KAD AFRICA

SUPPORTING EARLY-STAGE ENTREPRENEURS IN EAST AFRICA:

Learnings from the USAID PACE Investment Readiness Program

Open Capital Advisors

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Supporting Early Stage Entrepreneurs in East Africa
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TERMS AND DEFINITIONS

IRP	Investment Readiness Program
OCA	Open Capital Advisors
PACE	Partnering to Accelerate Entrepreneurship
SGB	Small and Growing Business
TA	Technical Assistance
USAID	United States Agency for International Development
WASH	Water, Sanitation, and Health

EXECUTIVE SUMMARY

Impact investors, who have placed over $1.5 billion of capital in East Africa,[1] increasingly see particularly strong opportunities in Small and Growing Businesses (SGBs), where access to capital is one of the most challenging constraints to growth. Investors, however, face a major challenge in identifying SGBs that are positioned to grow, efficiently using capital while providing attractive commercial returns. In particular, investors worry when placing capital with early-stage SGBs.

To address this challenge, USAID through the Partnering to Accelerate Entrepreneurship (PACE) initiative, partnered with Open Capital Advisors (OCA) and five SGB-focused impact investors created the PACE Investment Readiness Program (PACE IRP) to demonstrate successful methods to catalyze private investment into early-stage enterprises and foster financially sustainable acceleration in Kenya, Tanzania, Uganda, and Rwanda over a three-year period beginning in October 2014.

This report, targeted at the broader impact investing industry, aims to share learnings from our PACE IRP to enable more stakeholders to engage effectively with early-stage SGBs in East Africa. The initiative offered an opportunity to collect extensive data during pipeline development, business support, investor due diligence, and investment, complemented by the subjective investment assessments made by the five, deeply involved partner investors.

We exceeded the original goals of PACE IRP, screening 63 high-potential SGBs (against a goal of 60) from a newly sourced pipeline of 222 businesses (against a goal of 100), many of whom had not actively considered outside investment to drive their growth. From these, our investor partners selected 15 SGBs for tailored pre-investment support, and our work catalyzed investments in six PACE IRP–supported businesses (against a goal of five) totaling $2,286,428 in early-stage SGB capital disbursed (against a goal of $2.17 million). We provided over 7,000 cumulative hours of tailored support to our 15 selected businesses, helping to address their biggest challenges in order to prepare for growth and investment.

The investor partners identified access to the pre-screened pipeline of 222 new SGBs as one of the most important benefits of their participation. Our goal to expand the pipeline of recommended, additional small and growing businesses yielded results, though these businesses' lack of formal documentation presented a key challenge for investors. We see a large opportunity for investors to adopt a persistent, personalized approach to sourcing and due diligence in East Africa to overcome this challenge. These and other insights are expanded in Section 4, Lesson 1: Expanding the investment pipeline yields results.

For many businesses in this pipeline, meanwhile, our screening process provided their first external-facing documentation. All 15 supported businesses grew revenue over the project period by more than 50% on average and received, on average, 530 hours of OCA support that helped tackle their largest challenges to scale. In addition to the six businesses that received investment during the implementation period, three are engaged in ongoing discussions with investors to place capital; three are organically growing through re-invested profits at present, without additional capital; and three are implementing OCA-developed growth plans. These results demonstrate the potential of tailored pre-investment support to increase the pool of investible businesses, in particular in the most challenging demographic: early-stage SGBs in emerging markets.

That said, in finding mutual fit between investors and businesses in the pipeline, a distinction emerged between small businesses with near-term potential for scale and those, typically older, that may not be as interested

[1] Annie Roberts, David Loew, and Neal Desai, *The Landscape for Impact Investing in East Africa* (New York: Global Impact Investing Network, 2015), https://thegiin.org/knowledge/publication/the-landscape-for-impact-investing-in-east-africa.

in immediate scale but required both support and time to pivot from their established operations. In either case, investors clearly preferred businesses that could demonstrate as many market proof points as possible, such as revenue, number of users, or customers reached. A clear impact story also attracted investors, but continuing fragmentation in the definition and measurement of impact presents challenges for both investors and businesses alike. More flexible definitions of impact sensitive to the demands of scale could unlock greater impact from SGBs. These and other insights are expanded in Section 4, Lesson 2: Investors and small or early-stage firms require mutual fit.

Finally, through PACE IRP we saw that capacity-building support proved critical both before and after investment. The industry has often discussed lack of investment readiness as a key factor limiting deal flow. Looking across our broad pipeline of SGBs, we identified common skill gaps in: (1) financial modeling to the quality investors expect, (2) accurate identification and segmentation of customers and markets, and (3) prioritization of an actionable, executable growth strategy. These gaps both present ripe areas for support and mirror common challenges in sourcing appropriate skills in East Africa. In addition, many investors found that supporting businesses after investment enables them to consider a greater range of pathways to scale. These and other insights are expanded in Section 4, Lesson 3: Close partnerships catalyze value.

Overall, PACE IRP provided a unique opportunity for us to expand the pool of SGBs for impact investors beyond those reached by our core business. While we were able to exceed the challenging initial targets we set, they resulted in also gathering many learnings that we share in this report. We see incredible potential in continuing to expand the pool of investible SGBs across emerging markets and recognize that this requires significant coordination from accelerators, intermediaries, different types of investors, and many donors. We thank USAID and our investor partners (Blue Haven Initiative, Eleos Foundation, Montpelier Foundation, the Opes Impact Fund and VanHoops Holdings) for taking several steps with us on this journey!

1.0 OVERVIEW OF THE PACE INVESTMENT READINESS PROGRAM

1.1 Our Goals

Impact investors have placed over $1.5 billion of capital in East Africa over the last decade.[2] Alongside growing impact capital markets in East Africa, fund managers, searching for more effective strategies to to deliver social impact alongside financial returns, see particular opportunity in early-stage small and growing businesses (SGBs), where access to capital is often a binding constraint on growth. With a large number of SGBs in East Africa, however, investors face a major challenge in identifying which SGBs are positioned to grow and efficiently use capital, since many of the indicators that signal quality in more mature businesses are often incomplete or absent in these early-stage SGBs. Despite interest in these markets, impact investors struggle to find diamonds in the rough into which they can place early-stage capital.

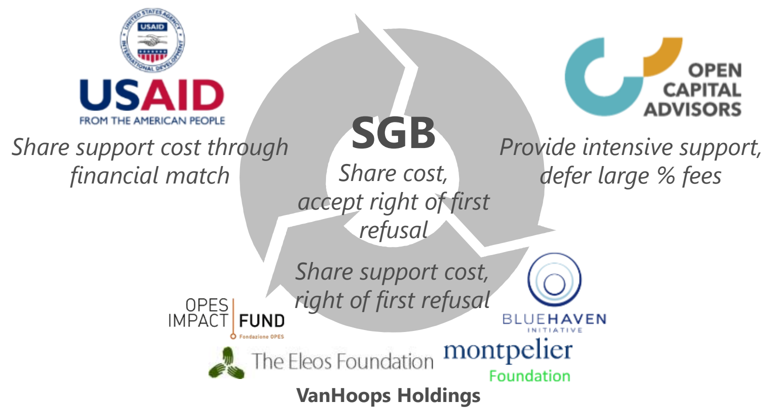
To address this challenge, USAID through the Partnering to Accelerate Entrepreneurship (PACE) initiative, Open Capital Advisors (OCA), a management consulting firm specializing in African markets, and five SGB-focused impact investors collaborated together to create the PACE Investment Readiness Program (PACE IRP) to catalyze private investment into early-stage enterprises and foster financially sustainable acceleration in Kenya, Tanzania, Uganda, and Rwanda over a three-year period beginning in October 2014. The goal was to screen 60 high-potential SGBs from a newly sourced pipeline of 100 businesses that presented additional opportunities for investors. From these, the investor partners would select 15 SGBs for tailored pre-investment support focused on reaching "investment readiness," with the goal of catalyzing five investments into these businesses totaling $2.17 million. The investor partners shared the cost of this catalytic support in exchange for a right of first refusal to invest after our work, in hopes of showing long-term sustainability for

[2] Annie Roberts , David Loew, and Neal Desai, *The Landscape for Impact Investing in East Africa* (New York: Global Impact Investing Network, 2015), https://thegiin.org/knowledge/publication/the-landscape-for-impact-investing-in-east-africa.

this type of support to bridge the gap between investors and non-traditional early-stage SGBs. By increasing the number of successful investments in early stage, deserving SGBs, we aimed to generate financial returns, job creation, livelihood improvement, and opportunities for entrepreneurs to become engines of economic growth in their communities.

1.2 Partnership structure

Figure 1: Partnership structure



To deliver tailored technical assistance to accelerate the growth of and investment in early-stage entrepreneurs, the PACE IRP worked closely with USAID, experienced impact investors, and SGBs (Figure 1).

USAID

USAID takes a systems-change approach to advancing entrepreneurship, working with individual entrepreneurs to help them grow, as well as partnering with investors, intermediaries, and other donors to create the enabling environment for entrepreneurial ventures to thrive. PACE aims to catalyze private-sector investment into early-stage enterprises and identify innovative models or approaches that help entrepreneurs bridge the pioneer gap—thus unlocking the potential of thousands of promising enterprises around the world.

OPEN CAPITAL ADVISORS (OCA)

As part of the partnership, OCA sourced businesses from across East Africa, performed due diligence on selected businesses, proposed short-listed SGBs to investors, and delivered a tailored scope of work to 15 investor-selected SGBs. OCA is a management consulting and financial advisory firm that supports high-growth enterprises and innovative investors to solve tough problems in frontier markets. Since 2010, our proprietary method to support businesses in Sub-Saharan Africa has led to over 300 successful engagements within the region and more than $300 million in capital invested. We provide holistic, heavy-touch support to help individual SGBs plan a clear growth strategy, build a strong operational foundation, and determine a realistic capital need. Today, Open Capital has 55 full-time staff based in three offices in Africa, in Nairobi, Kampala, and Lusaka.

EARLY-STAGE IMPACT INVESTORS

Five impact investors focused on SGBs in East Africa joined the PACE IRP, reviewing business profiles and making final engagement selections. Investor partners included:

1. ***Blue Haven Initiative*:** a U.S.-based family investment office dedicated to deploying capital to solve social problems. The fund focuses on investments in education, WASH, affordable housing, and energy.
2. ***The Eleos Foundation***: an impact investor that strives to improve millions of lives by investing in pioneering business solutions to solve social problems. During the IRP, Eleos Foundation integrated with Global Partnerships and launched a new fund—the Global Partnerships/Eleos Social Venture Fund (SVF) to invest in education, energy, health, WASH, and rural livelihoods.
3. ***Montpelier Foundation UK*** empowers disadvantaged people across the world. Using a mix of grants, investments, and debt capital, the Foundation supports organizations offering sustainable and scalable solutions for low-income groups in sectors such as education, agriculture, and energy.

4. ***Fondazione Opes*:** an Italian-based impact investor focused on businesses that can achieve significant and lasting social impact through economically viable business models. Opes considers investments across sectors including waste management, access to electricity, small-scale agriculture, water, education, and health.
5. ***VanHoops Holdings*:** the investment company of Rich Hoops, an American-based impact investor dedicated to assisting nonprofits and social enterprises build operational and organizational capacity through investing, strategic consulting, and general business coaching.

After OCA completed engagements with SGBs selected by the investor partners, they conducted independent due diligence, earning a right of first refusal to place capital in exchange for covering partial costs for OCA's support of the selected businesses. In addition, these early-stage impact investors contributed to the learning agenda and shared significant findings with the OCA team throughout our work together.

SMALL AND GROWING BUSINESSES (SGBS)

OCA identified and screened 222 SGBs in Kenya, Tanzania, Uganda, and Rwanda spanning seven sectors: (1) affordable housing, (2) agribusiness, (3) education, (4) financial inclusion, (5) healthcare, (6) energy, and (7) water, sanitation, and hygiene (WASH). In sourcing these SGBs, we sought companies that demonstrated ability and willingness to scale, offered unique potential to achieve impact, had annual revenues below USD $500,000 and had raised less than USD $50,000 at the time of our engagement. We used these metrics intentionally to source early-stage SGBs outside of our core business that we would not have been able to engage without the support of the PACE initiative.

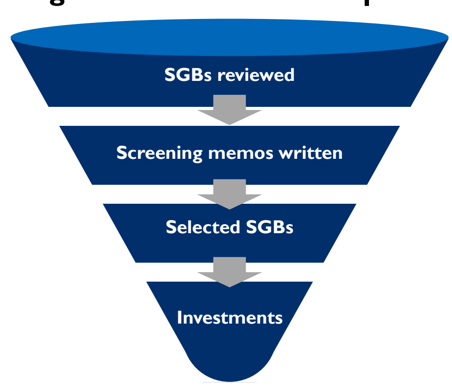
1.3 Financial commitments

PACE IRP distributed both risk and financial commitment across all stakeholders. Each investor partner committed upfront funding for pre-investment support in exchange for a right of first refusal on any investment after our work was completed. Investors also demonstrated the ability to invest $750,000 of earmarked capital in PACE IRP–supported SGBs that met their diligence criteria. Each SGB contributed to the cost of support to ensure their buy-in to implement recommendations, and USAID disbursed a portion of its grant to fund pipeline development and screening based on our successful achievement of milestones across the program period, allowing OCA to experiment with supporting a deeper pipeline of SGBs than commercially viable. Open Capital deferred a portion of fees to the successful completion of a capital raise with each business, sharing risk with the business.

2.0 THE PACE IRP PROCESS

In order to target early-stage businesses that are challenging to source, support, and finance, all stakeholders worked closely together in the four steps of the initiative (Figure 2): (1) sourcing and evaluation, (2) selection, (3) pre-investment support, and (4) investment.

Figure 2: The PACE IRP process



2.1 Business sourcing and evaluation

OCA sourced businesses from a broad pipeline, including referrals from USAID-funded programs, active investors in our regional networks, and meetings with industry associations that referred members, many of which were local businesses not otherwise in the impact investing "spotlight." Our evaluation criteria were quantitative and qualitative, guided by the overarching theme that the business was not yet investment-ready and could not access paid technical assistance without the PACE initiative. We sought businesses that:

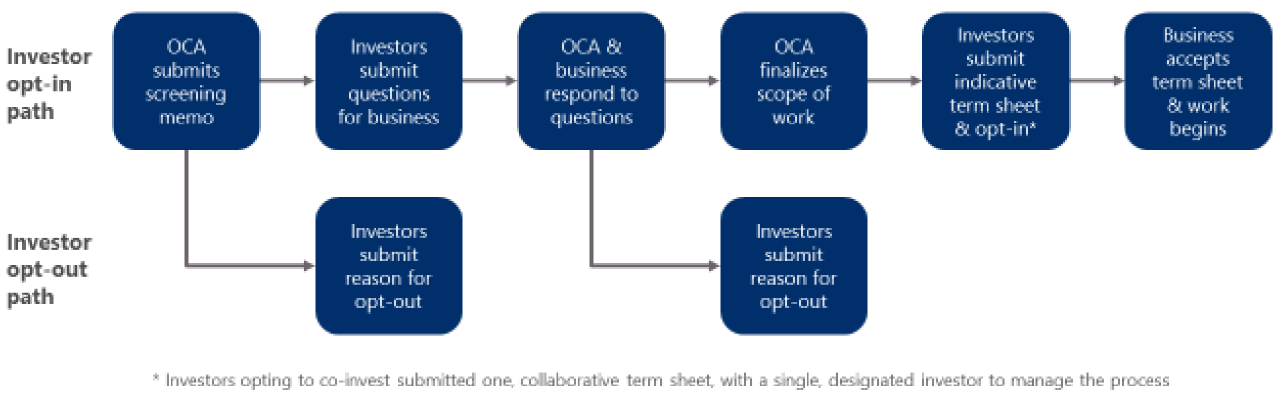
- operated in Kenya, Tanzania, Uganda, or Rwanda in agribusiness, healthcare, renewable energy, financial inclusion, education, water, and affordable housing;
- were early-stage, defined as having less than $500,000 annual revenue;
- lacked internal capability or partners to provide technical support needed to reach investment;
- were not already in the investment portfolios of any of the five investor partners;
- had a reputable entrepreneur and/or management team personally committed to growth;
- required more than $50,000 and less than $500,000 in capital to achieve growth; and
- demonstrated clear and measurable social impact with growth and scale, to increase employment, crop yields (as related to food security), livelihood benefits, and health outcomes, among others.

We evaluated the business through several meetings with management, including at least one site visit, and reviewed existing information. The business agreed to accept IRP support and a right of first refusal with the investor(s) opting-in. We drafted a detailed screening memo including a summary of the business, market and competitor analysis, team, performance, growth plans, capital need, and a scope of work for the pre-investment support we believed was required. This scope was tailored for each business, describing the support and the expected outcomes, mapped to milestones.

2.2 Selecting SGBs and initiating the pre-investment support process

Our sourcing and evaluation process was continuous; we worked closely with investors to review memos on a rolling basis. Identification to completed screening memo typically took around three months (Figure 3).

Figure 3: Sourcing and evaluation



2.3 Pre-investment support

We planned pre-investment support to last two to six months, varying with business need but focused on actionable, implementable solutions. We provided monthly updates to investor(s) that opted-in to support each SGB, describing progress and work performed against milestones. The businesses selected consistently had strong entrepreneurs and a developed understanding of the markets in which they operate. However, we identified a number of common gaps to investment readiness including deficits in financial analysis (historical and projections), growth strategies, talent management (e.g. feedback processes, HR policies), and other systems and processes. Our pre-investment support was tailored to support businesses in each of these and other gaps. We discuss these skill deficits further in Section 4.3 below.

2.4 Investment

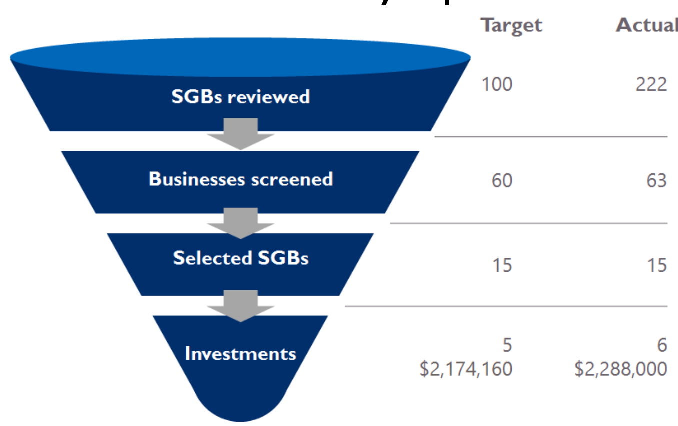
After concluding our tailored support, we approached "opted-in" investors for due diligence, sharing our work. The business and investor(s) interacted directly during due diligence, with our team available to organize communication, plan diligence responses and site visits, support negotiations, and prepare documentation. Our support often helped create more efficient communication and aligned expectations on both sides. That said, in each case the investor made the ultimate decision to invest based on their independent process. OCA did not advise the investor since this would have been a conflict of interest.

Investor(s) who "opted-in" could seek additional co-investors. If the investor(s) decided not to complete an investment, we presented the opportunity to the other partners, and then to outside investors we believed might be a good fit for the company's needs, seeking matches by industry, growth stage, capital need, instrument, and other factors, leveraging our relationships with more than 200 global investors. Ultimately, four of the five IRP partners, along with 14 non-IRP investors, placed investment in six SGBs. Only the IRP partner investors paid upfront fees, though OCA's deferred fees were due from SGBs regardless of the source of eventual capital, as our intensive work contributes to broad business success.

3.0 IMPACT OF PROJECT

The monitoring and evaluation (M&E) plan for the PACE IRP initiative focused on contributing insights to the USAID PACE learning agenda, exploring new models for SGB acceleration. At a high level, against a target of 100 SGBs reviewed, OCA identified 222 SGBs across East Africa according to strict criteria described above. Of these, we screened 63 businesses, and our investor partners selected 15 for support, with six receiving investments totaling $2,288,000, exceeding targets for both number of investments and total capital raised (Figure 4).

Figure 4: PACE IRP process, target versus actual results by step

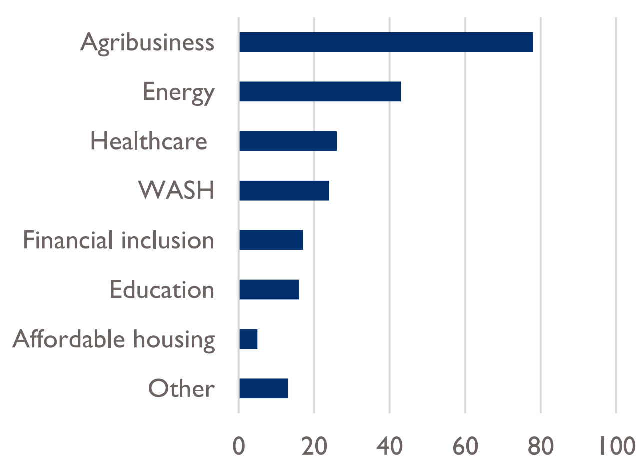


3.1 Measuring impact

Beyond referrals to SGBs and funding, USAID was an essential partner in the PACE IRP initiative, helping us to evaluate the impact of the initiative, a mindset we have now embedded within OCA. First, USAID helped to design our learning agenda, identifying the best impact metrics to monitor, a vital area of guidance that is a key area of strength for USAID. Working with USAID enabled us to monitor, report, and share learnings with the broader ecosystem by participating in the Global Accelerator Learning Initiative (GALI) and PACE's impact monitoring work with Dalberg. Finally, the USAID brand added credibility to our investor partners and SGBs alike, encouraging them to experiment within a new and largely untested partnership model with ambitious goals and constraints. We tracked several key indicators for OCA, our investors partners, and the enterprises supported and screened, measuring the extent to which we:

- demonstrated value to investors;
- supported and raised new capital for early-stage SGBs that could not raise before;
- helped SGBs grow and scale, creating new jobs and other economic benefits; and

Figure 5: Screened businesses, by industry



- enhanced the impact that SGBs are having in their community.

Regarding the industry focus of the SGB pipeline as a whole (Figure 5), we saw the largest number of candidates in agribusiness, followed by renewable energy and healthcare, though we screened several interesting businesses in education, WASH, and affordable housing. The overall industry mix matched expectations in terms of which industries drive GDP growth in each country and where most high-impact businesses focus.

3.2 Demonstrated value to investors

To motivate investor participation in future acceleration initiatives, we knew the PACE IRP project had to demonstrate clear value to investors. To monitor this, we tracked several metrics (Table 1).

Table 1: Value delivered to investors

	Baseline	TOTAL
Pipeline opportunities*	0	**63**
# of PACE investments (including co-investments)**	0	**6**
Capital committed	$0	**$2,288,000**

* Each PACE IRP investor partner was presented with same 63 businesses to consider for support & investment
** Total of 6 unique investments made; however, several investments had co-investors

All investors benefited substantially from pipeline development, citing the pipeline of 222 new SGBs as one of the most important benefits of their participation. Since each of our five investor partners was based outside East Africa at the start, they had historically struggled to build pipeline from afar. Those with deeper networks struggled to access SGBs 'off the beaten path', that might not otherwise be referred through typical channels like industry publications and accelerators. Investors also improved their understanding of the SGB landscape in East Africa, which informed subsequent strategic decision-making and fundraising.

Our value extended to other co-investors as well. When some of our investor partners changed strategy and were limited in the amount of capital they could deploy to East African SGBs, we identified other interested investors, who were keen to support businesses that were a part of PACE IRP. We successfully "crowded-in" 14 additional private investors, who contributed capital to investments, alongside four of our five PACE investor partners. As part of their involvement in PACE IRP, these 14 additional investors have begun conversations with several PACE businesses that are still seeking finance; we therefore expect potential future investments to originate from this work over time.

3.3 Supported and raised new capital for early-stage SGBs that could not raise before

All businesses selected in PACE IRP had struggled to raise investment funding and were looking for support from OCA to become "investment-ready." Prior to PACE IRP, these businesses relied on a mix of re-invested profits, small grants, and savings (from the entrepreneur and their families) to fund their ventures, limiting growth.

Table 2: Businesses supported and raising capital

	Baseline	Target	Endline
Businesses supported	-	15	15
Businesses raised capital	-	5	6
Capital raised	$0	$2,174,160	$2,288,000

We catalyzed $2,288,000 of investment to six PACE IRP–supported businesses (Table 2), exceeding our targets of five investments and $2,174,160 committed by any private investor into supported SGBs.

3.4 Helped SGBs grow and scale

Our team helped every supported SGB to make critical changes in their operating models. Our approach involved identifying growth & impact metrics for each business, which vary significantly by SGB, reporting baseline data and expected results after our support. Some businesses already had substantial information and systems available, while others had less baseline information and required more work to ensure we obtained sufficient data. We then provided tailored business support to address individualized needs of each business, as discussed below.

ALL SUPPORTED BUSINESSES GREW REVENUES BY MORE THAN 50% IN THE FIRST YEAR

All businesses supported by PACE IRP grew revenues by an average of 54% (Table 3), with those receiving investment growing revenue by 82% compared to 37% growth by those who received support but not investment. We expect businesses that received investment and those that did not to diverge further in coming years, with businesses that receive investment growing faster. Notably, all PACE IRP-supported businesses that raised capital did so in 2017, so they have not yet had sufficient opportunity to realize their full growth potential.

Table 3: Revenue growth of PACE IRP–supported businesses

Revenue	# businesses	Baseline	Endline	Growth
Received investment	6	$268,438	$488,080	82%
Did not receive investment	9	$898,559	$1,235,447	37%
TOTAL	15	$1,166,997	$1,723,527	54%

Separately, some of the businesses that did not receive investment in the implementation period are still in investor conversations and may still raise capital. We plan to continue to monitor both new investments in and the revenue growth of all our PACE IRP–supported businesses in order to obtain more conclusive data on relative growth rates over time. We understand that less formal SGBs take longer to achieve sufficient proof points to raise capital, though there is even greater value and additionality when they do.

BUSINESSES THAT RECEIVED INVESTMENT

All of the businesses that received investment received extensive support prior to raising capital, involving close work with management to define a clear growth plan and support operations, then translate this to a bankable plan to finance growth. For example, for an innovation clean cooking fuel company, we started our work when they had less than $2,000 in earned revenue. Following our support, they successfully raised funding in early 2017 and have increased revenue to over $35,000, with expectations to increase to over $65,000 in annualized sales by the end of December 2017 and scale rapidly to USD millions in revenue in the years beyond that. This case highlights the impact we hope PACE IRP's support can have for SGBs – providing the right combination of support and finance to drive substantial growth.

External support can never guarantee results, however; market forces presented challenges for several of our PACE IRP–supported SGBs. For example, shortly after bringing in investors, one of our PACE-supported businesses faced record-breaking bad harvests that substantially set back growth, which was ~1% over the two years since we began working with them. However, despite these uncontrollable variables, the business has now established a strong board and governance structure and put new plans in place to mitigate future harvest risk. The investors and OCA both remain confident in the medium and long-term.

BUSINESSES NOT YET RECEIVING INVESTMENT

Of the nine IRP–supported businesses that have not yet raised capital, three are in ongoing discussions with investors; three have chosen to organically grow through re-invested profits; and three are implementing OCA-developed growth plans prior to seeking capital. All received, on average, 530 hours of OCA support that helped tackle their largest challenges to scale—including identifying market potential, designing new systems and processes, and building an operational strategy. We worked closely with the management teams to ensure they could execute on these plans to scale.

Our pre-investment support led some SGBs to identify a need to substantially shift their business strategy based on feedback from the market. One, which we identified and initially engaged in 2016, re-engaged with our team in early 2017 after changing their strategy on our recommendation. After we helped to address new strategic questions and update their financial model, the company is increasingly well-positioned for growth and has drawn continued interest from two of our PACE investors.

In some cases, we found our support led to immediate increased profits, meaning some businesses did not face as urgent a need to raise capital. For example, one small Ugandan recycler yielded more profits than expected after implementing our support, enabling capital investment without external funding.

The expanded pipeline of businesses sourced through PACE IRP led us to identify some businesses for which OCA support on the timeline of the initiative was not sufficient to attract commercial investment. For example, although one largely grant-funded Ugandan agro-processor had both strong results in the market and demonstrated long-term impact, OCA recommended a transition to a more commercial model that requires time to execute, after which the SGB may be able to attract investment. This may lead to great results in the long-term, though it is not reflected in our one-year data presented in this report.

3.5 Enhanced the impact of SGBs on their communities

In addition to the metrics for individual SGBs discussed above, we tracked several indicators across all 15 PACE IRP–supported SGBs to which we provided support (Table 4).

Table 4: Impact of SGBs on their communities

	Baseline	Endline	Growth
Revenue generated	1,166,997	1,723,527	54%
Revenue to the community	332,494	515,863	55%
Individuals employed	161	239	48%
Women employed	78	116	49%

We tracked two distinct revenue metrics: (1) revenue generated for the business, seen as a strong, leading indicator of overall company growth and profitability, and (2) revenue to the community. USAID suggested this latter metric to capture how much money flows to the communities in which they operate. For example, a company sourcing from smallholder farmers pays farmers for their crops. For employee numbers, we measured overall growth in both the number of employees and the number of female employees.

4.0 LESSONS LEARNED

The PACE initiative, as well as our existing industry expertise, provides wide visibility into the ecosystem of early-stage businesses in East Africa. The scope of our work, spanning five investors and 222 businesses in Kenya, Uganda, Tanzania, and Rwanda, offered an opportunity to identify data-driven trends relevant to all stakeholders supporting early-stage businesses. Of the reviewed SGBs, we received comprehensive data on 113, comprising 18 variables analyzed across seven themes (Figure 6). We and our investor partners agreed these themes were the most critical determinants of investment readiness for PACE IRP's target early-stage SGB pipeline.

Figure 6: Analyzed SGB variables predicting investor interest

Growth stage	1. Stage of business
Documents	2. Quality of existing business plan (written or unwritten) 3. Strength of financial records 4. Status of capital usage plan
Market	5. Market size 6. Proof level 7. Competitive presence 8. Geography
External relations	9. Quality of partnerships 10. Prior funding 11. Recognition
Team	12. Entrepreneur's experience 13. Team depth
Impact	14. Impact core to focus (defined or not) 15. Impact goals through volume or magnitude
Distribution & input approach	16. Robust strategies in place to scale 17. Direct vs. indirect approach to distribution 18. In-house versus outsourced sourcing

Within the above, we saw a significant difference in investor reactions to businesses that are small (meeting our initial criteria) and businesses that are early stage (meeting both our initial criteria and have been operating <2 years). As described above (Section 2.1), we set a $500,000 ceiling on both estimated capital need and revenue as our primary criteria to define early-stage at the outset of our work, even though we realized this would reduce total possible capital raised by the program. What we found, however, is that this encompasses both younger, more immediately scalable businesses that need support to reach investment readiness and older, yet still-small businesses that may seek scale and investment but require both support and time to pivot from their established operations.

Our PACE IRP investor partners helped us to define this contrast, as their own understanding of the market and their investment goals became nuanced over time. Many impact investors seek scalable impact, preferring to invest in impactful businesses which will very quickly require large amounts of capital. However, these early-stage businesses rarely qualified inside our revenue or capital raise ceiling. Through our extensive pipeline work, we identified many small, established businesses with capital needs that fit our targets. In developed markets, these SGBs could have taken commercial debt from banks; in East Africa, these businesses struggled to access regional bank capital and also lacked expertise to source harder-to-find private capital. At the same time, these businesses did not usually have potential for massive scale individually even though they *do* offer potential for significant scale in aggregate. This made them less attractive to impact investors, especially those seeking to place equity, which is not the best fit capital structure for these businesses, but is the most common vehicle for early-stage SGB investors in East Africa.

For example, one PACE IRP–screened clinic network in rural Uganda needed $300,000 for diagnostic equipment, a straightforward purchase of capital goods that commercial banks nevertheless would not fund. Given that, the clear impact of the diagnostic equipment on the health of the rural Ugandan community, and the commercial sustainability of the investment, we presented the business to our PACE IRP investor partners. They were excited about the impact story, but declined to invest because of the business' limited potential for scale on an individual basis.

The distinction between small and early-stage is explored below alongside three additional lessons learned: (1) Lesson 1: Expanding the investment pipeline yields results; (2)

Lesson 2: Investors and small or early-stage firms require mutual fit; and (3) Lesson 3: Close partnerships catalyze value.

4.1 Lesson 1: Expanding the investment pipeline yields results

We committed approximately one-sixth of our PACE IRP team time to expanding the investment pipeline across East Africa, prioritizing additionality for the 222 reviewed SGBs. We specifically excluded businesses that were already in investment portfolios of the five investor partners, that had already received technical support, or those where we saw internal capacity to reach investment readiness.

Once developed, our networks led to a very substantial inflow of recommended, additional SGBs that investors both within PACE and co-investing alongside PACE had not seen before. With this larger pipeline of SGBs, our investor partners were able to hone their criteria throughout the process and become more discerning in the industries, impact metrics, and other criteria that their investment committees required. There are several ways investors can overcome the challenges embedded in this expanded pipeline, and structural opportunities to screen and leverage this pipeline more efficiently.

CHALLENGES OF AN EXPANDED EAST AFRICAN PIPELINE

East Africa has a very large number of SGBs – the Kenya Bureau of Statistics estimates more than 100,000 businesses with more than 10 employees in Kenya alone.[3] However, identifying the subset of these businesses that are both small and grow is incredibly challenging. We found that a clear, concise business overview demonstrating a strategy, vision, and track-record is sufficient to reduce search cost for investors and provide the positive first impression needed to pique interest, particularly when investors and SGBs are based in different geographies and documentation is the primary channel of communication.

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[3] Kenya National Bureau of Statistics, *Micro, Small, and Medium Establishments, Basic Report 2016*.

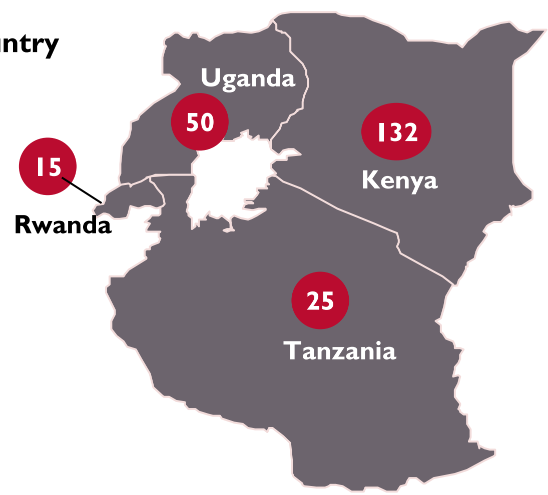
However, most early-stage businesses, especially outside of Kenya, lacked sufficient documentation to facilitate this type of initial investor interest, and even further, lacked the documentation required to complete due diligence. Over 80% of the 113 SGBs in our dataset lacked a financial projection model that investors considered sufficient to articulate growth strategy. Notably, during due diligence, we found investors require and value content-rich documents even more than well-written ones. In our experience, investors only responded well to documents that proposed clear, actionable, and realistic growth plans and associated operational requirements, beginning with actual results, linking to projections, and having sufficient detail to map to the SGB's growth trajectory.

Frequently, our team found SGBs had prepared materials—even using templates provided by international organizations—but included only superficial information. For example, many SGB business plans we received had several pages on market size and approach, but these were adapted from public research studies without any specific context on their approach to customer segmentation or distribution.

Identifying attractive SGBs for PACE IRP was even more difficult in Rwanda, Tanzania, and Uganda than in Kenya (Figure 7). At the outset, we estimated that the highest number of businesses supported and receiving investment would originate from Kenya, given its position of regional economic power and relatively more mature investment sector. In several trips to the other three East African countries, we invested heavily in developing pipeline in those countries. While these trips resulted in many attractive business candidates, with 49% of PACE IRP screening memos written for businesses outside of Kenya, 60% of those selected and all but one of those receiving investment were from Kenya. Investors did consider investment in SGBs in Tanzania and Rwanda but ultimately opted-out for a variety of different reasons, none associated only with geography.

Figure 7: Business screened, selected, and invested, by country

	Businesses screened	Screening memos	Businesses selected	Investments
Kenya	132	32	9	5
Uganda	53	24	6	1
Tanzania	24	5	0	0
Rwanda	13	2	0	0
% of total				
Kenya	59%	51%	60%	83%
Uganda	24%	38%	40%	17%
Tanzania	11%	8%	0%	0%
Rwanda	6%	3%	0%	0%



Count by country of screened SGBs

SGBs outside of Kenya often had less access to support infrastructure such as incubators, accelerators, and advisors. As a result, these SGBs had weaker documentation and were less able to articulate their business models and impact stories, leading investors to perceive these businesses as riskier, less formal, or less impactful. Throughout East Africa, but especially outside of Kenya, gathering due diligence information requires a direct, personalized, and persistent approach involving in-person meetings, on-site visits, and follow-up calls. This has cost implications if investors are interested to achieve the impact by working in less developed countries.

DETERMINING BUSINESS QUALITY WITHOUT FORMAL DOCUMENTATION

Collecting information on the expanded pipeline takes time and energy, but it can open valuable channels for investment outside of the urban centers and common circuits of incubators and accelerators that produce most of today's deals. Indeed, our PACE partnership identified several early-stage SGBs that investors found attractive and which would not have been identified if we had not invested in diverse approaches to sourcing outside of traditional channels.

Investors can more effectively approach the East African market to identify high quality SGBs, even without sufficient documentation available, by incorporating the following recommendations:

1. **Cast a wide net.** Although cities have emerged as innovation hubs of surging East African economies, we identified many high-potential SGBs in smaller urban and rural areas, especially in the agribusiness, healthcare, and WASH sectors. Sourcing SGBs from a wider geographic area carries both additional costs and additional potential for impact, given that investors are otherwise under-identifying and under-supporting these SGBs and the communities they serve.

2. **Build local screening and relationship networks.** Investors must adapt their approach to gathering information to meet the realities of the market. After identifying a business through either a brief survey or referral, we found it crucial to conduct an initial screening in person, adopting an approach and vetting protocol tailored to the regional culture. Only in person could we flexibly ask the questions we needed to accurately assess a business's potential and the value of further effort. Investors who maintain established local presence can build long-term "watch lists" of SGBs that may develop into promising investment opportunities over time. Investors who thus see the broader business pool evolve increase their knowledge of the market, paving the way for new placements by tapping into an existing network.

3. **Share local industry knowledge.** Accessing non-traditional investment channels requires a level of local insight that many investors, especially those based abroad, struggle to develop. Investors' ability to verify entrepreneurs' claims relies on such insight. For example, there is a general lack of information available about the agricultural industry in the East African region, so investors cannot assess the credibility of sourcing claims made by agro-processors without business-specific historical results. In each of our seven PACE IRP sectors, we built a network of experts whom we regularly engaged to cross-check trends and assumptions, feeding valuable information back to investor expectations.

4. **Set clear expectations.** Investors found that they were able to tell very quickly if a business was going to be of high, medium, or low interest. For businesses of the medium and low interest, it's important to communicate clearly and quickly to set expectations for the business and allow them to pursue other options, while saving time for the investor. This expectation setting would have a broad impact on the industry, creating several levels of efficiency.

PRE-INVESTMENT SUPPORT INCREASES PIPELINE QUALITY

The early-stage investing world has a growing understanding that most SGBs seeking investment are not "investment-ready." The PACE IRP initiative aimed to overcome this challenge through intensive pre-investment support including strategic and operational guidance and analysis. In consultations and feedback sessions toward the end of PACE IRP, most investors expressed that the cost of pre-investment support was worthwhile and necessary. Some intend to allocate more funds to pre-investment support going forward and will also consider local team members to support this process, some of whom have already been hired.

For businesses, we initially expected the chief beneficiaries of PACE IRP would be the 15 businesses selected for our pre-investment support. We found that not only the businesses we supported but also those that we "screened" benefited from our work directly —they were able to understand their businesses better and make strategic decisions. Our screening memos were transformational for many businesses, in their view, since many had entirely lacked written, external-facing business plans. These documents provided entrepreneurs with a new perspective and vocabulary to describe their business to stakeholders and potential investors. Funders looking to drive growth more broadly in the SGB sector should consider the benefits available from this type of tailored articulation – businesses outside traditional channels often struggle to express their potential for growth and impact, limiting their ability to attract interest from early-stage investors in particular. Funding this type of support for early-stage SGBs could drive better decision-making in the sector and raise the overall quality, which we believe will produce higher quality, more scalable businesses over time.

OPPORTUNITIES TO SCREEN PIPELINE MORE EFFICIENTLY

The amount of pre-investment support required before investment remains a challenge, especially for businesses outside traditional sourcing channels. Our new, recently launched PACE partnership (Talent to de-Risk and Accelerate Investment, TRAIN) seeks to streamline the due diligence process and provide post-investment oversight to mitigate SGB risk alongside the learnings from PACE IRP. In particular, we found we could have screened businesses more efficiently than we thought, arriving more quickly at those which fit investor criteria. While selecting 60 SGBs for detailed screening from 222 was fairly efficient, we believe PACE IRP could have reduced this number from 60 to 30 and achieved a similar output on the final 15 selected. This would have reduced cost of search and selection for us and our investor partners. Through the learnings developed in PACE IRP, we believe that driving to a 'fast no' can help investors build stronger relationships in market with entrepreneurs and help to improve the overall quality of business conversation in emerging markets.

4.2 Lesson 2: Investors and small or early-stage firms require mutual fit

As the PACE IRP initiative unfolded over multiple years, we saw both investors and businesses shift their organizational priorities. In the end, some investors could not consider investments in PACE IRP–supported SGBs, even though they had originally expressed interest.

Overall, investors were more interested in early-stage, scalable businesses that could absorb large amounts of capital than they were in small businesses per se. For two reasons, some investors proved reluctant to place small amounts of capital (below $500,000). First, despite an initial interest in early-stage investing, these investors found they preferred larger deal sizes to amortize the costs of due diligence and administration. Second, a business's capital need and its level of sophistication and 'preparedness' were seen by investors to be correlated. The business with the largest raise in the PACE IRP initiative, totaling $1.43M over multiple rounds from a consortium of PACE IRP–affiliated and non-PACE investors, showed that investors are willing to disburse capital when a business shows great long-term potential and ability to execute post-investment. Although this business's initial estimated capital need was below $500,000, a larger second round quickly followed the smaller initial investment once the business began to execute.

Some PACE IRP–supported businesses with scale potential and appropriate capital needs required an investor partner willing to take a gamble, even before revenue. In two such cases, an investor liked the business model and the entrepreneur enough to opt-in, and OCA provided pre-investment support. However, during our support period, the specific investor re-aligned its strategy, deciding no longer to fund pre-revenue businesses due to the inherent risk involved. As a result, neither business has received investment, although one is actively engaged with a potential partner.

Each PACE IRP investor also had certain specific views by industry based on their overall portfolio strategy and expertise. All investor partners excluded businesses in at least one of the seven sectors in the initiative, which made the selection process more time-intensive; notably, though, all were willing to consider investments in education and energy and four of five were willing to consider investments in agribusiness and WASH.

BUSINESS RESULTS, INCLUDING IMPACT, PROVE POTENTIAL FOR SCALE TO INVESTORS

A clear investor preference emerged for businesses with as many market proof points as possible. In effect, these are later stage businesses than we originally anticipated. Our review of PACE IRP data showed that track record and ability to demonstrate proof points were critical determinants of investor interest, regardless of the strength of an entrepreneur's experience, product, or vision. Although the sufficiency of proof varied by business and sector, common measurements included revenue, number of users, or customers reached. Other variables traditionally considered key influencers, such as documentation or prior entrepreneurial experience, proved to have secondary importance.

For businesses, these results suggest that entrepreneurs should focus their efforts on proving their ability to gain traction, perhaps moving more quickly than they might otherwise to develop a minimum viable product or to begin operations and generate revenue. Long-term vision and growth opportunity are important, but our investor partners found basic proof-points irreplaceable, especially for businesses outside of the technology sector and/or those that could not promise industry-changing growth. In cases where a minimum viable product is not feasible (e.g., for businesses with higher upfront capital expenditures), investors can encourage businesses to develop suitable workarounds to target key proof-points in their business models. Drawing from direct examples during our PACE experience, these can include expressions of interest from customers, contracted purchase orders, or clear operational plans and market analysis.

Figure 8: Reasons investors opted out

Impact, meanwhile, can also constitute a persuasive business result that attracts investors. A proven, scalable impact story can offer investors interested in both social and financial outcomes a reason to invest the time to get comfortable with the other pieces of an otherwise risky business. In a finding that underscores impact's central role, of the 63 SGBs presented to investors, at least one investor cited the type or magnitude of impact as a reason for opting out in 42 cases (40% of investor opt-outs with a reason provided), surpassing any other individual factor as the reason they declined to invest. Yet social impact was central, we found, to the operations of most businesses with whom we spoke, even though entrepreneurs frequently struggled to articulate these impact stories. For example, a coconut processor on the Kenyan coast had defined her business based on the quantity of coconut oil produced, lacking appreciation for the potential social benefit of providing steady employment to rural farmers or the opportunity a farmer network offers for training in sustainable farming practices.

INVESTORS CAN HELP BY FLEXIBLY DEFINING IMPACT

The lack of investor consensus around the definition of impact also presents challenges. For example, some investors are looking for "depth" of impact, measured in terms of economic uplift for each household, while others target "breadth," prioritizing high numbers of households impacted, typically in a small way. Furthermore, even individual investment firms often define sufficient impact on a case-by-case basis. In practice, this can require early-stage businesses to supply different investors with different impact metrics, which requires more knowledge and resources, especially challenging for those operating outside traditional channels.

To successfully tap the impact potential of early-stage businesses, investors must better articulate their impact requirements, increase their flexibility with metrics, and adopt a more pliant attitude toward the pathways to scale for different business models. Available industry tools, such as IRIS from the Global Impact Investing Network, can help investors identify their priorities and clearly communicate these to potential businesses. Measuring impact may need to change as a business scales, with stakeholders agreeing to discuss impact metrics annually at the board level, rather than basing investment milestones on locked, pre-set impact metrics.

Impact presents an additional challenge at scale: although impact investors are typically adept at placing capital in businesses where financial returns move in step with social impact, financial and social returns scale at different rates in some business models. Many healthcare businesses, for example, require economies of scale before the business can offer affordable services to low-income populations. Other businesses may need to target more affluent consumers at first in order to profitably scale, before moving to target "base of the pyramid" consumers. Impact investors often decline to place capital in such businesses, because their evaluation metrics favor immediate impact and their due diligence criteria cannot accommodate a lag in social impact. Greater investor flexibility could surmount this barrier to placing capital in industries with stronger long-term returns to scale with many knock-on effects, such as fintech and healthcare.

DESIGNING APPROPRIATE CAPITAL STRUCTURES TAKES TIME AND EXPERTISE

Developing a capital structure for each investment presented a constant challenge throughout our PACE IRP work. Given the early-stage nature of the PACE IRP–supported SGBs, finding consensus on equity valuations was difficult and debt was rarely feasible. We therefore worked closely with investors to develop alternate structures, such as profit-sharing, convertible debt, demand dividends, and preferred equity, that allowed investors and SGBs to compromise to mutual benefit. The idea in all cases was to maximize simplicity, while creating a workable structure in practice.

While these alternative structures were useful, it takes time to familiarize both investors and SGBs with their nuances. For SGBs, OCA first worked with the entrepreneurs to identify potential structures to suit their investment needs—balancing risk, return, and a desire for control—and then educated the entrepreneurs so they could become comfortable with the financial instruments in question. Investors were typically familiar with different financial structures, but they often had to spend more time in diligence before designing or agreeing to a more complicated instrument. The several investments in early-stage businesses structured as quasi-equity instruments typically required the ongoing post-investment support common in equity investments. Investors took board seats and ended up providing additional support, both through the board and through external consultants, in order to ensure that the businesses could fulfill their growth plans and develop necessary documentation to monitor the investment.

Common term sheets and "follow-on co-investment" where the second co-investor reduces due diligence and copies earlier structures could dramatically reduce total costs. However, it was often difficult to find alignment between investors to move this forward in practice, since each investor's decision-makers ultimately insisted for some independent due diligence and structuring regardless of that done by others.

4.3 Lesson 3: Close partnerships catalyze value

Investors looking for high-growth-potential businesses in East Africa often cite investment readiness as the primary challenge limiting deal flow, as documented in several recent studies, including publications by the Aspen Network of Development Entrepreneurs (ANDE),[4] the Global Impact Investing Network (GIIN),[5] and *Stanford Social Innovation Review* (SSRI),[6] among others. Unlike investment in more developed markets, early-stage investment in East Africa must be paired with strategic support and must remain patient enough to align with a business's growth trajectory given the challenging environment in which they operate. Partnerships with local providers provide a unique way to catalyze value, especially for international investors.

INVESTMENT SUPPORT IS CRITICAL TO SUCCESS

As early-stage entrepreneurs prepare for their first capital raise, they are confronted—often for the first time—by challenges outside of their core business activity. During the initial stages of investor approach, entrepreneurs must formally communicate their historical performance (inception story, mission, and finances) and their intentions (strategic vision, capital requirement, and capital utilization plan). After capital is placed, entrepreneurs face a variety of new and important decisions, such as sourcing talent beyond their immediate network, balancing long-term strategy with immediate demands on working capital, and identifying and expanding into new markets. The struggle to develop the required documentation before investment and to navigate the multitude of small decisions after investment often limit new SGBs' growth and prevents them from accessing additional funding as the actual operational realities change day-to-day. These are challenges to which experienced advisors can lend substantial insight to both entrepreneurs and investors.

Our work showed that perceived ability to utilize capital and execute were driving factors in investors' decisions to place capital. Mirroring this, we found that SGBs primarily required technical assistance in strategy development and capacity building, suggesting that the most important attributes for garnering investment are often the areas most in need of advisor support.

Technical support throughout the capital raise and implementation process must be sufficiently tailored to meet the specific needs of the target business. This support can enable and accelerate growth plans and ease investor fears that placed capital will be effectively used. Ongoing technical support, which requires additional time and commitment from investors, can deliver greater long-term returns by enabling a wider range of businesses to reach scale, whether delivered by investors who choose to be very hands-on, dedicating time to regular calls and mentorship extending far beyond the board level; by consultants who can dedicate time and resources over longer periods; or by embedded talent supplied by direct hires or by short-term external secondments.

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[4] John Kohler, Thane Kreiner, and Jessiac Sawhney, *Coordinating Impact Capital: A New Approach to Investing in Small and Growing Businesses* (Santa Clara University and the Aspen Network of Development Entrepreneurs, July 2011), https://www.aspeninstitute.org/publications/coordinating-impact-capital-new-approach-investing-small-growing-businesses/.

[5] Roberts, Loew, and Desai, *Impact Investing in East Africa*, https://thegiin.org/knowledge/publication/the-landscape-for-impact-investing-in-east-africa.

[6] Gabriel A. Huppé, "Building Impact Investment Readiness," *Stanford Social Innovation Review*, July 24, 2014, https://ssir.org/articles/entry/building_impact_investment_readiness.

With the many challenges of early-stage investment, building trust between entrepreneur and investor is a personal affair that requires time and patience. Investors consistently express the need to sit with SGBs to help define their growth goals and develop a plan to achieve them. Often, if early-stage investors know they will not have time to provide this support and build a relationship with an entrepreneur, they will not invest. Successful investor–investee relationships are often long-term, but they do not require a full-time presence in person; phone calls and monthly check-ins can be sufficient. Additionally, investors can leverage a third-party to manage the relationship, so long as it is managed on behalf of the investor.

Case study: Building capacity in SGBs

Through PACE IRP, OCA worked with a Kenyan water purification company serving the base of the pyramid to help them prepare for investment. When we engaged, the business had demonstrated early profits for five years but had not defined a clear, forward-looking strategy. They had been unable to raise external capital to fund expansion and enter new markets.

We helped the entrepreneur build financial projections, analyze his capital need, and create a detailed operational plan for growth. We consolidated this information into a comprehensive business plan.

Based on this work, PACE investors disbursed an investment for an expansion pilot. Throughout the pilot, OCA provided additional implementation support to monitor progress, adjust strategies as needed, and articulate results back to the new board of directors. As a result, the same investor group agreed to make a follow-on investment, enabling the business to expand into a new market.

BUSINESS NEEDS MIRROR COMMON SKILLS GAP IN EAST AFRICA

After looking deeply at the types of support SGBs need to facilitate investment and position themselves for long-term growth through PACE IRP, the following are the most common skills gaps across the 222 screened SGBs:

1. **Financial modeling.** Nearly 80% of SGBs reviewed had not developed financial models at the quality required by investors, which aligns with our previous experience working with SGBs and is supported by our conversations with investors. Though investors often create their own financial models when evaluating a business, the business's model provides the central resource on which this is based. These models analyze the company's long-term strategy. Though many of the skills required for financial modeling are broad, applying these techniques accurately is a limiting hurdle for nearly all early-stage SGBs with which we work.

2. **Market identification & customer segmentation.** Many businesses—approximately 30% of screened SGBs—required assistance to categorize their markets and identify target customers. Early-stage entrepreneurs, particularly those operating outside of major economic centers, often had an incomplete understanding of their businesses' growth potential or the steps required to realize it, especially as they seek to expand. Investors with strong local knowledge sometimes recognize a business's potential and can take an active role in growth, but investors more commonly limit their estimate of a company's potential to the entrepreneur's own assessment.

3. **Prioritized growth strategy.** Most entrepreneurs have grand ambitions for their business; nevertheless, far fewer have taken the time to plan for and articulate this growth plan. As an example, only a quarter of businesses we screened had a detailed business plan, while the balance either had plans without sufficient detail or no business plan at all. Typically, businesses have not given enough thought to *how* they will grow, failing to think through operational details like who target customers are, what size of sales team is required to expand, or how they will price new products and services.

Although an entrepreneur may know how much a new asset will cost, without these details, it is hard for an investor to understand the true cost of expansion across categories such as salaries and working capital. Further, this level of planning and analysis helps to identify the highest potential opportunities, allowing an entrepreneur to prioritize by geography or demographic, which gives an investor further confidence that the business can execute the plan.

These skill gaps mirror common challenges in sourcing talent in East Africa, persisting for businesses past early stage. As SGBs raise capital, grow, and evolve from early-stage startups to mid-sized companies poised for scale, a variety of new challenges arise that will determine their ultimate success. Though early growth can be attained through the acumen of a lead entrepreneur, sustained growth is predicated not on one or two individuals but on the capability to build and scale a team. First, leadership must have wherewithal to adeptly negotiate this transition and establish a plan for scale. Second, the business must be able to find, train, and retain the talent necessary to execute on this plan. As investors consider opportunities to support the long-term success of their investments, they must acknowledge how the types of support SGBs require will change, developing a holistic strategy to meet those needs over time.

5.0 CONCLUSION & IMPLICATIONS FOR FUTURE PROJECTS

As the title of this report indicates, our goal in PACE IRP was to experiment with a new model of early-stage business support, recognizing that many learnings would come from this work. Our initial goals were to catalyze at least 5 investments from 15 SGBs receiving intensive support, selected by our investor partners from 60 screened and 100+ identified. Through this experiment, we exceeded targets, identifying 222 SGBs, screening 63, and catalyzing more than $2.2M in early-stage investment into 6 SGBs, all of whom would not have been 'investment-ready' without our support. In this respect, the experiment was a success, though it is one part of a broader learning agenda that we hope can be taken forward into future models for early-stage investments.

In particular, we hope to see further experimentation to:

1. **Expand the pool of local entrepreneurs:** Sourcing early-stage businesses outside of traditional channels requires new approaches and additional resources – they tend to be more rural, less connected to international networks, and have less experience articulating their vision with investor-friendly language. They also often lack a web presence and most forms of typical external marketing materials like pitch decks and business plans. However, these are the businesses that, considered together in aggregate, will create the bulk of new jobs for local economies and change most lives in their communities. They also have strong fundamentals. We believe it will be critical to reach and support these local SGBs to truly create broader change – investors cannot rely only on a handful of highly-visible, innovative start-ups to accomplish their ambitious impact objectives.

2. **Increase appetite for early-stage SGB risk:** Even investors with the express goal of investing in early-stage SGBs remain hesitant to engage with SGBs that do not have significant proof points; however, it often takes initial funding for SGBs to demonstrate these proof points. Though SGBs with existing track records are more likely to achieve scale, the early-stage investment industry could be much more willing to engage with SGBs as they navigate the pioneer gap, providing capital to enable proof-of-market and unlock larger investment opportunities. Different forms of capital are needed to match these purposes, including quasi-equity, and grants focused on early-stage innovation.

3. **Focus due diligence on key information gaps:** Because early-stage entrepreneurs often lack core business documentation, they cannot provide the type of information investors often ask for before placing capital. Time and energy must be spent either inferring key information from available documentation or conducting primary research. However, PACE IRP's experience shows us that, especially for early-stage investments, investors rely on personal interaction and a few key variables to make their decision. We should take this lesson and streamline due diligence to focus on the several factors that are most important to make decisions on early-stage businesses instead of struggling to create lengthy materials at the on-set. This will allow investors to arrive at a 'fast no' for those SGBs they will not advance.

4. **Articulate definitions of impact clearly:** Investors should be clear and transparent about the metrics they use to assess sufficient impact. "Limited impact" was a common reason investors declined to invest during PACE IRP, though this is not actionable feedback for an entrepreneur when it cannot be defined more clearly (e.g. # of units? Income increase? What type of impact is limited?). Investors must remain sensitive to how an impact threshold should change over time as a business reaches scale – what is possible in 10 years is not in only three. Additionally, impact requirements should more explicitly account for potential tradeoffs between impact and business model, acknowledging where certain forms of impact diverge from 'business as usual' and understanding this cost.

The overarching goal for USAID's PACE program is to determine which incubation and financing models serve to effectively and efficiently enable early-stage enterprises in emerging markets to grow, attract investment, and deliver greater development impact. The goal of IRP was to develop and test a new model to increase investment readiness for early-stage SGBs, catalyze investor capital, and enable growth. Looking back, the program exceeded expectations in terms of hard results, but equally importantly highlighted a number of learnings that we believe can advance the sector through future projects. It will not be easy to operationalize these lessons, but we hope they will serve as a launching point for other stakeholders in their efforts and for the industry to advance ongoing dialogue around what is possible when supporting non-traditional, early-stage SGBs in East Africa.