ENTREPRENEURSHIP POLICY TOOLKIT

PART 5.1: FINANCE

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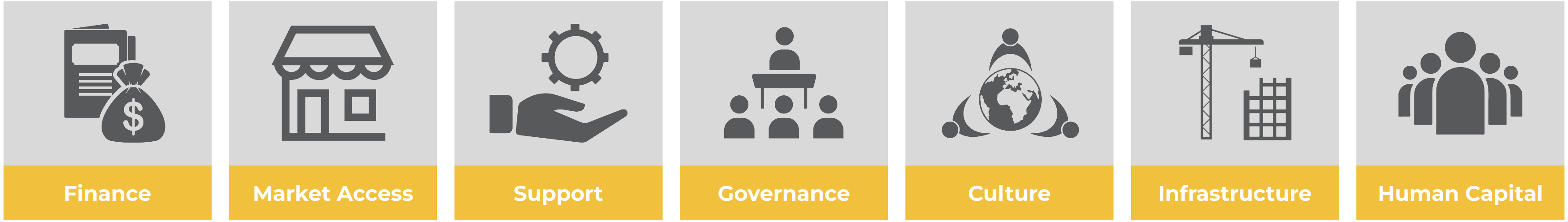
Make-IT in Africa

How to read Part 5 of the toolkit?

Part 5 of the Entrepreneurship Policy Toolkit addresses the main challenges faced by entrepreneurs across the continent.

In the previous part of the toolkit, i4Policy analyzed the challenges covered by fourteen entrepreneurial ecosystem diagnostic tools. We concluded that, despite wide variation in sources, the evaluative approaches are relatively consistent and seven challenges are considered the main categories in most of the methodologies reviewed.

These seven provide us with a well-researched typology of challenges faced by entrepreneurs across the world:



How to read Part 5 of the toolkit?

Part 5 of the Entrepreneurship Policy Toolkit is divided into seven sub-sections, tackling each of the challenges mentioned in the previous slide, as follows:

1. **Finance**
2. **Market Access**
3. **Support**
4. **Governance**
5. **Culture**
6. **Infrastructure**
7. **Human Capital**

It is up to you to read through the sub-sections as you desire. You can either download or read the entirety of Part 5, if you want to have a broad understanding and bird-eye view of all challenges faced by entrepreneurs. However, if only a specific challenge is of interest to you, feel free to go through one (or several) sub-sections.

Each subsection contains policy interventions, focusing first on the objectives the policy must meet in order to effectively tackle a challenge, then on the policy's expected impacts and KPIs. Throughout all subsections, examples of successful national policy interventions will be provided per challenge.

What will I learn?

Part 5.1 - Finance

In this section, we will begin to explore the world of finance in entrepreneurial development. You will learn:

- What are the different financing instruments available to entrepreneurs;
- How to conceive policies that provide capital at each stage of an entrepreneurial journey;
- Ways to create a mature and efficient Private Equity & Venture Capital ecosystem;
- How to increase entrepreneurs' access to bank finance and increase participation in capital markets;
- Ways to regulate emerging non-traditional financing instruments.

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Seven out of ten women surveyed across 10 African nations stated that access to finance is the greatest barrier they faced when starting their own business.[1]

[1] UNESCO and Africa Women's Forum (2021). *Challenges and Opportunities for Women Entrepreneurs in Africa: a Survey of Science and Technology Usage.* https://unesdoc.unesco.org/ark:/48223/pf0000379399

Part 5.1

Part 5.1 - Finance

5.1.1 Pre-Seed Finance
5.1.2 Private Equity & Venture Capital
5.1.3 Bank Finance
5.1.4 Capital Markets
5.1.5 Alternative Finance

Financing Startups and Small Businesses

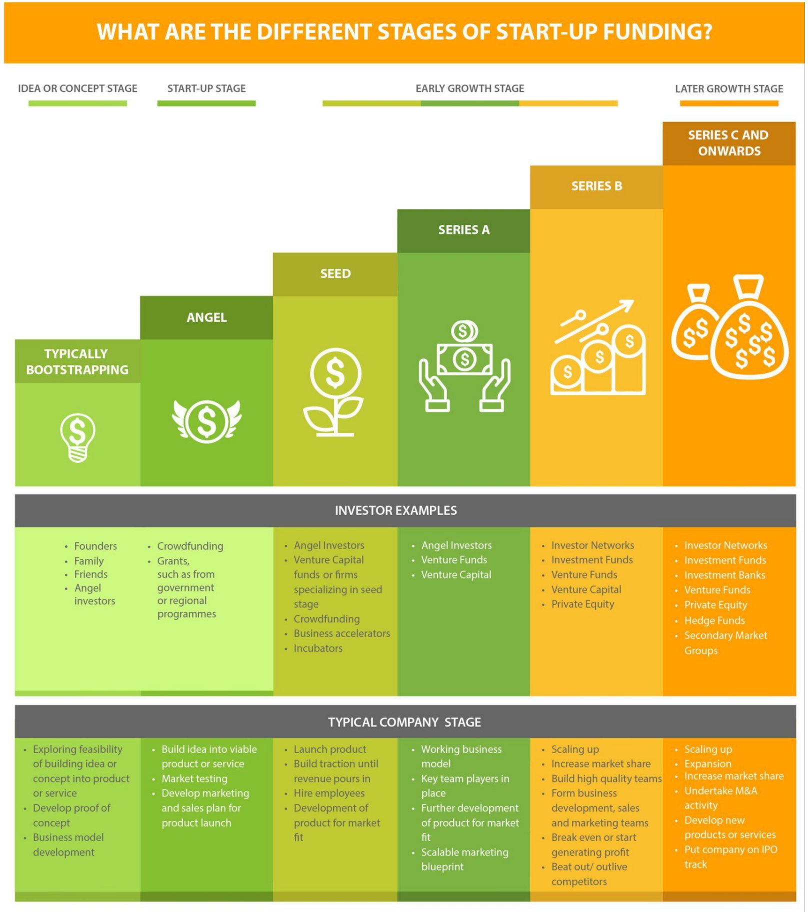
This section explores various financing instruments available to entrepreneurs. The options vary given the nature and stage of business:

- **Startups** are at the early stages of their operations and are often testing their business models and product/ service offerings. Given the risk associated with this stage, many startups do not qualify for bank loans and rely on grants, family and friends, crowdfunding and angel investors until they have proven profit generating models. As they grow, they become eligible for traditional lending, venture capital, private equity and larger investment vehicles.

- **Traditional SMEs** who have established models and matured are also more likely to receive bank loans and investment.

This section reviews interventions across all stages:

- Grants, Soft-Loans, Crowdfunding, etc (Pre-Seed/Bootstrapping)
- Private Equity (Growth Stages - Seed to Series C)
- Venture Capital (Growth Stages - Seed to Series C)
- Capital Markets (Growth Stages - Series C)



5.1.1 Pre-Seed Finance

The earliest stages of entrepreneurship (pre-seed) where the entrepreneur needs to test the viability of his business idea (prototyping), commercialize their innovation (reaching the PoC) and establish their company. These activities are difficult to finance with funding from the market and the entrepreneur often has to rely on their own resources, or that of family, friends and a few entrepreneurship prizes. Grants and soft loans provide patient capital for early stage entrepreneurs who may not qualify for investment.

Policy Objectives Addressed	Expected Impacts	KPIs
• Provide capital to early stage entrepreneurs who may not qualify for investment • Increase the pipeline of entrepreneurs contributing to economic development	• Entrepreneurs can improve the quality of their products or services • More entrepreneurs are encouraged to develop solutions with when adequate resources are available	• Percentage of early stage investments • Amount of donor grants in region • Number of foundations and other philanthropic organizations in the region • Availability of entrepreneurship prizes • Availability of prototyping infrastructure

5.1.1 Pre-Seed Finance

Grants are a direct provision of funding from public agencies to firms and other innovation agents to finance all or part of an innovation project. This is the most common mechanism of intervention and varies widely in complexity depending on the policy objective. Design variations occur in selection mechanism, size of grant, duration of projects, type of innovation supported, type of target firm, or whether they are provided to an individual or a collaborative project.

Market Failures Addressed

- Capability failure: firms lack basic capabilities for innovation which makes them less competitive.
- Information asymmetry: firms and knowledge providers have different incentives and operating models and operate with differences in levels of information. This can lead to inefficient decision-making.

Evidence of Impacts

- The evidence covers a wide range of countries/regions, but mainly from OECD countries, and mainly for R&D grants; there is limited insight into the effectiveness of grants to support innovation activities that are not related to R&D.
- The evidence suggests that grant schemes tend to have a positive impact on input additionality (increasing the resources devoted to innovation), rather than on output additionality (the outputs/outcomes/impacts).

Source: Cirera and Maloney (2017). *The Innovation Paradox: Developing-Country Capabilities and the Unrealized Promise of Technological Catch-Up.* https://openknowledge.worldbank.org/handle/10986/2834

Cirera; Frias, Hill,and Li (2020). *A Practitioner's Guide to Innovation Policy: Instruments to Build Firm Capabilities and Accelerate Technological Catch-Up in Developing Countries.* https://openknowledge.worldbank.org/handle/10986/33269

5.1.1 Pre-Seed Finance

Objective	Provide capital to early stage entrepreneurs who may not qualify for investment
Intervention	**Grants**
Example	• Malian startups that have research and development expenses with at least 15% of the total expenses incurred may receive grants. • Niger's Regional Development Funds were created to encourage the emergence and relocation of certain SME activities in priority development regions. These Funds enable the regions to enhance their attractiveness to businesses and populations and to reduce regional disparities.
Applicable to	Startups, SMEs

5.1.1 Pre-Seed Finance

A soft loan is a loan with no interest or below-market rates. Also known as "soft financing" or "concessional funding," soft loans have lenient terms, such as extended grace periods in which only interest or service charges are due, and interest holidays. They typically offer longer amortization schedules than conventional bank loans.[1]

Conditional Loans are temporarily approved loans which require additional information before final approval.

Grants and soft-loans may be targeted at different social groups and for varying objectives:

- *Thematic financing instruments:* These funds may be targeted at specific sectors or reserved for specific types of activities e.g research and development.
- *Socio-economic/Demographically targeted financing instruments:* Funds may also be targeted at specific demographic groups e.g. women, youth, farmers, informal sector etc.
- *Stage Specific Funds:* Some governments allocate funds by the stage of growth of the startup or SME e.g. those going through formalization, high performing startups who are creating jobs.
- *Geographic Financing Instruments:* Funds may be set aside for regional, municipal development or may be specific types of areas e.g rural areas.
- *Financing for Entrepreneur / SME support organizations:* Funds may also be set aside for specific types of organizations e.g. those supporting entrepreneurs.

[1] https://www.investopedia.com/terms/s/softloan.asp

5.1.1 Pre-Seed Finance

Objective	Provide capital to early stage entrepreneurs who may not qualify for investment
Intervention	**Soft-loans**
Example	• Nigeria's Tradermoni Scheme is a loan project created specifically for petty traders and artisans which allows qualified micro enterprises to receive interest-free micro loans. Critics have debated the sustainability, effectiveness and intentions of this program; however, its impact has not been measured. • Italy's Smart & Start Italia program is a subsidized financing scheme of €200 million for innovative projects whose spending in investment goods and/or management costs are between €100,000 and €1.5 million. SMEs can borrow interest-free loans of up to 80% of relevant costs for projects over 24 months and then pay back over a 10 year period.
Applicable to	SMEs and Startup

5.1.1 Pre-Seed Finance

Objective	Provide capital to early stage entrepreneurs who may not qualify for investment
Intervention	**Technology Transfer Units:** The combination of investment and business support in order to help funding technological research.
Example	In Ghana, investors are working with the University of Ghana to set up an entrepreneurship center, an alumni fund and a tech transfer incubator to bring together investment and business support for commercialization of research from Bachelor, Master, and PhD students.
Applicable to	SMEs (informal sector)

Soft loans - Afric’innov fund

- Afric’innov fund aims to provide soft loans at the early stage of development, which is generally considered too risky by commercial banks. If properly repaid, the soft loan can be a first step towards a bank loan or capital investment.
- The soft loans are provided interest-free and do not require collateral, but are granted by a business support structure (incubator, accelerators etc.).
- Financing ranges from € 10,000 (~ 6.5 million FCFA) to € 30,000 (~ 20 million FCFA).
- The soft loans are disbursed in one lump sum, with a maximum repayment term of 36 months.

[1] https://www.africinnov.com/

5.1.2 Private Equity & Venture Capital

The unavailability of risk capital, particularly equity (VC, business angels) but also venture debt, prevents entrepreneurs from fulfilling aspirations that are beyond individual entrepreneurs' personal financial resources. Policy solutions include government equity financing instruments, guarantee schemes for equity investment, fiscal / tax incentives for equity investment.

Policy Objectives Addressed	Expected Impacts	KPIs
• Building the PE/VC Ecosystem • De-risking investments for Financial Institutions	• Increased investment in local startups & SMEs	• Venture Capital Availability (Global Competitiveness Index) • Proportion of investment financed by equity or stock sales • Internally financing of fixed assets (negative scale)

5.1.2 Private Equity & Venture Capital

Equity finance includes all financial resources that are provided to SMEs in return for an ownership interest. They include public instruments (equity shares are traded on the stock exchange), and private equity tools for unlisted companies. Equity investors do not receive any security from companies they invest in and their return is entirely determined by the success of the entrepreneurial venture. The entrepreneurs must be willing to dilute ownership and accept some degree of control on the business from the investor and investors' direct engagement in the management (in the case of private equity).[1]

Governments may provide capital used to invest in the equity of small and young high risk innovation-intensive companies, to support their growth. There are various equity finance mechanisms, which include coinvestment with individuals or angel investor groups, government run funds, or co-investment funds.[2]

Venture capital and angel investing are especially aimed at supporting pre-launch, launch and early stage development phases, and typically target a small pool of high-growth potential companies, with the capacity for high returns in a short time frame.

[1] OECD (2015). *New Approaches to SME Financing.* https://www.oecd.org/cfe/smes/New-Approaches-SME-full-report.pdf

[2] Cirera and Maloney (2017). *The Innovation Paradox: Developing-Country Capabilities and the Unrealized Promise of Technological Catch-Up.* https://openknowledge.worldbank.org/handle/10986/283

5.1.2 Private Equity & Venture Capital

Market Failures Addressed

- Information asymmetry between the entrepreneur in need of financing, and the private investor who often lacks motivation to fund early-stage ventures given the difficulty of conducting due diligence.
- Coordination failures that lead to high costs of project appraisal for investors, and high search costs for innovators looking for investment.

When considering Private Equity and Venture Capital Solutions for Startups & SMEs, policymakers may consider the following objectives:

1. Building the PE/VC Ecosystem
2. De-risking investments for Financial Institutions

5.1.2 Private Equity & Venture Capital

1. Building the Ecosystem

When building the PE Ecosystem, policymakers must consider the following:

1. **Framework Law for VC and PE funds:** It is important to define these concepts legally in order to reassure and secure investors.

2. **Impact evaluation of public investment funds**: It could be interesting to question and evaluate the impacts of public investment funds. Private sector is often perceived as more competent to conduct this type of investment and can also be more objective in the selection of beneficiaries.

3. **Training and networking for business angels**: People are risk averse in many African countries. It could be interesting to educate potential investors on the benefits of becoming business angels.

4. **Financially supporting organizations providing business support services:** Non-African founders are more likely to receive funding because they are often better prepared for investments. In order to foster the creation and development of incubators and accelerators, they could receive public fundings due to their mission of general interest and the fact that their business models are often loss-making.

5.1.2 Private Equity & Venture Capital

1. Building the Ecosystem

- **Fund of Funds:** A fund of funds (FOF)—also known as a multi-manager investment—is a pooled investment fund that invests in other types of funds. Its portfolio contains different underlying portfolios of other funds. These holdings replace any investing directly in bonds, stocks, and other types of securities.

The South African SME fund allocates investment capital to accredited fund managers – venture capital or growth oriented equity funds – that invest directly in scalable small and medium enterprises with the best potential for growth and sustainable employment creation in the South African economy.

- **Fiscal incentives for equity investment:** Exemptions on capital gains taxes, income tax including loss carry forward taxes for angel investors.

Benin's Charter exempts venture capital organizations supporting SMEs from corporation tax for capital gains realized in the context of the management of securities.

It also gives exemptions on income tax on securities income for dividends distributed by Collective Investment Schemes in Transferable Securities with sub-funds. These funds can be registered in the region and sold to investors worldwide using unified regulatory and investor protection requirements. They are said to attract 75% of all collective investments in Europe.

5.1.2 Private Equity & Venture Capital

1. Building the Ecosystem

Countries have sought to remove barriers to equity investment in a number of ways:

1. At the regional level, bodies like WAEMU intend to (i) **implement a framework law** on venture capital and equity investment companies on tax transparency; and (ii) implement of a Community code on incentive investment for SMEs.

2. Membership in **established guarantee agencies** e.g the World Bank's Multilateral Investment Guarantee Agency (MIGA). This allows countries to qualify for MIGA technical assistance, and attracts foreign investment by allowing eligible foreign enterprises to obtain MIGA's guarantee coverage for their investments in the member countries. The guarantee covers the risks associated with foreign exchange restrictions, expropriation, breach of contract, and losses caused by war or civil disturbance (including terrorism).

3. **Building the capacity of their local Bank subsidiaries** to screen, evaluate and monitor business plans of startups and SMEs to position them for private equity investment.

4. **Easing approval requirements for investment** and facilitating crowdfunding. Argentina's National Securities Commission enabled public crowdfunding through registered platforms. India is allowing investors to invest without the Reserve Bank's approval.

5. **Training** the personnel of agencies tasked with assisting current and prospective startups and startup enablers to access and maximize benefits and incentives (Philippines).

Direct Funds: Délégation Générale à l'Entrepreneuriat Rapide – DER, Senegal

- The Delegation for Rapid Entrepreneurship (Délégation Générale à l'Entrepreneuriat Rapide – DER) was established in 2018 and charged with providing financial and technical support to the entrepreneurship ecosystem.

- The DER, which reports directly to the Presidency, invested 17 billion FCFA (approximately US$29 million), reaching nearly 22,000 beneficiaries and impacting more than 500 communes in its first year of activity. Its annual financing envelope was announced to increase from 1 billion FCFA to 3 billion FCFA (or approximately US$5 million). One of its key priority areas is digital entrepreneurship.

Fund of Funds: Morocco’s Invest Fund

- Morocco’s Invest Fund is one of the few known to offer pre-seed grants (US$2 million) to support an entrepreneur or startup to test the viability of his or her business idea.

- The Fund, which was created in 2017 and managed by the Caisse Centrale de Garantie (CCG), was established in partnership with local incubators and accelerators which are responsible for evaluation and selection of the entrepreneurs to be financed. The maximum grant amount per entrepreneur/startup is $20,000.

5.1.2 Private Equity & Venture Capital

2. De-risking Investments for Public Institutions

- **Direct public funds:** Funding that is provided to an organization directly by a governmental entity or intermediate organization that has the same duties as a government entity.

Rwanda's Development Bank provides equity financing to startups in priority sectors as long as its participation does not exceed 25% of the company's portfolio. Sectors include agriculture, education, energy, exports, housing, etc.

- **Co-investment funds:** Funds that allow investors to make minority investments in a company alongside a private equity fund manager or venture capital firm.

In the 1990s, Israel created 10 YOZMA venture capital funds. By providing 40% of what was offered by private investors in combined funds, the fund grew from $100M to $250M in just 3 years, supporting 40 companies. This initiative led to over 30 foreign based VC funds setting up in Israel.

5.1.2 Private Equity & Venture Capital

2. De-risking Investments for Public Institutions

Guarantee Schemes for Equity Investment

- Equity guarantees are an alternative source of financing, for either institutional investors, business angels or both. They are an unproven policy instrument with a few EU countries implementing them.
- They may reinforce risk aversion of existing market players, and also introduce perverse incentives for fund managers (e.g. taking unreasonably high risk, or not investing adequate time to support an investment).

To attract private investment in SMEs, Morocco provided a guarantee on equity of up to 40% through the CCG's Damane Risque Guarantee tool.

For innovative projects, the fund financed projects up to 50% with a ceiling of 2 million MAD ($241,500) at a 2% interest rate.

Selected projects also had to pay a study fee of 5000 MAD ($600). The equity guarantee covered 50% of the project with a ceiling of 5 million MAD ($604,000) with a 1.5% flat fee on the total amount of equity covered.

To mitigate potential distorted incentives, CCG incorporated a different incentive mechanism, providing preferential treatment to private investors on investment returns (incentives on the upside rather than the downside).

Co-Investment Funds: Rwanda Enterprise Investment Scheme

- Rwanda's Enterprise Investment Scheme for private or public investors (both individuals and institutions) offers equity participation in viable SME projects.

- In 2018, it also set up the Rwanda Innovation Fund, backed by a $30M loan from the African Development Bank for research and development, market research, ICT and technology advancement. It aims to provide equity financing for SMEs by mobilizing $100 million in direct commitments from the Rwandan Government and private investors, and up to US $300 million in follow-on investments.

- The objective is to support 150+ companies at various stages and invest in about 20 early growth stage SMEs. The expectation is that the investment will create more than 8,000 jobs, provide capacity-building to 7-10 incubators and accelerators, facilitate 3-5 additional angel networks, and train 30,000 entrepreneurs across the region over the span of 10 years.

Venture Capital for Incubation: Israel

- In 2011, the Israeli Innovation Authority's Incubator established the Incubator Incentives Program which recruits and covers half of the costs for venture capital organizations that establish technological incubators in designated industries and geographic locations.

- These incubators provide office space, seed investment, technological and business guidance, management assistance and administrative services to idea-stage startups developing services or products.

- These funds are often supported by corporations like Nielsen, Medtronics or Philips, which facilitate startups' engagement with corporate entities for mentorship, access to clients, collaboration opportunities (pilots, POCs, RFPS, etc.) and potential funding or acquisition opportunities.

5.1.3 Bank Finance

Banks provide traditional debt financing such as loans, overdrafts and credit lines. The issue at hand is that banks want security and are often unwilling to lend to SMEs. Policy interventions to improve access to bank financing include setting up guarantee funds and state credit lines, establishing rating agencies and credit bureaus or introducing collateral legislation.

Policy Objectives Addressed	Expected Impacts	KPIs
• Mitigating risk for financial institutions in order to increase access to bank finance for entrepreneurs • Building financial management capacity of entrepreneurs	• Increased financing for SMEs in the form of bank finance	• Small firms with bank credit • Firms using bank credit to finance investments • Bank lending-deposit interest rate spread • Bank credit to private sector as a percent of GDP • Domestic credit to private sector • Bank lending rate • % of firms whose recent loan application was rejected

5.1.3 Bank Finance

Banks provide traditional debt finance - bank loans, overdrafts, credit lines - to SMEs and entrepreneurs. The defining characteristic of straight debt instruments is that they represent an unconditional claim on the borrower, who must pay a specified amount of interest to creditors at fixed intervals, regardless of the financial condition of the company or the return on the investment. The interest rate may be fixed or adjusted periodically according to a reference rate. Straight debt does not include any features other than payment of interest and repayment of principal, i.e. it cannot be converted into another asset, and bank claims have high priority in cases of bankruptcy ('senior debt').

Loans, supplied either by government or via intermediaries, have become popular due to their reimbursable nature. Credit guarantees cover a portion of the losses to lenders when firms investing in innovative projects default on loans. A guarantee applies exclusively to assets explicitly covered under its provisions, in return for a fee.

Market Failures Addressed

- Imperfections in financial markets (loans only) including a lack of SME focused lending.
- Information asymmetry. Commercial lenders do not understand the financial viability of innovation projects proposed by borrowing companies.
- Coordination failures. Credit guarantee schemes can also address weak institutional coordination.

5.1.3 Bank Finance

When identifying interventions for bank financing, policymakers must consider the following:

1. **Holding banks accountable:** Banks want security and are not willing to lend to SMEs without it. Therefore policy frameworks are needed to influence banks to finance SMEs. Oftentimes banks do not use donor financing that is given for SMEs, and rather prefer to invest in government treasuries. In South Africa, Lula Lend has been able to provide more loans than traditional banks due to their model.

2. **Incentivizing banks:** An intermediate step may be to first create incentives through cofinance and then move to financing. The DER in Senegal paid banks to host clients of DER, which allowed DER to maintain the risk while introducing banks to new clients.

3. **Improving tools to assess risk:** Banks are unable to assess the risks of SMEs due to lack of credit scoring tools.

4. **Promoting co-financing and the association between financing and business support:** Banks can be more confident if they are not alone in bearing the risks and if the financed companies are supported.

5. **Understanding SMEs:** There is a lack of understanding around SMEs that needs to be addressed. This can be done by building banks' capacity to understand how certain sectors work. For example, if a bank is investing in agriculture, officers must have knowledge of the sector. Alternatively, banks could be encouraged to establish dedicated SME units (e.g. La Maison des PME by Société Générale).

5.1.3 Bank Finance

State credit lines: Provide credit lines and loans to SMEs at reduced rates. The credit lines are often established in partnership with national or international monetary and financial institutions and development partners to provide risk sharing and also because they can afford to give longer maturity terms.

In 2019, Rwanda's Bank of Kigali for example, signed deals with the French Development Agency (AFD) and the European Investment Bank for credit lines worth \$20M and \$31M respectively to fund small and medium enterprises in priority sectors such as agrobusiness, ICT, manufacturing, renewable energy, trade, transport and tourism.

Guarantee Funds: Mutual guarantee funds provide coverage in the event of loan defaults. They reduce/eliminate the need for collateral required by commercial lenders and assume some of the risk involved in financing SME loans.

With 40 African countries and over 100+ partner financial institutions, the African Guarantee Fund's objective is to reduce Africa's estimated \$15B SME financing gap. It provides bank fundraising guarantees, loan guarantees, equity guarantees and offers capacity development to both PFIs and SMEs.

Collateral Legislation: A few countries are reforming legislation to increase the scope of acceptable collateral for lending. Some of these alternative collateral options include unconventional and movable collateral and warehouse receipt systems for agriculture.

Nigeria's 2017 SME survey included unconventional and movable collateral, such as generators, cars, machines and gold as a means of expanding access to finance to MSMEs. The Central Bank of Nigeria (CBN) established the National Collateral Registry to allow SMEs to use these movable or personal assets as collateral even while they remained in the possession of the borrowers.

5.1.3 Bank Finance

Rating Agency and Credit Bureaus: These agencies gather information about MSMEs, borrowers and their risk ratings. The objective is to maintain the credit history of operators (and their businesses) to reduce perceived risk and improve their access to formal sources of credit.

Nigeria's SME Development Agency signed an MOU with established agency, Dun & Bradstreet to create the Small and Medium Enterprises Rating Agency of Nigeria (SMERAN).

Tax incentives for Financial Institutions: Provision of incentives to financial institutions financing SMEs.

Zambian financial institutions supporting SMEs are entitled to exemptions from the payment of tax on income or interest payable on and received from loans provided to an enterprise that carries out manufacturing activities. They may also maintain concessionary core liquid asset ratios.

Capacity building and simplification and improvement of procedures: Some governments are undertaking projects to simplify procedures required to access financing while others focus on building the capacity of both SMEs and financial institutions for financial services.

This includes best practice sharing, certification and funding for financial institutions; technical assistance funds for SMEs and more.

5.1.3 Bank Finance

Coordination between institutions: Solutions range from annual ratings for financial institutions, promotion of microfinance institutions, organizational restructuring of financial institutions to better cater to SMEs and standards for loan administration.

Nigeria's policy alluded to the need to design criteria for an annual rating/ ranking framework for Financial Institutions serving MSMEs. Rwanda's policy planned to consolidate funds under one organization and streamline the mechanisms for distributing funds to SMEs.

Interest drawbacks, saving and credit schemes, leasing and other tools for creatively financing SMEs.

Tanzania's policy seeks to promote innovative financial products for SMEs such as hire purchase, leasing, inventory financing and saving and credit schemes.

- *Hire-purchase schemes:* EFTA allows businesses to use the equipment to pay off the loan but retains ownership until the three-year lease period is over. BOA also provides lease financing for equipment for qualified SMEs. Neither scheme requires collateral.
- *Scheme loans:* Employer guaranteed loans for full time employees of partner organizations, where the employer provides a check to pay for all monthly repayments of their staff.
- *SME Bundles:* A customized suite of services that provide an unsecured bid bond of $2 billion to qualifying SMEs within 24 hours, dedicated relationship managers and financial advisors, free training on loan management.

Morocco's Central Guarantee Fund (CCG)

Morocco's Central Guarantee Fund (CCG) has been hailed as an outstanding example of a public guarantee fund for SMEs and other firms.

- CCG guarantees between 50 and 85% of investment funds for projects, and 50% of credits for financial restructuring in all sectors with the exception of real estate and high-sea fishing.

- There are six guarantees which cover medium and short-term loans for company set-up, operating requirements, expansion or modernization projects, consolidation of banking debt, investment loans and equity brought by eligible firms.

5.1.4 Capital Markets

Listing requirements on capital markets are usually too stringent, costly and better adapted to larger companies. Local capital markets are often too shallow. Some solutions include the introduction of SME boards with less stringent requirements and pre-listing training for entrepreneurs.

Policy Objectives Addressed	Expected Impacts	KPIs
• Increased participation in capital markets	• Increased investment for small businesses listed in capital markets	• Stock market capitalization as percent of GDP • Number of companies listed on the stock exchange • Risk capital • Market capitalization • Ease of protecting minority investor's rights

5.1.4 Capital Markets

SME Stock Exchanges: Introducing a SME board on a recognized nationwide stock exchange can boost access to capital for SMEs. This way the specified securities issued can be listed and granted recognition, but are not included on the Main Board of the stock exchange.

According to the African Securities Exchanges Association (ASEA), since 2002, at least 20 African countries now have SME boards and 9 had active listings at the end of 2017.

South Africa's Alternative Exchange (AltX): Launched in 2003 as a segment under the Johannesburg Stock Exchange, the board had the highest number of listings in 2018 with 49 companies with a market capitalization of $970 million (R14.57 billion).

The exchange has assisted more than 30 SMEs to graduate to the main board, representing about 10% of all firms listed by 2016. Even with this success, there has been a decline since its peak in 2009; and this has been attributed to a lack of interest from institutional investors and a low savings and investment culture in South Africa.

Mauritius' Development & Enterprise Market (MDEM): Launched in 2006, the DEM is a segment of the Mauritius Stock Exchange Market (SEM) dedicated to SMEs. Overall there are 200+ securities listed on SEM representing a market capitalization of $12 billion. Of this the DEM represented 43 companies, with a market capitalization of $1.7 billion in 2018.

The SEM has been awarded "the Most Innovative African Stock Exchange of the Year Award" four times and recently partnered with Citdex Corporation (Citdex) and Central Depository & Settlement Co. Ltd ("CDS") to launch the Digital Stock Exchange of Mauritius (DSXEM) and a Digital Central Depository Systems (DXCDS).

5.1.4 Capital Markets

Egypt's Nile Stock Exchange (NILEX): Created in 2001, the platform has 32 companies are listed, a total market capitalization of USD 60 million and an average daily trading volume of USD 160,000.

While active, as of 2018 it had almost no institutional or foreign investments and has applied for technical assistance from the European Bank for Reconstruction to restructure.

Morocco's Casablanca Stock Exchange (CSE): The CSE is the fourth largest exchange in Africa by market capitalization, behind those of South Africa, Egypt and Nigeria. It allows for three types of listings: large companies, medium-size companies, and high-growth companies.

Given this structure, companies raising as little as US$1 million can theoretically seek to access the capital markets. Reforms include relaxed reporting requirements for smaller and more innovative companies to create a junior exchange, or an SME board.

5.1.4 Capital Markets

Capacity building for eligibility: SMEs seeking to list on capital markets often fail to meet pre-listing and post-listing requirements (continuing obligations) of securities exchanges. Some experience difficulties with financial management, funding, corporate governance, and organizational infrastructure and skills development.

With this knowledge some governments identified the need to assist high potential companies to access the regional financial market by supporting them to meet eligibility requirement.

ELITE Morocco - Casablanca Stock Exchange (CSE): In 2016, the CSE launched a growth program, ELITE Morocco, to support SMEs. Since then the program has graduated six cohorts consisting of 70 companies, supported by 21 partners and 6 investors. Of those 20 are certified, more than 18 have announced their intention to carry out market operations, and two joined the market in 2018. The CSE also created the Elite BRVM Lounge, in partnership with the Abidjan Regional Stock Exchange (BRVM) and the London Stock Exchange Group to launch a cohort of 20 companies in 2018.

5.1.5 Alternative Finance

This section presents alternative financing instruments that have emerged outside of the traditional finance system. Alternative financing instruments can have an important development impact, though to really help grow the business ecosystem they need to be supported by a strong institutional framework. Fostering these instruments is one of the most prominent government policy responses in countries that are dealing with SME financing gaps.

Policy Objectives Addressed	Expected Impacts	KPIs
• Increasing access to financing through non-traditional instruments • Regulating new and emerging financial instruments	• Increasing financing options for entrepreneurs • Maximization of funds allocated to SMEs	• Volume of factoring • Volume of leasing • Revenue from donations (crowdfunding)

5.1.5 Alternative Finance

Since the availability of financing through banks or credit markets is constrained, alternative sources of finance have been developed to fill the gap. Fostering these instruments is one of the most prominent government policy responses in countries that are responding to SME financing gaps.

Alternative financing instruments can have an important development impact, though to really help grow the business ecosystem they need to be supported by a strong institutional framework, including appropriate regulations as well as financial literacy policies to raise awareness of existing instruments.

The OECD (2015) distinguishes four sources of alternative external financing:

- asset-based (such as leasing and factoring),
- alternative debt financing (such as corporate bonds or securitized debt),
- ‘hybrid’ instruments (such as participating loans or subordinate loans), and
- equity instruments (such as private equity and venture capital, discussed in section 5.1.1).

[1] OECD (2015). *New Approaches to SME Financing.* https://www.oecd.org/cfe/smes/New-Approaches-SME-full-report.pdf

5.1.5 Alternative Finance

1. Asset-based finance

Leasing: Lease financing means that an asset can be used by an enterprise for a certain period of time, in exchange for a series of payments. Many different leasing contract types exist, with the most common feature being that the lessor retains ownership of the leased asset.

In 2017 "Africalease" was founded in Morocco, a joint project by IFC and 11 founding African countries. It aims to strengthen cooperation and to harmonize member states' activities to promote lease financing in Africa. The project is expected to bring together all the leasing operators in Africa, their professional representatives, as well as partners and continental or regional institutions working for the social and economic development of Africa.

Factoring: The use of creditworthy receivables to procure working capital and credit management services. These are often provided through specialist P2P-like platforms known as invoice trading platforms, electronic invoice marketplaces, or receivables exchanges.

The Republic of Congo adopted a Factoring Law in 2022 to broaden SMEs financing options. Legislators used the Factoring Model Law by Afreximbank as a guide while developing and promulgating the law.

5.1.5 Alternative Finance

2. Alternative debt financing

Development Impact Bonds (DIBs), like Social Impact Bonds (SIBs): Results-based contracts in which private investors provide pre-financing for social programmes and public sector agencies pay back investors their principal plus a return if, and only if, these programmes succeed in delivering social outcomes.

The Village Enterprise Development Impact Bond is the first DIB in Africa for poverty alleviation. It exceeded its targets, sustainably improving the livelihoods of 95,000 East Africans - including 70,000 women and children. Results from a randomized controlled trial from 2017 to 2021 demonstrated positive and sustained increases in household spending and net wealth, projecting an increase in lifetime household income of over $21 million.

Micro-savings and diaspora savings: Supporting individual micro-savings tools and mobilization the money sent by the diaspora.

Mutual solidarity insurance companies (or MuSo) were created in Senegal around the 90s and are popular financing tools and support groups. This system, inspired by the tontine, allows for an accumulation of savings, granting of loans adapted to needs and access to a provident fund.

5.1.5 Alternative Finance

3. ‘Hybrid’ instruments

Impact investment: Investments made in companies, organizations and funds with the intention of generating environmental and social impacts as well as financial returns.

Danone, a multinational food and beverage corporation, founded danone.communities aiming to fund and develop local businesses with a sustainable economic model, oriented towards the social goals of reducing poverty and malnutrition.

Blended finance: Strategic use of development finance and philanthropic funds to mobilize private capital flows. Blended finance seeks to “de-risk” potential investments in such a way that private sector actors will feel comfortable stepping in alongside. Blended finance is one of the primary ways that official finance can “crowd in” or catalyze private investment from institutions that have a lower risk tolerance or seek a higher rate of return.

The African Agriculture Fund (AAF) is a private equity fund supported by a pool of European and African development finance institutions to make a positive impact on African agriculture and food production.

This particular example is a grant-based facility that supports capacity building for small and medium sized enterprises (SMEs) invested in by the AAF and its SME sub-fund the AAF SME Fund.

5.1.5 Alternative Finance

4. Alternative equity instruments

Crowdfunding (equity): Crowdfunding allows small businesses to use small amounts of capital from pools of individuals to finance ventures typically through the internet.

Unlike traditional investment routes, crowdfunding allows startups to raise money without necessarily giving away equity, offers a platform to increase visibility and streamlines the process of finding investors by bringing them instead to one place.

Argentina's National Securities Commission enabled public crowdfunding through registered platforms. These platforms can take entrepreneurs who want to place their shares online to the public and a broader base of investors without many requirements.

In Italy, startups are able to acquire capital through equity crowdfunding on authorized online portals. They may also:

- Create categories of shares with specific rights (e.g. categories of shares that do not attribute right to vote);
- Carry out financial operations on their own shares; issue participative financial instruments; and offer capital shares to the public.

Impact Investment - Acumen Fund

- Rather than investing traditional capital, the Acumen Fund invest philanthropic, or "patient," capital that provides startups with the flexibility and security to grow their business and reach as many poor customers as possible.[1]

- The fund makes seed and early-stage investments that enable social enterprises to validate assumptions, bring products and services to market, and begin to scale.

- It also provides companies with access to expertise and networks of advisors who have deep sector, channel and customer experience.

[1] https://acumen.org/approach/

Key Performance Indicators

Finance KPIs

Sub Challenge	Description	Indicators	Source
(Pre-)seed finance	Captures the availability of finance for the earliest stages of entrepreneurship where the entrepreneur needs to test the viability of his business idea (prototyping), commercialize their innovation and establish their company. Typically includes a mix of "friends, fools and family funding" and money from grants, soft loans and entrepreneurship prizes.	Availability of entrepreneurship prizes	Expert opinion/survey
		Availability of prototyping infrastructure	Expert opinion/survey
Private equity & venture capital	Measures the availability of risk finance, particularly equity finance (VC, business angels) but also venture debt. Crucial for high growth of unestablished businesses due to high risk appetite of investors.	Venture capital availability	www.weforum.org
		Proportion of investment financed by equity or stock	www.enterprisesurveys.org
		Internally financing of fixed assets	www.enterprisesurveys.org
Bank finance	Encapsulates the availability and ease of attracting bank finance. Tailored bank products for young firms, the availability of working capital and the ease of getting loans are critical for the smooth functioning of businesses.	Domestic credit to private sector	www.data.worldbank.org
		Bank lending rate	www.data.worldbank.org
		% of firms whose recent loan appl. was rejected	www.enterprisesurveys.org

Finance KPIs

Sub Challenge	Description	Indicators	Source
Capital markets	Tracks the development of a country's capital market. A well-developed capital market cuts transaction costs, lowers the cost of capital and provides opportunities for a rapid scale-up of companies. It includes the maturity of stock markets.	Risk capital	www.thegedi.org
		Market capitalization	www.globalinnovationindex.org
		Ease of protecting minority investor's rights	www.globalinnovationindex.org
Alternative finance	Gives insight into the volume of alternative finance sources used by SMEs in your country and in peer countries.	Volume of factoring	www.fci.nl/en/international-factoring-statistics
		Volume of leasing	https://africalease.org/en/
		Revenue from donations (crowdfunding)	https://p2pmarketdata.com/crowdfunding-statistics-worldwide/

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WHAT TO EXPECT NEXT...

Now that you have explored the various financing instruments available to entrepreneurs in your country and how to improve their access to the capital required to support their growth, Part 5.2 will focus on facilitating access to markets, both domestic and international.

Take your time to explore and navigate each topic at your own pace. And remember to keep a notebook handy in case you want to jot down particular examples or questions to relate back to your own context.

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