in projects. The project developer co-funding contribution is a key requirement for eligibility for EEP funding for all applicants.

Name and Web	Relevant information	Criteria
Nopef -Nordic Project Fund www.nopef.com	The funds are used to strengthen the international competitiveness of Nordic small- and medium-sized enterprises by providing loans on favorable terms for cofinancing feasibility studies. Feasibility studies aim at contributing to the internationalization of companies and promoting participation in project exports. Nopef may participate with up to 40 percent of the approved feasibility study costs in connection with international business setup. The loan can be fully or partially converted into a grant after the final project report has been approved. **Costs that Nopef may cover** - Internal/external salaries - Travel, accommodation, and transport in the target country - Legal and financial consulting - External consultants - Risk and cost-benefit studies - Translation work and interpreters - Drafting a business plan for approval - Business partner evaluation **Costs that Nopef may NOT cover** - Operating costs - Marketing or marketing material - Research and development (R&D) or various kinds of tests - General market research without a definite connection to the business setup - Inventories or equipment - Finding an agent or distributor - Training or education	The small and medium-sized enterprises should be operational in the Nordic countries and have fewer than 250 employees and a turnover of less than 50 million euros. The SME should have been operating for at least one year, have experience in the same business as the project, and not already be established in the project country. However, if Nopef believes the new business setup does not benefit from the company's current activities in the project country; exceptions to the above rule can be made. The project countries must be outside the EU and EFTA. There is a strong focus on Nordic business interests that must be present in the project - the better the aim of the project is, the more likely it will create a long-term business enterprise. **Nopef gives first priority to projects within one or more of the following focus areas:** - Sustainable growth, environmental technology, and renewable energy - Nordic innovation and businesses of the future - Health and welfare

DEVELOPMENT FINANCE INSTITUTION

The development finance institutions (DFIs) are prominent actors in emerging market financing. The term DFI refers to a range of financial institutions that provide risk-willing loans, equity capital, and guarantees to private sector investments in developing countries. These institutions are backed by developed countries and all have the mandate of providing finance for investments that promote development. However, they all face the same fundamental difficulty of balancing a commercial perspective against their mandate to achieve positive developmental impact.

Mindset - development vs. bottom line

DFIs are created to propel development through investments. This means they are willing to accept higher risks and lower return on investment than banks are.

Provided that projects are financially viable, the development impact of your business idea is an important evaluation criterion. However, compared to the mindset of grant agencies, DFIs often measure development in more economic terms. In practice, three development effects dominate the scene:

- employment (direct and indirect);
- environment (especially if something extraordinary can be done to improve the natural environment); and
- alleviation of bottlenecks in the economy (agriculture, infrastructure, etc.).

Beyond these, DFIs emphasize working environment, gender equality, HIV / AIDS, etc., but these are often basic requirements rather than evaluation criteria.

Some more equal than others

The focus on helping businesses from their own countries of origin is a practical constraint for some DFIs. Some are limited to co-investing with companies from their countries of origin—others are limited to having a domestic economic interest in the project.

If they are only required to demonstrate “interest” from their country of origin in the project, it may be possible to interpret the clause in loose terms. For example, Danish interest in a project may be satisfied by arguing that the proposed project will manufacture a product that is of interest to a group of Danish importers.

Sectors

Development orientation is prevalent in the sector focus of most DFIs. Hence, they have a tendency to emphasize manufacturing (which contributes to employment and possibly exports), infrastructure (which improves business conditions), and financial services (where the multiplier effect of more available financing is great). Investments in service and retail are typically less prevalent; however, the DFIs are increasingly recognizing certain business models that include the consumers as distributors or retailers, as a way to boost employment.

Crowding out

As DFIs exist to ensure investments in areas where, otherwise, the market fails to invest sufficiently, they are concerned with not crowding out other financiers. This makes DFIs interesting for Greenfield or early start-up companies. However, DFIs are almost never lead investors, because there is typically a lead financier on a project (e.g., a government) who assumes the main portion of the risk in the project. As opposed to private equity funds, DFIs exist to support and facilitate projects but not to develop and implement them.

Way out

Partnering is important for DFIs. The primary reason for this is that a strong sponsor must drive the investment, but just as importantly, the DFIs need an exit. As opposed to private equity funds, DFIs will invest in numerous companies that may not have good exit opportunities. The only way for the DFI to make sure that this will be possible is by having a strong partner to whom it can sell its shares. Therefore, a put-option is included in a typical shareholder's agreement between a DFI and the project partner (i.e., the right to sell at an agreed price).

No sins

As mentioned, DFIs are very concerned about adverse media. It may therefore be difficult to persuade them to enter into projects that could present a public-relations liability. In addition, almost all DFIs have a "no sins" investment policy, which excludes gambling, alcohol, tobacco, weapons, etc., in addition to any illegal activities. ■

CASE WEST AFRICAN FISH

The company, West African Fish is one of the most ambitious aquaculture farms in Ghana. The farm is situated on Lake Volta and today produces 4,000 tons of tilapia per year. It was established in 2006 by Royal Danish Fish and the local Ghanaian partner Edward O. Nsenkyire. The larger and controlling stake in the joint venture is held by the Danish partner.

The establishment of the farm has allowed Royal Danish Fish to diversify its business, breeding and selling eel, and further grow the company. With the assistance of DI International Business Development (DIBD) and with the financial support of DANIDA business-to-business instruments, the company investigated growth possibilities in West Africa. The choice to establish itself on Lake Volta was made after a lengthy due diligence. Based on a bankable business plan, a total of DKK 40 million has since been invested in the project by Royal Danish Fish, Investment Fund for Developing Countries (IFU), and Danida Business Finance (guaranteed by IFU). The project is expected to be paid back within a period of seven years. West African Fish sells primarily through the local market, which again has flourished as a result of the fish farm. A large part of the production is purchased by distributors who sell it to the rest of the country. Thus, the fish farm, besides creating about thirty-five direct jobs, also helps boost the local economy and has reduced the need for imports of fish.

EXTERNAL FUNDING OPPORTUNITIES

DEVELOPMENT FINANCE INSTITUTION

The following list is a mapping of the development finance institutions relevant to Danish companies. The institutions have quite specific requirements in terms of social impact—on the other hand, they offer quite favorable terms on equity and loan capital.

Your company should be aware that many development finance institutions exist, but the requirements as to who can apply are quite rigid, as they typically only want to fund companies from the origin country of the development finance institution.

Name and Web	Relevant information	Focus	Instruments
FMO Entrepreneurial Development Bank www.fmo.nl	FMO is the Dutch development bank that supports sustainable private sector growth in developing and emerging markets by investing in ambitious companies. Their objective is to contribute to the advancement of productive enterprises in developing countries, to the benefit of economic and social advancement of those countries.	They provide financing to or on behalf of people and legal entities engaged or intending to engage in a business or profession in a developing country within one of the following areas: - Financial Institutions - Energy - Housing - Agribusiness, food, and water - Businesses from other sectors that show potential	Principally provide long-term finance, although they also offer shorter-term project financing. In addition to regular loans, they provide high-risk, innovative financing structures such as mezzanine and equity. These include direct loans, syndicated loans, guarantees, trade finance, mezzanine, local currency finance, and private equity.

Name and Web	Relevant information	Focus	Instruments
IFU www.ifu.dk	Danish investment fund for the developing countries. It supports Danish companies in investing in a developing country.	Non-specific sector. Countries on the OECD DAC-list	Share capital participation, loans, and guarantees
Norfund www.norfund.no	Norwegian investment fund for developing countries. Norfund seeks to collaborate with potential investment partners, both Norwegian and international. They are looking for strong and experienced partners who have the capacity that is required to succeed in creating profitable and sustainable businesses in developing countries.	Their criteria are commercial and, most importantly when considering a potential partner, the kind of competency it has. Their strategy determines where they invest, in which sector, and in what kind of projects. Norfund has chosen to concentrate on renewable energy, the finance sector, and agribusiness, in particular. Their main regions of activity are eastern and southern Africa. In addition, Norfund invests in Central America and in Bangladesh, Laos, Cambodia, and Vietnam.	Equity and loans
Industrial and Commercial Development Corporation www.icdc.co.ke	The aim of this institution is to facilitate economic development of Kenya through the provision of medium- and long-term financial solutions. They provide financial solutions to start-ups in high growth sectors of the economy and existing businesses that are expanding and/or restructuring.	The project has to benefit the people of Kenya and be within one of the following areas: electrical and mining, agribusiness, energy, roads and rails, or waste management.	-

Name and Web	Relevant information	Focus	Instruments
Swedfund www.swedfund.se/en	The state-owned investment company, Swedfund, specializes in complex, high-risk investment environments and has over thirty years of experience in emerging markets. They seek to cooperate with strategic partners who are looking to start-up or expand their business in a new market and would be willing to take operational control. Companies are expected to invest the same amount as Swedfund. They invest $1.5 to $15 million.	The investment should take place in Africa, Asia, Latin America, or Eastern Europe, and the investment proposal is presented to Swedfund. The project should have a management team that is capa¬ble of operating in the country under consideration.	Risk capital. Swedfund serves as a minority shareholder. Normally, their stake does not exceed one third of the total investment.

PRIVATE INVESTOR

If your main objective is funding that is focused on the business aspects of your venture, it is worth seeking private investment. Private investments can mean anything from small investments of venture funds into promising start-ups to large management buyouts. This section focuses on the former. Compared to DFIs, private investors are often willing to take a higher risk—if the business case is right. In addition, groups of private investors are increasingly willing to invest patient capital in projects that merge social and commercial return on investment—and these investors are fiercely looking for strong projects. In a financial market in which traditional loans are tight, this school of investors is good news for companies looking into developing markets.

Mindset - Cash Flows

As opposed to banks, which tend to attach a lot of value to having collateral, private investment funds are all about the cash flows you can generate. Private investment funds base their investment decisions on valuations of companies. These valuations are primarily based on discounted cash flow (DCF) analysis, i.e., estimating the projected cash flows over the investment horizon and discounting these at the required rate of return from investors, to arrive at a valuation of your company or business idea.

The private investment fund will often have ideas for how you can improve the cash flow scenario, which can change the valuation (e.g., introducing cost-effective routines, investing in improvements, or integrating cash flow enablers). In short, if the fundamental value determined through valuation is higher than the price offered by the present owner, the investment fund will consider investing.

Attractiveness of greenfield

Because cash flows are generally more at risk in a developing market, the typical private investment fund does not focus on greenfield projects in emerging markets. The risks are often too difficult to assess from the point of view of the fund: the management of the proposed company has not proven its abilities, the market potential can be analyzed but is essentially untried, and the implementation and physical establishment of the company is likely to run into difficulties. Conventional investors will consider greenfields in generic products (e.g., industrial farming), provided that an experienced management team approaches them. If your company is looking for more greenfield capital, it is better to look at technology investors searching for new breakthroughs.

Impact investing

Traditionally, private investors have focused purely on financial return on investment, while a small group of angel investors have been willing to deviate on criteria. A growing number of private investing companies are, however, broadening their investor profiles and combining profit with social profiles. Impact investors strive for “impact” by investing with “patient capital” in your company or business idea. The “impact investors” are also interested in high returns, but the business idea must include some social impact. These investors therefore accept the fact that such business ideas demand more patience, because they require more time to develop and grow the business idea.

Impact investors will naturally evaluate social return—but will often have less rigid definitions than grant agencies. Compared to normal investors, impact investors will focus on investing in the local part of your business and will often demand that you work closely with local partners. To involve impact investors, you need to assess whether you are willing to give up this type of control.

Management

Regardless of the type of investor your company establishes a dialogue with, it will spend a lot of time assessing the management team of the potential investment target. Specifically, they are looking for experience and a proven track record in the business, along with the right attitude. However, with novel business ideas that have a social impact agenda, it can be difficult for investors to understand the management and partner composition. An NGO might be a key player in the business model, but it can be difficult for an investor to assess the value and risk that such managerial partnerships play. For this type of business, impact investors are often a good choice.

Getting close to the consumer

As a rule of thumb, the closer your business is to the end-user, the less susceptible it is to abrupt changes in demand, and the lower the buyer power. Consumer and small business markets in emerging economies are of much interest to private investment funds, because they generally settle in cash (as opposed to sales on credit terms, which can be high-risk in emerging economies), and the markets are susceptible to new brands and services.

Control is good

In Western countries, private investment funds usually go for a controlling stake in the invested company. Hence, the willingness to forfeit legal control of the company is normally a plus when approaching most private investment funds. However, a large portion of private investment funds in emerging economies take only minority positions for two principal reasons. First, the funds usually have no interest in actively running the company, so provided they have faith in the management, they will happily act as passive/supporting investors. Second, there are legislative barriers for foreign ownership in a number of emerging markets, which restricts private investment funds to minority positions.

Exit opportunities

Getting out of the invested companies is a key concern for all private investment funds from the very start. Obviously, the better the exit opportunities, the more attractive the investment will be to them. To ensure their exit opportunities, some funds insist on having a put option on the other owners in the project. This entails that the fund is able sell its shares to the other investors at either a predetermined price or price-based on some relevant multiple. As project owner, one should be aware of the contingent liabilities arising from such agreements. ■

CASE DEVELOPMENT INVEST

Development Invest targets small and medium-sized Danish start-up companies that aim at turning ideas into viable business plans that solve specific challenges in developing countries. The investment fund is open to companies that explore new customer segments, e.g., sales of products that enhance the development organization's ability to deliver effective development assistance.

Development Invest ApS has a broad sector focus and invests in innovative ideas and products with solid business opportunities that contribute to sustainable economic, social, and environmental development in developing countries. The fund contributes with a dedicated board, which consists of people with extensive knowledge of both start-up firms and the development sector. In addition to this, it facilitates cooperation with aid agencies and other knowledge-based networks.

An example of an investment is the company ViewWorld, which is a start-up company dedicated to providing a cost-effective and innovative approach to documentation and monitoring in developing countries. Using smart-phone technology and the increasing telephone network coverage, the company is building an attractive business model that allows NGOs and companies to buy a subscription on ViewWorld's platform, from which data can be uploaded. The data is collected using smart phones and an application that is free to download and fully customizable.

EXTERNAL FUNDING OPPORTUNITIES

PRIVATE INVESTOR OPPORTUNITIES

The information in the booklet on external funding opportunities related to private investors is presented in three categories:

- opportunities represented as various (and mostly Danish) organizations that either invest because of the novelty of the business idea, the social entrepreneurship, or a combination of both;
- opportunities represented as various networks: these networks host various angel investors that typically have an autonomous agenda, which means that they decide on their own whether money is to be invested in certain businesses; and
- opportunities represented that are relevant to local companies registered in East Africa: this holds a very particular interest for Danish companies, as partnerships, e.g., joint ventures with local companies or establishment in the targeted countries, can open new ways for financing your business venture. Many of these investors are physically located in the East African countries.

Name and Web	Funds available	Focus	Instruments
AlphaMundi www.alphamundi.ch	AlphaMundi provides debt and equity financing to profitable and scalable ventures in strategic sustainable development sectors such as microfinance, affordable education, sustainable agriculture, and renewable energy. They invest in small- and medium-sized enterprises and projects through different funds and the Prometheus fund is relevant for Africa. The size of the Prometheus fund is EUR 25 million at first close (4Q.2012) and EUR 50 million at final close (1Q.2014). At 10 million euros, a grant-based technical assistance facility will support Prometheus investees in achieving their operational and financial targets and build their capacity to measure effect.	The project should be in the renewable energy sector and take place in Sub-Saharan Africa. Prometheus addresses the critical themes of access to energy among the poor and small- and medium-sized enterprise access to finance in developing countries. The fund will provide debt and equity financing to renewable energy ventures, thereby contributing to environmental preservation and human development. Core investment sectors include solar, hydro, wind, biomass, biogas, and other alternative energy solutions.	Primarily debt financing and equity

Name and Web	Funds available	Focus	Instruments
Alterra Impact Finance alterraimpactfinance.com	Alterra Impact Finance GmbH is a Swiss-based investment manager for a Luxembourg SICAV-SIF social impact investment fund. Investments explicitly include and reward the positive externalities—or effect—of an enterprise through patient and supportive equity investments. These positive social and environmental externalities are central to the overall investment focus of Alterra.	The company should have headquarters in a European country in order to be eligible and operate within one of the following areas: ◢ Food and agriculture (focus on organic farming) ◢ Medicine and therapies ◢ Water-remediation and treatment ◢ Responsible consumer goods and lifestyle What Alterra looks for in enterprises is ◢ Quality of management ◢ Good corporate governance ◢ Demonstrated innovation ◢ Brand reputation and potential ◢ Positive environmental externalities ◢ Development of human capital ◢ Positive social benefit that can be articulated and evaluated The companies in which Alterra will invest will ◢ Be managed by an experienced team with a proven track record ◢ Be in a growth phase ◢ Demonstrate a proven business model that is replicable and scalable ◢ Operate consistently in all phases of the value chain with its mission and values	Capital investments and other instruments.

Name and Web	Funds available	Focus	Instruments
Willow Impact Investors www.willowimpact.com	Willow Impact invests in for-profit companies that are committed to generating positive, sustainable, and demonstrable social and environmental effects while complying with a commercial imperative.	To be eligible, the project should fall within one of the following six sectors: education, health, food and agriculture, community development, the environment, and poverty alleviation. It should take place in a country in Eastern Africa, the Middle East, or North Africa. Willow Impact has identified seven key objectives for social and environmental effect that are integral to their investment strategy: - Job creation - Increasing scalability and reach of portfolio companies - Capacity building and empowerment of social entrepreneurs - Improving governance, accountability, and employment practices - Provision of health, education, water, energy, and community services - Conservation and management of natural and water resources - Reduction of harmful greenhouse gas emissions	Capital investments and other instruments

Name and Web	Funds available	Focus	Instruments
Development Invest www.developmentinvest.dk	Seed capital support for early-stage SMEs that uses innovative solutions aimed at solving specific problems and creating economic, social, and environmental sustainability in the developing countries. Development Invest also helps with the development of a business plan and facilitates cooperation with aid agencies and other knowledge-based networks.	Development Invest typically selects its investments based on the following criteria: ◢ **Focus on documented challenges** – that comply with our purpose of creating economic, social, and environmentally sustainable development in developing countries ◢ **Innovative solutions** – that contribute to new ways of perceiving and tackling challenges in developing countries ◢ **Business based** – with solid market opportunities and potential for growth and continuous product development ◢ **Talented leaders** – who are committed and competent and preferably possess experience from developing countries ◢ **Innovative "mind-sets"** – that actively seek to involve aid organizations and local manufacturers in the development process	Capital investments and other instruments

Name and Web	Funds available	Focus	Instruments
CSR Capital www.csrcapital.net	CSR Capital is a private investment company with focus on socially equitable and environmentally sustainable investments in commercially viable small- and medium-sized enterprises. The investee companies will have an approximate size of 5 to 50 million USD, and investments are normally between 1 and 10 million USD. A central element of CSR Capital's investment strategy is to assist the investee company in obtaining access to adequate technology, as well as to commercial and administrative support, to improve the growth, production, and governance of the company.	Their area of focus is the western and central provinces of China as well as low-income regions in India and Africa.	Equity capital and/or mezzanine capital in joint venture partnerships with local promoters and investors. In special cases, CSR Capital will additionally provide medium- to long-term loans to the joint venture company.
Gray Ghost Ventures www.grayghostventures.com	Gray Ghost Ventures, through its Social Venture Group or its First Light Ventures, invests in early-stage enterprises providing catalytic innovation and leapfrogging technologies in the developing world.	The current investments are predominantly focused on the information, communication, and technology (ICT) sector, especially the new application of proven technologies. Key to any investment is the improvement of the lives of people for whom traditional commercial products, services, and technologies have been absent. The goal is to create demonstrable social change, while generating sustainable long-term financial returns.	Depending upon the need and opportunity, they serve as creator and manager, sole funder, lead investor, coinvestor, general partner, or limited partner.

Name and Web	Funds available	Focus	Instruments
Seed Capital www.seedcapital.dk	SEED Capital invests in ambitious and visionary start-up companies that produce innovative, highly technological, research-based, or knowledge-based ideas. They are able to invest € 250 to 750.000 at the early stages of a company's development, allowing them an opportunity to prove their technology and business. Depending on capital need, SEED Capital can invest up to € 9 million in the following rounds—preferably in syndication with international investors.	Seed Capital invests in companies with IT, cleantech, or life science concentrations at the seed or even pre-seed stage from Denmark and southern Sweden. They invest in classic venture companies, meaning companies that, at a minimum, will provide an opportunity for a tenfold return on investment. The company should have a highly innovative solution and a scalable business model for entering an attractive market with a number of identified paths to ensure that the focus is not too narrow. They take an active advisory role as an investor and will normally take the position of chairman of the board in the company until a skilled alternative is identified.	Different types of equity and other instruments.

Name and Web	Funds available	Focus
Innovation Midtvest (NOVI) www.novi.dk	The objective of NOVI is to found and develop knowledge-based start-ups with unique competencies that can become tomorrow's gazelle companies. Innovation incubators identify and assess business ideas with commercialization potential and help promising entrepreneurs to realize their projects by injecting private and public capital and through consultancy and sparring in the development process.	When they choose ideas, there are two aspects hat weigh heavily. The ideas must be commercially sustainable, and they must be owned by innovators who are prime movers. By sustainable, it is meant that the projects ◢ Must create value ◢ Must be unique in terms of market, technology, and/or function ◢ Must be protectable, for instance, through a lead in technology, expertise or patenting ◢ Must have great international market potential NOVI Innovation focuses on high-tech ideas and projects. It is important that your idea be high technology and that it be innovative. Many of their projects lie within the technological areas of biotech, medico, IT, software, and materials.
Invested Development www.investeddevelopment.com/entrepreneurs	Invested Development offers early stage start-ups seed funding, mentorship, industry contacts, and access to a growing network of service providers and innovators. They provide equity of $100,000 to 1 million USD.	Invested Development invests in seed-stage, high-growth companies operating in the sectors of mobile technology or alternative energy. They are looking for entrepreneurs with expertise that can be applied at the project location successfully to make a difference. The entrepreneurs must demonstrate a commitment to creating an effect in emerging markets and understand how to do so with affordable, scalable, and high-quality products and services. They find that it's best when the founders live or are willing to live in-market.

Name and Web	Funds available	Focus	Instruments
Vækstfonden www.vf.dk	Vækstfonden is a state investment fund that aims to create new growth companies by providing venture capital and competence. The fund typically focuses on seed and early stage companies. The VF Venture group invests equity in young Danish companies with significant international growth potential. Investment sizes are between DKK 5–25 million. Currently, our portfolio consists of approximately 35 companies The fund also has other ways of assisting companies. E.g. with the produce "Vækstkaution". The product has the following specifications: - Vækstkaution covers 75% of the loss, if a company cannot pay back its loan. - The fund is prepared to pay the guarantee immediately upon any default. - The state guarantee means that banks and mortgage providers need to set less money aside to cover each loan. - All Danish banks and mortgage providers can apply for Vækstkaution for new loans or credits. - Each company is evaluated by Vækstfonden before an application is accepted.	The main investment focus is on companies within IT, med tech, cleantech and industrial technology. But we are open to investing in high growth start-ups in other industries, where we believe we can add value. The fund has a set of investment criteria that must be met in various degrees, if a company is considering raising venture financing from VF Venture. The criteria are: - **Management:** A competent team with high aspirations and the will to succeed. - **Market:** An international market or a global niche where the company commands market power. - **Innovation:** Strong innovation in products, services, business model, distribution, etc. - **Business model:** Scalability in sales and production. - **Environment and ethics:** Part of our due diligence, where relevant. - **Business plan:** A compelling business plan or a strong business foundation that we develop in collaboration. - **Return on investment and exit:** Expected returns must correspond to the risks involved, and feasibility should be demonstrated in the exit plan.	Equity, loans and guarantees.

PRIVATE INVESTOR
ACCESSED THROUGH FINANCING NETWORKS

Name and Web	Relevant information
BiD Network www.bidnetwork.org	A network that connects investors and companies/entrepreneurs with activities in emerging markets and developing countries. This network can be used to promote your project for potential investors. Furthermore, the network has investment competitions open for all companies that fit the specific criteria.
Impact Base www.impactbase.org	ImpactBase is the searchable, online database of impact investment funds and products designed for investors. Published fund or product profiles on ImpactBase gain exposure to the global impact investing community.
Seed Forum www.seedforum.org/int	Seed Forum International Foundation and the national Seed Forum foundations are giving born global companies seeking capital a unique opportunity to present their business concepts to investors by facilitating international and local investor matchmaking forums.
Business Angels Copenhagen www.ba-copenhagen.dk	Regional networks for business angel investors in the Copenhagen area, consisting of +60 risk-willing investors and a partner group with individuals from the financial and accounting sector, lawyers, and innovative networks.
BAN InVest www.baninvest.dk	Business angel network with approximately thirty risk-willing investors from central and southern Jutland
Switzr www.switzr.dk	Business angel network with risk-willing investors from Northern Jutland
- ba-syddanmark.dk	Business angel network with risk-willing investors from Southern Jutland

PRIVATE INVESTOR
RELEVANT FOR AFRICAN REGISTERED COMPANIES

Name and Web	Relevant information	Focus	Instruments
Acumen www.acumenfund.org/ten	Acumen Fund has been a pioneer in impact investing and, therefore, has a lot of experience as an investor—experience that early- and mid-stage businesses could benefit from. The fund invests in early mid-stage businesses that bring essential goods and services to the base-of-the-pyramid customers. Typically invests $200,000 to $2 million	Health, housing, water, energy, and agriculture in India, Pakistan, and Eastern and Western Africa	Debt, direct equity, quasi-equity, license fees, or royalty structures
aBi Trust www.abitrust.com	The Agribusiness Initiative (aBi) Trust is a multi-stakeholder entity devoted to private sector agribusiness development. aBi Trust follows a long-term commitment by being a catalyst in support of the Ugandan agricultural sector. aBi Trust provides both financing and technical support in selected agricultural value chains and offers an integrated approach on value chain development. Financial Services are offered to support the investment in agribusiness promoted by aBi Trust's Business Development Services. The Trust owns the Agricultural Loan Guarantee Company (ALGC), which was established to offer guarantees on loans and other financial instruments that support agribusinesses and lenders to agribusiness.	Through ALGC, aBi offers two types of guarantees: - Individual guarantees: The individual guarantee is where the FI can, at its option, place loans up to the maximum value stipulated in its general agreement with the Trust, after the Trust has vetted the FI's recommended borrower. - Portfolio guarantees: The portfolio guarantee is where the FI can, at its option, place loans up to the maximum value stipulated in its general agreement without first referring to the Trust. This allows flexibility to place much smaller facilities with minimal bureaucracy. Under either type of guarantee and in the event of a loss suffered by the FI due to default in repayment of a qualifying loan, the Trust pays the financial institution a maximum amount equivalent to 50 percent of the outstanding balance of the principal advanced to the borrower. **Lines of Credit to Appraised Agribusiness Lenders** The Trust provides Uganda shilling denominated lines of credit to prequalified financial institutions for (re)financing of agribusinesses. In such cases, the Trust takes risks on that institution, but not on individual projects. Although this is a financial service offered by the Trust to expand availability of agricultural finance, it is also, from the Trust's perspective, an investment. Funding for lines of credit comes from the Trust's endowment and the interest and fees charged help to sustain the Trust.	

Name and Web	Relevant information	Focus
D.O.B Foundation www.dobfoundation.nl/eng	D.O.B. Foundation is a Dutch investment foundation that invests in innovative private sector initiatives that improve the quality of life of disadvantaged people and communities in Africa. As a main rule, they invest in Africa-based companies, but they are interested in coinvesting in Danish companies. In these cases, they require local collaboration. D.O.B. will be an active and influential shareholder and will after five to ten years, exit the investee company according to the formulated exit strategy.	The project should fall within one of following areas: ◢ Agribusiness ◢ Natural resources (e.g., mining) ◢ Retail and distribution ◢ Waste (collection and how to get rid of it) ◢ Services (through mobile technology) ◢ Water and energy (off-grid) Within five years, the project should generate income-earning opportunities for at least 1,000 low-income people or provide affordable products and services to at least 10,000 low- income people. Furthermore, the project should be innovative so that systemic change benefitting low-income people takes place, and replicable, so that more low-income people benefit from the successful initiatives.

Name and Web	Relevant information	Focus	Instruments
InReturn Capital East Africa Fund www.inreturncapital.com	Invests in small- and medium-sized enterprises in Kenya, Uganda, and Tanzania. The fund offers tailor-made financial products and provides hands-on support to investees, including management advice, expertise, and connections to international networks. The fund targets growth investments of up to EUR 2 million, with initial investments generally in the range of EUR 200,000 to EUR 1 million. Financing is provided for three to seven years.	The fund focuses on opportunities in growing sectors such as agricultural/food processing, ICT, media, energy, manufacturing, logistics, and finance industries. The fund targets upfront set social impact targets , among ten sustainable jobs, per EUR 100,000 invested. Companies must meet the follow requirements: ◢ Invest in existing SMEs with a track record of at least three years (start-ups will be considered if management has a proven track record in the sector and makes a significant personal investment) ◢ Profitable, now or within a limited period of time ◢ High growth potential ◢ Audited accounts available ◢ Transparency and receptivity to governance and reporting standards ◢ Compliance with the fund's investment ethics and environmental standards ◢ Transparency and receptivity to governance and reporting standards ◢ Compliance with the fund's investment ethics and environmental standards	Structured debt (secured or unsecured) and equity are the primary investment structures offered by the InReturn East Africa Fund.

Name and Web	Relevant information	Focus
Dutch Private Sector Programme www.agentschapnl.nl/en/onderwerp/participate-psi-0	The Private Sector Investment Programme, PSI (divided into PSI Regular and PSI Plus) is a subsidy program of the Dutch Ministry of Foreign Affairs / Development Cooperation that supports innovative investment projects in emerging markets. A PSI project is an investment project, implemented by a Dutch (or foreign) company together with a local company, in one of the eligible developing countries. If this investment meets the criteria, it can be eligible for a grant by PSI. This grant consists of a financial contribution to the costs of the investment. PSI supports projects in East African countries with a maximum total project budget of 1.5 million euros, which is 50 percent of the total budget.	◢ You are a Dutch or foreign company* that aims to set up an innovative commercial activity in a PSI country in partnership with a local company from the country where the project will be located. ◢ You and your local partner have relevant expertise and experience in the market and enter into a long-term collaboration. ◢ The applicant has been established for at least two years and is registered at the chamber of commerce or an equivalent entity. The local partner is a private company that is officially registered in the country where the project will be located. ◢ You do not have the financial means to implement your plans, nor do you obtain funds from a bank to finance your business plan. ◢ Your proposal is commercially feasible and has a positive effect on the local economy of the PSI country in terms of creating employment, introducing new knowledge and technology, improving livelihoods, strengthening small- and medium-sized businesses and/or resulting in improved environmental conditions, etc. ◢ Together, you are capable of financing your own contribution of 50 percent of the project budget. ◢ Your project budget does not exceed 1.5 million euro; working capital cannot be included. ◢ Your project leads to additional investments and increased turnover after finalization of the PSI phase. * For untied PSI countries, any company from outside the country in which the project will be located may apply, while for tied PSI countries, only Dutch companies may apply.

Name and Web	Relevant information	Focus	Instruments
Pearl Capital Partners www.pearlcapital.net	Pearl Capital is a specialist agriculture investment firm that has been investing in small- and medium-sized East African agribusinesses since 2006 and administers portfolio management on behalf of several funds. They invest between US$250,000 and US$2.5 million in growing agricultural small- and/or medium-sized businesses in East Africa, typically using a combination of equity, quasi-equity, equity-related, and debt investments.	They focus on small- and medium-sized East African agribusinesses. (Uganda, Kenya, Tanzania, and Malawi so far).	Typically, a combination of equity, quasi-equity, equity-related, and debt instruments. PCP invests a maximum of $2.5 million per company.
ResponsAbility www.responsability.com/site/index.cfm/id_art	Invests in start-up businesses in developing countries	**Their investments are to companies active within the following sectors:** - Microfinance institutions and microfinance banks - Fair trade institutions and small producer institutions - SMEs that create value at the base-of-the-pyramid	-

Name and Web	Relevant information	Focus
Root Capital www.rootcapital.org	Root Capital grows rural prosperity in poor, environmentally vulnerable places in Africa and Latin America by lending capital, delivering financial training, and strengthening market connections for small and growing agricultural businesses. Root Capital manages two lending portfolios: ◢ The Sustainable Trade Fund (STF): Root Capital seeks to scale and demonstrate its lending model. The Sustainable Trade Fund includes loans for businesses that export natural products, such as coffee, cocoa, nuts, and fresh fruits and vegetables. Within the Sustainable Trade Fund, we identify and finance early-stage businesses and accompany their growth. ◢ Frontier Portfolios: Root Capital seeks to push the frontier of agricultural lending. The Frontier Portfolios include loans for activities such as production of goods for domestic consumption, such as millet, corn, rice, or seed, rather than for export. The Frontier Portfolios also include loans that seek to achieve particularly high social or environmental effect on rural communities, such as improved food security. Loans ranging from $50,000 to $2 million.	They focus on rural small and growing businesses in Africa and Latin America, especially those businesses not currently reached by commercial lenders.

Name and Web	Relevant information	Focus	Instruments
The Social Venture Fund www.socialventurefund.com	-	They focus on the following areas: **Alleviation of human suffering** Organizations that work for the alleviation of suffering. For example, organizations that fight against poverty and for the support of those who are sick, orphans, and socially excluded, as well as those with disabilities, and for the equal treatment of genders. **Work and education** Organizations that aim for the development and preservation of existence. For example, innovative education concepts, training of marginal groups, alternative education methods, education of teaching staff, placement services for marginal groups, and the advancement of structurally weak regions. **Buildup of lasting means of subsistence** Organizations that commit themselves to sustainable ways of living. For example, renewable energy, energy efficiency, sustainable agriculture, water supply, environmentalism and the protection of species, nutrition, and consumer protection issues. If Europe-based social enterprises require funding for their activities in developing countries, they aim to coinvest with other impact investors	Debt capital + mezzanine capital Equity License Fees

Name and Web	Relevant information	Focus	Instruments
The Tony Elumelu Foundation tonyelumelufoundation.org	Conducts investments in innovative African businesses that create financial, social and environmental impact in key development sectors.	-	-
E + CO eandco.net	E+Co makes loans and equity investments in cleaner energy enterprises. Loans must be repaid with interest. It is E+Co's objective to establish financially sustainable clean energy businesses.	Their countries of focus are: Cambodia, China, Costa Rica, El Salvador, Ghana, Guatemala, Honduras, India, Mali, Morocco, Nepal, Nicaragua, Philippines, Senegal, South Africa, Tanzania, Thailand, The Gambia, Uganda, Vietnam and Zambia.	-

Name and Web	Relevant information	Focus	Instruments
Tana Africa Capital www.tana-africa.com	Tana Africa Capital is an Africa-focused investment company founded by E. Oppenheimer & Son International Ltd and Temasek. Through the medium of capital and business building support, Tana aims to build African business institutions for generations to come. Tana aims to serve as a fount of development, leaving an enduring, tangible, and positive legacy on the businesses that it supports. Tana invests between US$20 million and US$75 million to acquire significant minority or control equity positions in established businesses across Africa.	Tana's investment activities are focused on two primary sectors: consumer and agriculture. **Tana has a preference for companies operating in these sectors that have the following characteristics:** ◢ Talented and visionary entrepreneur/majority shareholder/ management team ◢ Large, addressable, and rapidly growing market ◢ Minimal public sector dependency ◢ Attractive industry structure with proven, profitable, and sustainable business model ◢ Highly scalable business with standardized and repeatable processes ◢ Internal expansion opportunities as well as potential for add-on acquisitions ◢ Distinct competitive advantage driving strong market position ◢ Clearly identifiable and implementable levers for value creation ◢ Appropriate corporate governance	Equity

Name and Web	Relevant information	Focus	Instruments
Tuninvest/africainvest www.tuninvest.com	Africininvest -Tuninvest is a leading private equity investor, committed to investing in growing African SMEs. The Africininvest -Tuninvest group is mainly targeting growth capital investments in SMEs that are well established and positioned in their local market, with the potential to scale up their activities on the regional level to build them into "regional champions." The company targets significant minority (without excluding majority) positions, while adopting a hands-on monitoring approach that is centered on an effective value addition. This, combined with a medium- to long-term view (four- to six-year holding period), is consistent with the needs of African SMEs.	-	-
BIO invest www.bio-invest.be	Belgian Investment Company has the aim to support a strong private sector in developing and/or emerging countries, to enable them to gain access to growth and sustainable development with the aim to achieving the Millennium Development Goals. BIO invests directly in private sector projects and as such makes a structural contribution to the socioeconomic growth of those host countries. Its mandate requires strict criteria in terms of geographical targets, financing tools, and, above all, an effect on development.	BIO can invest directly in local SMEs and large companies with a local foothold, with a particular focus on the food industry in all matters concerning food crops (intended to feed the local population), export cultures and breeding, and companies processing raw food materials. Moreover, BIO makes a special effort to promote access to basic financial services for micro and small companies (credit, savings, and insurance). **Any request for financing must be accompanied by a business plan that allows an initial evaluation of the project to be performed. This must include:** - A description of the business concept - A presentation of products, clients, competitors, suppliers, and the management team - An investment plan and preliminary financing plan - Profitability forecasts - Financial history for a minimum of three years for existing companies	

COMMERCIAL BANK

A commercial bank can fill a number of roles when you are developing a business idea. Its advantage is that a company frees liquidity when making an agreement with a bank; however, it can be expensive and difficult to meet the requirements of a bank. In addition, commercial banks typically become relevant at a later stage in the project development cycle. Some banks do exist that are founded on different principles and values than conventional banks. These banks blend with the premises of development finance institutions, and if the aim of the debt is to create social impact, these banks could be better suited for your company.

Character

Character is the general impression of the potential lender or investor from the point of view of the bank. It is a view on the trustworthiness of the borrower in terms of the individuals comprising the management team (educational background and experience in the industry) as well as the company as a whole (quality of references and the background and experience of employees).

Payment records and credit reports of the borrower will be reviewed. The bank will likely contact creditors and vendors. The bank thereby obtains a picture of how past and current credit obligations have been and are currently being met. The availability of such information is not only important to the subjective assessment of the borrower by the employees of the bank, it is also important from a technical point of view.

Most banks rely on credit-scoring models or credit-risk models for quantitative assessment of prospective borrowers. Historical and current financial information are crucial inputs to these models. In greenfield projects, banks do not have the benefit of this information and are therefore often very cautious in granting credit.

Capacity

Capacity is the determination of the borrower's ability to repay a loan from current or projected cash flows or from cash and cash equivalents in the asset base. While collateral often plays a disproportionate part in assessing creditworthiness in emerging markets, capacity should in practice be prioritized. The bank will consider the cash flow from the business against the structure of repayments, to assess the probability of successful repayment of the loan.

Hence, if short-term credit is to be granted, the bank will primarily look at sales orders and inventory levels, while for longer-term, unsecured lending, focus will be on business fundamentals and more advanced cash flow modelling.

Capital

Capital is the money the owner/sponsor has personally invested in the business and is an indication of how much he or she has at risk in the event the project fails. Prospective lenders would be interested in having a sponsor be as exposed to the project as possible.

In practice, determination of capital is a simple question of assessing the firm's leverage in the project. The central measure is the proportion of total debt to total assets—the less debt the better.

Collateral

Collateral refers to assets used to secure credit, such as real estate, receivables, inventory, equipment, and guarantees. Suitable types of collateral differ, depending on the type or structure of lending. Providing a bank with collateral means that the borrower pledges an asset to the lender with the agreement that it will be the repayment source in the case that the borrower defaults on payments.

Another form of collateral is a guarantee, which entails that a third party promises to repay the loan if the borrower defaults. A guarantee essentially transfers the credit risk from the borrower to the guarantor. In several instances, such as in trade finance, a guarantee or standing letter of credit will be needed in addition to the collateral posed by the physical assets in the transaction.

Conditions

Conditions refer to the external conditions of the borrower set against the proposed use of the borrowed funds. In other words, specific industry forces that may affect the business in the future are analyzed. This can comprise market drivers, competition, and regulatory issues, as well as exposure to financial and currency markets. In developing markets these issues are often multiplied—especially when seen from the distance of banks in Denmark. In these cases, the bank is especially interested in the owners'/ managements' plans to mitigate the potentially adverse effects of external forces and their ability to operate in developing markets.

Suitability

The use of commercial banks in funding new projects in developing countries is determined by the profile of the bank and the stage of the project. Many banks do not have a profile that favors lending to projects in developing countries; however, as the banking sector in East Africa is becoming consolidated, lending terms are becoming more acceptable for Western banks. This translates into a very positive change for companies interested in doing business in developing markets.

Western banks have historically been very reluctant to engage in projects involving African countries, because the risk profile for these countries has been too high. As international banks have become more prevalent and local banks more recognised, e.g., Equity Bank which was elected as Entrepreneur of the Year in 2012 by Ernest and Young, due diligence and background checks on projects become more trustworthy. This allows banks to better assess risk and more willingly engage in projects.

However, Danish companies should be aware that banks are not the easiest place to ask for money in the start-up stage of new projects. Instead, banks—local African and domestic—can be strong partners once the initial proof-of-sales has been demonstrated. As a trade financing partner, the bank can act as a guarantor for the company, thereby decreasing the risk of entering trade relations with developing countries. For example, instead of relying on payments from the local companies, domestic Danish banks can communicate with local banks and the companies, thereby ensuring payment for the Danish company. ■

CASE MERKUR COOPERATIVE BANK

The main objective of Merkur Cooperative Bank is to give and facilitate financial advice and financing to profit-making and not-for-profit projects. This involves not just an economic evaluation but also ethical, environmental, and social assessment

The most popular product of the bank is the offering of "sustainable credit." The purpose of Credit for Sustainable Trade is to assist producers and exporters in developing countries in pre-financing their export contracts with buyers in Scandinavian countries. The credit provides the producers with the funds needed during the production, harvest and shipment periods— all at reasonable rates of interest for the producer. The bank has provided sustainable credit to multiple countries in Africa. The Danish wholesale distributor Solhjulet buys a lot of fresh produce from the Ugandan company African Organic/Amfri Farms Ltd. The rest is supplied from 150 associated out-growers, who are independent farmers.

CASH FLOW ENABLERS

This section of the booklet changes the focus from securing funding to business operations; ensuring that your company is making money on a continuous basis. Securing external funding only wins you half the battle; your company also has to design and operate a business model—proving that you can generate a steady cash flow in markets that have a higher degree of uncertainty. This section gives examples of how companies can tackle cash flow issues in ways that take local market conditions into account.

From Aalborg to Africa

It is no surprise that the business conditions in Africa are quite different from the conditions in Europe. Your company should be aware of several characteristics that can ultimately affect the cash flow of your business activities.

Business-to-business

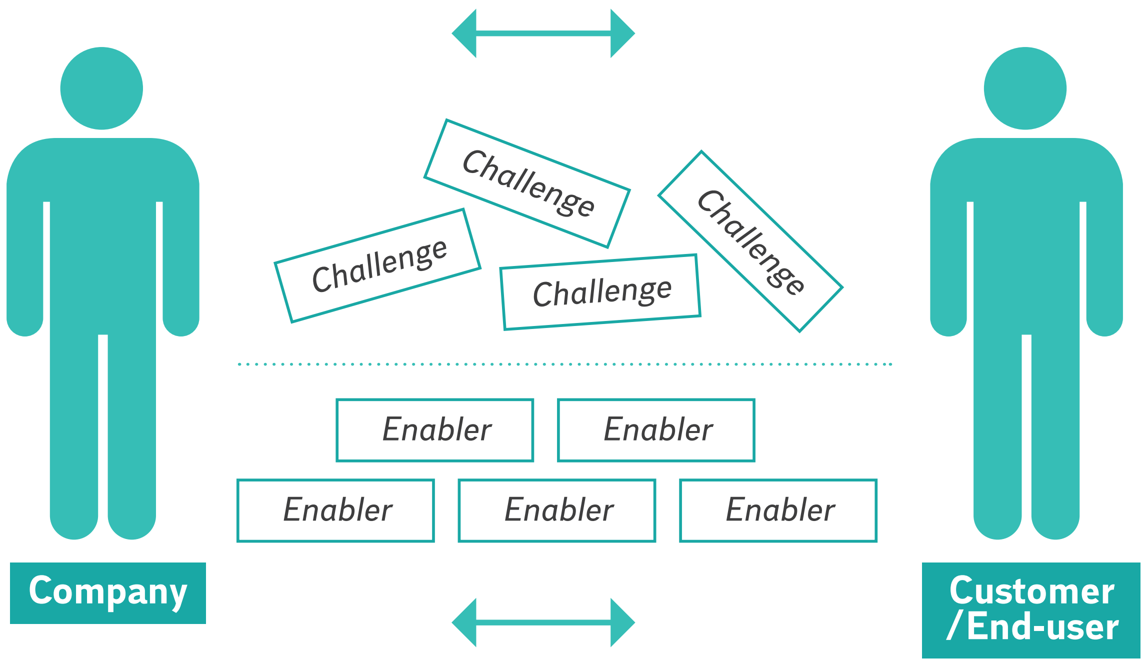
A considerable difference in business-to-business activities is the large informal economy, which a Danish company is likely to be exposed to at some stage if the company decides to trade downmarket. The informal economy typically accounts for 60 to 70 percent of the African countries' businesses, including anything from small farmer shops to small and medium-sized enterprises. It must be emphasized that an informal business should not be mistaken for an unprofessional business. Many smaller informal businesses can be run effectively and generate a substantial profit.

An informal economy often also implies more informal types of agreements than in Western markets. Western buyers and suppliers often and easily engage in contracts that make both parties comfortable. The ability to enforce contracts, should anything go wrong, is an important part of any business transaction. However, in frontier markets, lack of contracts and the enforcement of contracts can be more cumbersome. In other words, your company needs to integrate a strong partner or customer relationship when designing the business model, in order to ensure a steady cash flow. The following sections introduce various types of such enablers.

> The informal economy typically accounts for 60 to 70 percent of businesses in African countries.

Business-to-consumer

Companies focusing on business-to-consumer segments will quickly find that the consumer market is dominated by low- and middle-income segments that on their own are not able to pay for goods up front. Therefore, there is a need to design your business transactions in new ways that accommodate low purchasing power—e.g., by selling to groups of customers, selling smaller units, or selling the use of the products through rent or leasing. The following section introduces various concepts that can enable your company to generate a more steady cash flow from consumers.



Transactions between your company and the customer will typically involve one or more challenges to your typical way of doing business. The following sections provide examples of ways to work around these challenges.

Sourcing

In addition to transactions occurring as a result of sales, your company might be involved in transactions that involve sourcing. Companies sourcing from African farmers, for example, rely on steady delivery of goods to ensure their cash flow in relation to onward sales. A section of the booklet will introduce enablers within agriculture that can support your cash flow.

Methodology

The cash flow enablers featured in the booklet have been identified through dialogue with funding institutions and business development experts and selected based on relevance for access2innovation. The suggested enablers are not an exhaustive list, but provide inspiration for where to start.

MOBILE PHONE MONEY TRANSFERS

Transferring money via mobile phone and using it for savings might sound like a farfetched idea, since it is so easy to transfer money through your internet bank account or an ATM, pay via credit card, or simply carry cash. However, the situation is turned upside down in countries where access to computers is only for the few, almost none are eligible for bank accounts, and carrying cash increases the risk of getting robbed. Mobile money transfer is quickly becoming the talk of the town in many African countries and is made even more relevant by the incredibly high penetration rate of mobile phones.

Background

Mobile banking has become a widespread phenomenon in East Africa for many reasons. First of all, the cost of having a bank account is out of reach for many. This also means that a credit card is out of the question, and the only solution is to carry around cash.

Furthermore, mobile banking addresses some of the most basic problems with using cash in the region, such as the hassle of transportation and the time-consuming nature of doing long distance trade. This new technology has contributed to the rapid growth of mobile money services, making Africa one of the most advanced areas in the world for mobile banking/mobile money. With the high numbers of mobile phones per population, this availability has even reached rural areas, enabling people to access money as never before.

How does it work?

The concept of mobile banking is quite simple; if a person has a mobile phone, it is possible to use it as a bank account. The mobile company has a large number of agents with small shops around the country that are used to deposit and withdraw money. The user goes to the agent and hands over the money; the agent notes the relevant information and sends a text message to the customer stating the amount deposited. In this way, the customer receives immediate confirmation of the amount stored on his phone. In the same way, it is possible to withdraw money from the agent's shop, which has a cash reserve. If an agent is out of cash, the user can easily visit another agent.

Furthermore, the mobile phone can be used for money transfers and payments of certain bills such as water, electricity, pay-TV, tuition fees, and payment of salaries. The transfers can also be done directly on the phone, and the recipient immediately receives a text-message stating the amount transferred to his or her account.

“The mobile phone can be used for money transfer and payments of certain bills like water, electricity, Pay-TV, tuition fees, payment of salaries, etc.

As the service is maturing, companies are exploring new applications such as payment for delivery of groceries. However, this has proven difficult and might require functionalities such as "stand-by" of transfers, enabling users to transfer an amount for a product but keep the money on standby until the product has been delivered.

What makes this a cash flow enabler?

Mobile payments can assist cash flow in various ways. Companies can use existing infrastructures provided by banks, insurance companies, and health clinics to assist their own business model. For example, Kilimo Salama is a Kenyan micro-insurance system that uses mobile money transfers to collect fees and provide payouts to farmers if the harvest fails. In its second year of operation, 12,000 farmers were insured, and ten percent of them received payouts of up to fifty percent of their insured inputs.

The company can also consider implementing mobile payment in their own business model. This can be done in various ways. The simplest approach is to offer the product/service uniquely through mobile payment, such as the example of Grundfos LIFELINK. Subsequently, the company can decide to integrate the mobile payments with other devices, as utility companies have done by providing end-users with a metering system that measures and controls the flow of electricity. End-users will prepay for an amount of electricity to be consumed, and upon payment, a code is received. Once the code has been entered, customers can consume that amount of electricity; the power is cut if a new pre-payment is not submitted.

The benefits of using mobiles should naturally be weighed against the costs. Although evolving quickly, the technologies and adoption of mobile solutions vary significantly from country to country. ■

CASE GRUNDFOS LIFELINK

Grundfos has launched a project in Kenya that has mobile payments as a key component of the business model. The Grundfos LIFELINK concept is based on the Grundfos SQFlex submersible pump system, powered by solar panels. Water is stored in a water tank placed on a foundation or steel tower.

The solution is controlled via a computer-based system including an integrated communication and surveillance module. From the water tank, water flows to a water-tapping station via gravity.

At the tapping station, water can be dispensed from one or more water taps by the use of a pre-paid key fob (RFID Technology).The key fob is a small piece of plastic, the size of a coin. The fob is a personal possession, and customers can only transfer money to the fob via mobile payments. Thus, the customer, relatives, friends, water kiosk agents, etc., can transfer money to the fob.

Water flows automatically from the water tap when the key fob is placed in the key fob nest at the tapping station. When the key fob is removed, water stops flowing from the tap.

SAVINGS AND LOANS ASSOCIATIONS

How do you save and borrow money if you cannot go to a bank? Many people are familiar with micro-loans as a mean through which people; businesses, and community groups have made investments and launched new initiatives. However, few are aware that a rapidly growing approach— savings and loans associations—is putting significant amounts of liquidity in the hands of village and urban groups. Companies should consider how these association/groups can be integrated in the design of the business model, because they can positively affect how cash flow is generated.

Background

Historically, many people and companies in developing countries have been denied access to financial services such as basic savings and loans for investments or private needs. The loans that people can access typically carry very high interest rates, and in many cases, people end up paying back an amount that can be three to four times the size of the initial loan. To open savings accounts, people typically have to make a start-up deposit that is far beyond their means. At times, banks have been accused of exploiting poor people. In some instances this is true, but in most cases, offering financial services to poor people is very expensive for banks due to high transaction costs in collecting repayments and loan defaults. Thus, banking services are generally not available for people who are poor or live in remote areas.

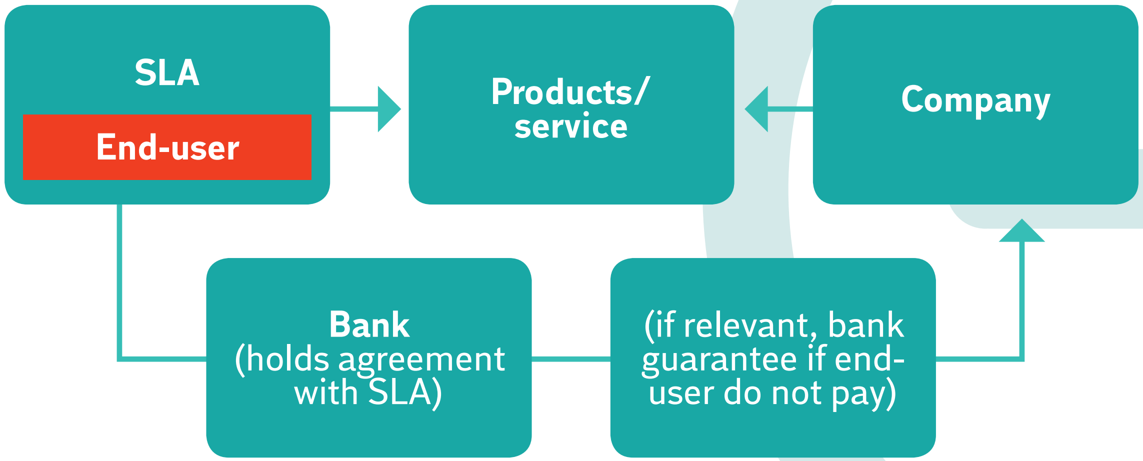
These unfavorable conditions have historically given rise to group and circle lending—a form of village financial service. For the past couple of decades, NGOs such as CARE have been instrumental in renovating this model as a sustainable way for community members to save and borrow money. This type of financial services is referred to as savings and loans associations (SLAs).

How it works...

These associations are first and foremost a safe place for members to keep their savings. Group savings are put to use as loans through a system of peer support and pressure, in which borrowers are collectively responsible for each other's loan performance. This system ensures that each member of the group is able to pay back the loan, which is why it is also referred to as group lending. Although saving and loans associations are most prevalent in villages, the model is attracting interest from urban areas, as poorer segments of the population there also have unfavourable access to banking services, despite the physical presence of banks, MFIs, and money lenders.

An association or group typically consists of a maximum of thirty people, with self-selected leaders to manage and administer the saving and loan procedures. In many cases, the association will receive training from an NGO to promote a savings culture and understanding of the value of having a welfare fund as part of the association. A critical factor tying the association together is the trust among members. Therefore, it is the association itself that appoints the three members who will each carry a key to the box containing the money. The box is typically opened once a week—with all the key holders present—allowing the members to deposit and borrow money.

The track records of some saving and loans associations are staggering, with a total account of USD 150 the first year, and some have managed to save USD 40–50,000 a few years later. The well-established ability to save money is confirmed by the fact that banks are now willing to make agreements



Cash flow enabler using partnership with SLAs and bank
This model demonstrates how companies can design a business model by targeting end-users who belong to SLAs. Companies must build trust with the SLAs, and depending on the cost and the payment model, the company could involve local banks to assist in securing the cash flow.

with the associations to ensure the security of their savings. In some instances, the banks have also offered the association a draft facility that allows them to make withdrawals and maintain savings, based on the spending patterns of the associations.

What makes this a cash flow enabler?

Even people who live at the economic base of the pyramid can have significant income, but when a financial infrastructure is missing, the money is never put to productive use. SLAs offer people a way to channel money into new investments through savings and loans. For instance, members of a savings and loans association could be interested in making new investments that increase their income. However, SLAs are not only about investment—they have a wide impact on the community as people save for unexpected expenses such as illness or funerals.

If companies establish fruitful working relationships with the SLAs—and possibly involve a bank as an intermediary—the relationship could be used as an enabler that secures cash flow in the business model. As the track records of the SLAs are typically very positive, it generally comes down to trust that must be built into the design of the model. ■

CASE CARE

Establishing a savings and loans association as a method for improving the financial situation and livelihood has proven to be very successful. For a number of years, CARE Denmark has been involved with programs in many different countries, focusing on establishment, training, and strengthening of SLAs.

The associations have enabled individuals and groups to start income-generating projects with great success. For example, the total number of members in Uganda in CARE's SLA programs now amounts to more than 100,000 clients—a majority of these are women.
In addition to CARE Denmark's work, the project "Banking on Change" provides an important indication that SLAs are maturing and the communities are increasing their purchasing power.

Quite simply, Banking on Change is a partnership between Plan UK, CARE International UK, and Barclays that aims to help around 400,000 people in 11 countries by developing access to basic financial services. The partnership has already seen its launch in East Africa and is starting to make formal ties with Barclays.

VALUE-ADDING SERVICES

In some situations, products offered to people in developing markets are spot-on in terms of the basic challenges that they are meant to solve, e.g., a water pump. Nevertheless, sales of the product may never get off the ground. One of the main reasons is if companies have not enabled customers to pay for the products or if they have misunderstood the real value of the product from a local perspective.

Background

A value-adding enabler service is not a typical service and maintenance agreement that most companies offer as part of their products. In some cases, it might be the thing that customers actually pay for, rather than the actual physical products. Using the examples of water pumps and energy products, a product's value that people are prepared to pay for is not necessarily the product's functionality, but the service around it, such as a stable water supply through regular maintenance. Therefore, it should be emphasized that it is important to move away from an arms-length relationship with customers focused only on selling physical products as the core activity.

How does it work...

Introducing value-adding services can work as a product in itself or can better enable use of the company's products. For example, a company targeting farmers with a product, e.g., an irrigation system, could partner with a harvest insurance company to build trust and ensure farmers are willing to risk the investment in the product. Other value-adding services could be linking products with advisory services or training, which gives customers the knowledge and skills needed to make full use of the functionalities of the company's products.

Another example is the Mexican company Cemex, which sells building materials to low-income families, such as cement. At USD 14 per week, the company offers a value-adding service that helps people build more effectively, by providing access to inspections, warehousing, and advice from architects.

If a product enables users to increase their productivity, then a good option can be to cooperate with employers. For instance, a company can make an agreement that ensures that a product is paid through regular instalments drawn from workers' salaries. The workplace hence acts as a guarantee for payment. Another example of an enabler is providing transportation to and from work: this is a value-adding service for the workplace because it helps ensure a stable workforce.

The value addition can also relate to being able to use the product without owning it—because permanent ownership is not needed or cannot be afforded. Because of liquidity, space, ability to operate, and other factors, a company might experience that customers would rather be able to periodically access the products of the company and not necessarily own them. With agricultural machinery, there has been a tendency towards access (such as sharing of tractors) rather than ownership, because of aspects such as harvesting seasons and costs of the machinery. This type of model demands a permanent infrastructure to administer rent and service, but it also enables much larger segments to become customers and share in the investment of the equipment.

What makes this a cash-flow enabler?

A value-adding service will build a closer relationship, retain customers, and permit your company to develop new value propositions that are not necessarily related to the physical product. This close relationship can be a way to boost the cash flow of the company by charging a premium, which might be necessary in some markets when price-points on products are pushed significantly downwards.

These two models and others can hence have a large impact on cash-flow generation, as they enable companies to “package” their products in new ways. It might prove difficult for companies to build new capabilities to manage these services, which is why partnerships are encouraged as a way for companies to bridge their existing business models with new offerings. ■

CASE BAISIKELI

The Danish company Baisikeli has decided to test new types of enabler service models with a very well-known product: bicycles. The company recognizes that many of its potential clients might not have the necessary liquidity to purchase the product the way Western customers do. However, the company is convinced that, with the right type of enabling service, enough cash can be generated to operate a profitable business.

One model the company is looking into is identifying savings and loans groups that have a strong image in the community. The identified groups will be listed as customers, and sales will be made through a credit agreement obliging them to repay an agreed amount each month. In this case, the product in question would be bicycles customized to help the groups with specific agricultural activities. To ensure that the group is making good use of the bicycles, the idea is to assist in establishing a renting service for them. This will make the joint ownership of the bicycle easier, and it will provide security for Baisikeli’s loan.

AGRI-BUSINESS MECHANISMS

In the agricultural sector of East African countries, the value chains are often dominated by a number of uncertainties. The uncertainties arise because of the composition of agricultural production, which is typically made up of a very large number of smallholding farmers with little means, seasonal variations, and challenges of infrastructure and distribution. For companies that are involved in agricultural value chains, it is important to be aware of who carries the risk in the value chain, as these risks can make it difficult to develop a stable cash flow.

Background

In frontier markets, the majority of farmers are referred to as smallholding farmers. A smallholding is approximately one acre of land, on average. These farmers will typically grow a number of different crops, allowing them to sell part of their crops, while also producing for their household. Altogether, this creates variations in volume and quality.

This section provides a variety of examples of agricultural cash flow enablers that can assist companies in sustaining farmer trust and in general decrease the inherent risk of sourcing from agricultural value chains in East Africa.

How do agri-business cash-flow enablers work?
A number of concepts exist that can make the cash flow of business models within agri-business more robust. As noted in the background, the agricultural value chain is all about writing off risk and securing the right prices and quality.

Contract farming

Contract farming, also referred to as "farming forward contract," refers to a market linkage mechanism whereby a producer or producer group of a specified agricultural commodity sells produce to a predetermined market. Thus, the buying and selling of the produce is organized through a pre-production contractual agreement.

Your company can use this enabler to ensure that cash flow is not hit by unexpected events, e.g., delivery of too little volume, poor quality, etc. The contract specifies a number of key attributes, but is not limited to:

- quantity to be supplied by the contracted produced;
- quality parameters of the produce to be supplied;
- price, either fixed or floor, at which the produce will be bought by the contracting buyer, when it is supplied;
- latest date or time at which the buyer will take delivery of the produce; and
- delivery point at which the produce will be passed on by the seller to the buyer.

Contract farming is being used by many companies in East Africa, primarily in more structured value chains, e.g., coffee, tea, and sugar, as these commodities are linked to export markets. However, as contract farming is becoming more known to farmers, it is also spreading to value chains that do not necessarily have a plantation or estate as the main production unit. Agricultural value chains such as chilli, vanilla, and dairy have also been implementing contract farming with success.

Product certification

Fairtrade and Ecocert certification are two types of product certification that companies can make use of in demonstrating that the products meet a set of agreed environmental, labor, and development standards. In addition to the philanthropic arguments for adopting such certifications, this has a very specific effect on the cash flow in the business model. When dealing with farmers and other institutions in the local markets, these certification schemes are a powerful way of demonstrating that you can charge a premium price. The premium pricing has a strong impact on the loyalty of farmers, thereby creating better incentives that they will deliver the agreed volumes and quality.

Structured trade financing

"Structured agricultural commodity finance" refers to the provision of mainly working capital finance against stock of products, as opposed to the use of traditional collateral. At times this method is called a "warehouse receipt system." Basically, a willing bank offers a pre-export stock finance product in which a client is financed up to eighty percent of the value of stock in a warehouse, managed by a bank-appointed collateral manager; all proceeds of sale are paid directly to the bank. This reduces the cash-flow risks for involved companies.

What makes this a cash flow enabler?

The common denominator that everybody is trying to hedge against is the loyalty of the farmer. Farmer loyalty is critical in obtaining the right volumes, quality, timely delivery, etc. As noted often, farmer loyalty is weak due to low access to markets. This will force farmers into side-selling, which can result in poor behavior in relation to contractual agreements. Using contracting farming methods can increase loyalty. The contractual conditions might seem elementary, but in a market in which the buyer, e.g., export companies, is exposed to very high supply risks, being able to uphold simple contracts such as these has a large impact on the cash flow and secures stable income for the farmers. ■

CASE SHARES!

Shares! is a Dutch owned company in Uganda, which for the last ten years has been buying from Uganda farmers and selling in European markets. Their products and the production chain are certified by Ecocert International.

The company uses various cash flow mechanisms to ensure that the working capital of the company stays intact. Six-hundred chilli outgrowers are engaged through contract farming in Western Uganda. In addition to buying the crops, Shares! gives out small but frequent loans, to ensure that farmers are not hit by difficulties such as buying farmer inputs. Because the commodities are organic, they can offer the farmers a premium, and this makes it easier to earn the loyalty of the farmers. The company also uses demonstration farms where interested farmers can learn about agronomic practices of growing chilli, which increases loyalty and productivity.

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