



Investment support

Insights from the IAP Challenge Fund



The International Finance Corporation estimates that the low-income markets of four billion people living on less than USD 8 a day represent a USD 5 trillion opportunity¹. Private companies can innovate for social and environmental impact and profit, but face challenges like financial risks and limited scalability due to funding constraints. However, many of these innovations face commercial, technical, and financial risks, and struggle to access finance to scale.

A 2020 survey conducted by the Global Impact Investment Network (GIIN) concluded that there were 1,720 organisations active in the impact investment arena with a combined USD 715 billion in Assets Under Management (AUM). These include private equity & venture capital firms, corporations, financial institutions, impact funds, foundations & trusts, family offices, angel investors, multi-lateral and bilateral donors, and crowdfunding platforms. Investors come with different expectations regarding social and financial returns.

Despite an increasingly developed impact investor landscape, many businesses still cannot raise financing as they are frequently too large for micro-financing but too small, risky, and unprepared for mainstream commercial, impact, or venture financing.

The IAP Challenge Fund is a risk sharing mechanism, providing a catalyst for selected small and medium-sized enterprises (SMEs) to test and develop innovative inclusive business ideas. As IAP's ultimate goal is to maximise longer-term positive social and environmental impact for people living in poverty, the programme aims to support businesses to reach scale. This often requires accessing additional financing; the programme helps businesses get ready for investment and makes introductions to potential investors.



¹<https://www.wri.org/research/next-4-billion>



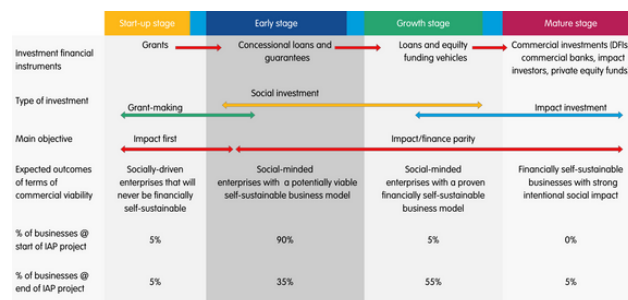
IAP's approach to investment support to date

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In addition to grant financing, IAP offers tailored advisory support to all its portfolio businesses, including organisational strengthening and growth strategy support. IAP also facilitates a Strategic Investment Partners (SIP) programme in which businesses are paired with participating investors who provide ongoing mentorship. Ultimately, the goal of the SIP programme is for investors to consider investing in their mentees while helping the businesses learn more about investors' requirements and prepare themselves for investment. The programme has supported many of its businesses to move from early stage to growth stage, with some reaching maturity.

Once businesses are ready to begin additional fundraising, IAP supports them to create pitch decks, which are consolidated into a single [IAP deal book](#) to share with potential investors. The programme also makes individual introductions between companies and investors, and organises 'dragon's den'-style pitches for IAP businesses at investment fora. The programme was not designed to provide support during the deal process and so has not done so in a structured way.

There are no quick or easy wins. In the last three years, the programme made 177 introductions between IAP companies and investors, resulting in six successful deals.



Key learnings

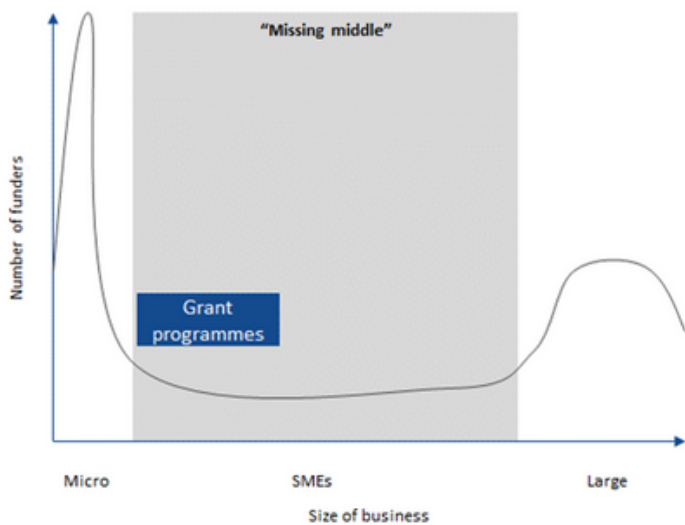
There is a significant and still underestimated knowledge gap between SMEs and investors

IAP portfolio businesses, and many other SMEs in emerging markets, typically lack exposure with the broader investment ecosystem and have a limited understanding of their options for financing instruments and structures, as well as the implications for their businesses. Likewise SMEs typically do not have sufficient understanding of investors' requirements, particularly around formalising organisational systems and processes to align with good practices and in-country regulations, let alone international investment standards. This knowledge gap poses a challenge for SMEs in securing investment. While the SIP mentoring programme succeeded in some cases, in others IAP businesses were unprepared for the sophisticated support offered.

Additionally, SMEs constrained by time and resources, may overlook the significance of initial impressions and following up, understandably prioritising instead more immediate business demands. Even if these barriers are overcome, most SMEs lack understanding of the investment process and require substantial support to close deals, covering areas such as developing investor-ready materials (ranging from financial models to business plans to compelling pitches), negotiation strategies, and introductions to other advisors. Intensive early training is crucial to bridge the knowledge gap before introductions. SMEs also require substantial support and follow up during the deal process to enhance the likelihood of mutual success.

There is a mismatch between SME needs and the size and type of funding available

Challenge funds like IAP bridge part of the “missing middle”. But the middle is extensive and enduring. There is still not enough accessible financing for businesses that are not yet ready for larger investments. SMEs may need a series of smaller ticket sizes and/or different vehicles to get across that middle, and often need more time to meet investor requirements, leading to a second “missing middle” (see below).



Many SMEs may be better served by their local financial markets, in part due to exchange rate issues but also because local financial players typically have a better understanding of the market and the value of the business's product or service. However, outside of bank loans, these markets are often less developed with fewer options for businesses. Angel investor activity has increased in IAP operating countries, bridging the gap, but more localised financial options are still needed.

Successful matchmaking requires targeted matches

Due to resource constraints, IAP's matchmaking approach was not extensively tailored. Instead, the programme focussed on sharing the IAP deal book with regional and global investors. Although this expanded reach, success requires more tailored matches aligned with both investors' and the business' needs. It requires dedication to maintaining an up-to-date understanding of investors' strategies and criteria as well as businesses' needs and capabilities. This is also true for the SIP programme which was most successful when the matches were strongly aligned. This led to increased engagement from both parties because they could both potentially gain from the interactions. Incentives are low for a business to significantly engage in the mentoring if they do not see some potential for investment; they are even lower for an investor to provide mentorship for a business that is unlikely to lead to a future investment. Goodwill alone has limitations.





It typically takes several years for an early-stage business to be ready for investment

Investors typically require businesses to meet certain organisational standards, which can be time consuming and of little interest since the benefit of improved practices may not be immediate. Unlearning old business practices and demonstrating potential for a successful exit further requires a certain level of growth or business maturity. In the short period that a programme like IAP works with businesses (two to three years), achieving these milestones is challenging for most businesses. To mature and access additional financing, companies need patient, multi-year support.

Structuring investment support going forward

In future programming, be it IAP or other similar programs, SNV sees a continued role in supporting and deepening the activities around investment readiness and matchmaking. Early training for the businesses on financial literacy and investments can reduce the knowledge gap. By increasing knowledge early and discussing which funding options are most appropriate for each business, both at their current stage and in the future, programmes can maximise the effectiveness of mechanisms like the SIP programme, setting clear expectations and making better matches.

Deepening engagement with the local investment ecosystems which may better serve smaller SMEs. Together with dedicating more resources to deepening the understanding of the relevant regional and global investor landscape, this also supports more tailored matchmaking. Ongoing support throughout the deal process builds a business' capacity, enabling them to navigate future deals with more limited support. Though

improvements will enhance investment matchmaking, challenges persist and expectations for success need to be tempered, particularly considering limited programme timeframes. Long-term success requires a robust ecosystem supporting businesses at various stages beyond programme cycles, enabling scalability, professionalization, and access to additional funding sources all along the growth journey.

SNV is a global development partner deeply rooted in the African and Asian countries where we operate. With 60 years of experience and a team of approximately 1,600 people, we strengthen capacities and catalyse partnerships that transform agri-food, energy and water systems. Working on the core themes of gender equality and social inclusion, climate adaptation and mitigation, and strong institutions and effective governance, we tailor our approaches to different contexts to achieve large-scale impact and create sustainable and more equitable lives for all.

For Further Details

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www.innovationsagainstopoverty.org

www.snv.org/project/innovations-against-poverty-iap-3-challenge-fund



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