Early Stage Innovation Financing (ESIF) Facility

Creating jobs through a blend of seed-stage finance and technical assistance to test the commercial viability and investment potential of innovative start-up enterprises assisted by infoDev’s global network of business incubators and angel investors.
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infoDev

infoDev (www.infoDev.org) is a global partnership program within the World Bank Group’s Financial and Private Sector Development Network (FPD) which works at the intersection of innovation, technology, and entrepreneurship to create opportunities for inclusive growth, job creation and poverty reduction. infoDev assists governments and technology-focused small and medium sized enterprises (SMEs) to grow jobs, improve capacity and skills, increase access to finance and markets, ensure the appropriate enabling policy and regulatory environment for business to flourish, and test out innovative solutions in developing country markets. We do this in partnership with other development programs, with World Bank/IFC colleagues, and with stakeholders from the public, private and civil society sectors in the developing world.

The Middle East and North Africa Financial and Private Sector Development Department (MENA FPD)

MENA FPD of the World Bank is responsible for the development of new lending operations, supervision of an existing portfolio of projects, and delivery of a complex and growing knowledge transfer (analytical) program for the countries of the region. The department provides support to governments in developing a regulatory environment that fosters opportunities for entrepreneurship and job creation, facilitating access to a broad range of financial services—for firms and for households, mobilizing the private sector to offer better services, such as housing finance and insurance, to the poor as consumers, and supporting developing countries build robust financial systems that are resilient to shocks. The department completes this in partnership with World Bank/IFC colleagues, as well as with stakeholders from the public, private, and civil society sectors in the MENA region. It will be critical for infoDev to partner fully with MENA FPD in an initial ESIF pilot for the MENA region. MENA FPD’s knowledge of the region, its strategic links to broader World Bank private sector development goals, and its ability to mainstream learning from the ESIF pilot in wider World Bank operations are valuable counterpoints to infoDev’s grassroots presence and innovative approach to stimulating technology entrepreneurship in the developing world.

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ACRONYMS
USD- United States Dollar
MENA- Middle East and North Africa
ESIF - Early Stage Innovation Financing
PDO - Project Development Objectives
EOI - Expression of Interest
SC – Steering Committee
OM- Operations Manual
M&E- Monitoring and Evaluation
IC- Investment Committee
TA- Technical Assistance
SME- Small and Medium Enterprise
MSME – Micro, Small and Medium Enterprise
VC – Venture Capital
PE- Private Equity
ICT- Information and Communication Technology
TIEC - Technology Innovation and Entrepreneurship Center
EIF- European Investment Fund
FF- Financing Facility
FFM- Financing Facility Manager
DOTS- Development Outcome Tracking System
FPD- Financial and Private Sector Development
DFI- Development Financing Institution
IRR- Internal Rate of Return
LP- Limited Partner
LPA- Limited Partner Agreement
EAF- European Angel Fund
SCIF- Scottish Co-investment Fund
WBG- World Bank Group
IFC- International Finance Corporation
GDP- Gross Domestic Product
OECD- Organization for Economic Cooperation and Development
EBAN - European Business Angel Network
ILPA- Institutional Limited Partners Association
SICAV - sociedad de inversión de capital variable

GLOSSARY OF TECHNICAL TERMS

Accelerator— a business accelerator is very similar to an incubator (see below) but differs in that it usually has a greater focus on growth oriented companies. Business accelerators are more likely to be, financed by a venture capitalist looking for an opportunity to finance growth potential through defined action plans. Business accelerators will generally offer all of the services offered by a business incubator but constrain company involvement to an abbreviated timeframe. The key difference is the level of hands-on involvement by accelerator management, which it believes increases the chances of success.

Angel investor— Refers to any individual who invests his or her money in an entrepreneurial company (unlike institutional venture capitalists, who invest other people’s money). The Angel may provide capital to one or more start-up companies and takes a personal stake in the success of the venture. Such investments are characterized by high levels of risk and a potentially large return on investment.

Angel network- An organization whose aim is to promote the matching of entrepreneurs with business angels.

Angel syndicate— The formalized gathering of business angels into a consortium for the purpose of creating a critical mass of funds above what each business angel would individually invest. Syndicates also pool competencies in order to leverage each others knowledge and expertise.

Blended finance- financing provided to a project at below market terms, due to the complementary use of concessional funds alongside private capital. The purpose of blended finance is to catalyze investments in an underserved asset class or sector deemed too risky by private investors.

Co-investment fund- An investment fund dedicated to the provision of equity finance to SMEs in partnership with other investors.
Diaspora—A group of people that have migrated away from their ancestral homeland and reside in another country. Such groups tend to form professional, cultural, or social networks in the country that they live in—diaspora networks. These networks provide important links between developed markets and countries of origin.

Entrepreneurship—where an individual assumes the risk and responsibility in designing and implementing a business strategy or starting a business, thereby identified as an entrepreneur.

Equity investment—Money that is invested in a firm by its owner(s) or holder(s) of common stock but is not returned in the normal course of the business. Investors recover it only when they sell their shareholdings to other investors, or when the assets of the firm are liquidated and proceeds distributed among them after satisfying the firm’s obligations. It is also called equity contribution.

Financing facility—Risk capital that makes investments in exchange for a security, usually equity. In this document, the financing arm of ESIF is referred to as a “financing facility” rather than a “fund” to signify its pilot nature and innovative aspects of its blended finance.

Incubator—the term business incubator refers to a facility with a program to help small companies have a better chance of survival through the start-up phase. An incubator may offer services such as office space usually at a reduced rate; shared office services: receptionist, conference rooms, computers, office equipment etc.; entrepreneurial advice and mentoring; business planning; contacts and networking.

Innovation—The process by which an idea or invention is translated into a good or service for which people will pay. It is doing/producing new things, and/or doing things in a new way, and can involve any sector, products, services, or business process.

Investment capital—Money invested in a business venture with an expectation of income, and recovered through earnings generated by the business over several years. It is generally understood to be used for capital expenditure rather than for day-to-day operations (working capital) or other expenses.

Start-up—From Paul Graham, founder of YCombinator: “A startup is a company designed to grow fast. Being newly founded does not in itself make a company a startup. Nor is it necessary for a startup to work on technology, or take venture funding, or have some sort of "exit." The only essential thing is growth. Everything else we associate with startups follows from growth.”

Venture capital—Start-up or growth equity capital or loan capital provided by private investors (the venture capitalists) or specialized financial institutions (development finance houses or venture capital firms). Also known as risk capital.

*All dollar amounts are U.S. dollars unless otherwise indicated.*
Executive Summary

1) The developing world needs to generate at least 35 million jobs each year over the next decade to keep pace with population growth and new entrants into the labor market. Job growth at this scale must include the private sector through new, competitive businesses that offer employment opportunities.¹

2) In the developed world, innovative, growth-oriented start-ups play a critical role in this job creation agenda. In the U.S. alone, 500,000 to 600,000 new businesses generate about three million jobs each year, making them an important engine of net job creation in the country. ²

3) Entrepreneurs with new, innovative business ideas can rely on an ecosystem of financing and mentoring through angel investors’ capital and expertise to support the early stages of firm creation. Business incubators and accelerators play the role of “talent spotter” to find and nurture the best enterprises. Approximately 350 U.S. angel investor networks and individual angel investors provide on average $23 billion in financing to about 50,000 new firms. In Europe, similar networks of incubators and angels have also grown rapidly.

4) In the developing world, however, these ecosystems tend not to exist. Angel investment networks are rare and small in the vast majority of developing countries, often driven by individual investors with business start-up experience from abroad.

5) Without angel investment, entrepreneurs are forced to rely on their own savings and support from family and friends to develop their business ideas. These innovative start-ups typically require financing in the range of $50,000 to $1 million—the range commonly referred to as the “valley of death.” As these firms do not yet have a proven business plan and first revenue stream or assets for collateral, they cannot access banks or the limited number of venture capital (VC) entities.

6) In addition, without the benefit of seasoned investors’ expertise, the experience of peers, and the guidance of mentors at a well-functioning incubator, potential entrepreneurs often find creating and growing a business an insurmountable challenge.

7) Assuming that the developing world could establish an ecosystem of solid incubation, angel investment—something akin to the business start-up environment in the developed world—the potential exists for over 400,000 new, innovative firms with an investment volume of around $16–18 billion annually, creating approximately 2.5 million new jobs each year.³

8) infoDev—a global partnership supporting innovative, technology-enabled enterprises within the Financial and Private Sector Development Network of the World Bank Group—has unique experience with the business start-up environment in developing countries. It manages a global network of over 400 incubators in more than 100 developing countries. It also catalyzed more than six angel networks in six countries. infoDev’s research confirms that access to early-stage financing

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³ World Bank/Kauffman Foundation
and mentoring are among the most significant hurdles for entrepreneurs trying to establish new businesses.

9) infoDev and the Financial and Private Sector Development Department for the Middle East and North Africa region in the World Bank plan to establish an Early Stage Innovation Financing (ESIF) facility that will provide both financing and technical assistance (TA) to address this market failure. ESIF will have two components. The financing component (financing facility or FF), executed by a competitively selected financing facility manager, will match investments by angel investors in the target markets (co-investment mechanism) on a commercial basis. The TA component, executed by infoDev, will assist incubators and angels to strengthen their support to enterprises which will not just not just boost the top 20 or 30 companies but the next 50 as well. Thereby steadily building a pipeline of promising enterprises that with a strong ecosystem could become investment-ready over time.

10) ESIF will run over a seven-year period. The financing facility component is proposed at $50 million with the TA facility at $20 million. Over the seven years, ESIF’s development objectives are to support or create about 50 incubators, assist 7,000 start-ups, co-invest in 200 start-ups, establish or enhance eight angel networks that work with at least 80 angel investors, and create about 5,000 direct and another 20,000 indirect jobs through its investments.

11) ESIF will be a new, innovative pilot project that borrows design features from comparable technical assistance and investment models and blended finance initiatives, but that is unique in its approach to early-stage financing. It will utilize angels and provide technical assistance to both incubators and angel networks, made possible through the effective administration and use of public and private contributions.

12) ESIF will be piloted in the Middle East and North Africa (MENA) region, starting with Jordan, Lebanon, Egypt, Morocco and Tunisia. MENA is a particularly attractive region for a first pilot for several reasons:
   a. The recent uprisings across the region are to a large degree fueled by lack of income and employment opportunities. MENA also has unemployment rates at about 10 percent, rising to 23 percent for women and youth.
   b. In MENA only 6.3 businesses are formed each year for every 100 people, compared to 42 in high-income countries. This represents one of the lowest start-up rates worldwide.
   c. Access to non-banking financing is a key constraint to the growth of start-ups in MENA.

13) Notwithstanding these low start-up rates, MENA has a strong entrepreneurial and investment culture, as well as sizable pockets of high-net-worth individuals who could serve as angels. The region also hosts an incubator network which can be upgraded and mobilized further—infoDev’s

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4 When both facilities are designed in depth, the exact dollar value size of each will be explored in greater depth, so that they truly serve market demand.


MENAinc, which currently comprises 34 business incubation and entrepreneurship support institutions, organizations and associations in 15 countries, including Egypt, Tunisia, Jordan, Libya, Iraq, Syria, Bahrain, Morocco and the Palestinian territories of the West Bank and Gaza. infoDev will apply its experience from the MENA pilot to other countries and regions progressively, over time. One of the central themes in ESIF is, therefore, the creation of knowledge of how to bring about a functioning ecosystem of incubators, entrepreneurs and angels/seed stage funders, so that ESIF can then be quickly and fairly scaled to any particular country or region of the developing world.

1. Strategic Context and Development Rationale

Reducing poverty means sustainably raising the poor’s living standards and providing them a path out of poverty. Globally, 1.4 billion people live on less than $1.25 per day, and 2.6 billion live on less than $2 per day. As the World Development Report (2011) argues, jobs are the “hinge” of development, enhancing living standards, raising productivity to enhance sustainability of income earnings and creating social cohesion. Hence, a job—whether in self-employment or working for wages—is a promising path out of poverty. Creating such paths is a daunting task: the International Labor Organization estimates official unemployment in the developing world at 150 million people, and women’s economic participation is below 40 percent in several regions. Hundreds of millions more work, but at incomes that are below subsistence levels. In addition, over the coming decade, the developing world faces an unprecedented demographic wave, as 350 million people enter labor markets worldwide. South Asia and Africa must each create one million jobs per month for 10 years just to keep pace with their demographic surge. Adding the need to create employment opportunities for women and the under-employed translates into a total of at least six million jobs every month over the next decade. Such a pace would, in absolute terms, almost equal the peak of China’s pace of job creation in the 1980s.

This challenge is far from limited to low-income countries alone. The global economic crisis has affected the poor everywhere: in some countries, 5 to 10 percent of the population was pushed below the poverty line. The ongoing turmoil in the Arab world has partly arisen because of frustrated citizens clamoring for more freedom and economic opportunity. Their uprising has been a vivid reminder of the reality of the “middle income trap,” and of the pockets of poverty that persist underneath GDP per capita averages. At nearly 23%, MENA has the highest youth unemployment of any region in the world.

Creating employment and income opportunities at this scale cannot be achieved through the public sector alone. Engaging the private sector and building on market forces must be a cornerstone of our efforts—both within the World Bank Group as well as the broader development community—to create more and better jobs for the poor.

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1.1 Start-ups in the Developed World

In the developed world, business start-ups have consistently been a driving force for new job creation. Nowhere is this power greater than in the United States, where between 1980–2005, firms less than five years old created 40 million net new jobs.

In OECD countries as a whole, the job creation effect of small businesses appears to be large. SMEs produce about 60–70 percent of total employment and account for a disproportionately large share of new jobs.\(^8\) Evidence from developed economies also highlights the importance of age, rather than size, in job creation: young firms generate more than their share of employment. It is important to keep in mind that start-ups do have a high failure rate, with less than one-half of start-ups surviving for more than five years. High job turnover also threatens employment security for those employed at young firms.\(^9\) Overall, however, start-ups and surviving young businesses do contribute disproportionately to net employment growth.\(^10\)

\[\text{Table 1. Start-ups Create Most New Net Jobs in the USA}\]

\[\text{Source: Kauffman Foundation}\]

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1.2 Start-ups in the Developing World

SMEs play an important role in the developing world. A recent study on SME employment confirms that these firms are the biggest contributors to employment across developing countries, employing the largest share of people and generating the most new jobs. Firms with 250 or fewer employees generated between 86 percent to 93 percent of all new jobs between 2006–10. However, significantly fewer new formal businesses get established in the developing world, when compared to high-income economies. There are many reasons for this, including the regulatory, business and financial obstacles faced by start-ups.

Table 2. New Business Registrations Compared
(new firms per 1,000 people, 2004–09 averages)

![Bar chart showing new business registrations compared across regions.]

This gap in start-up creation is an opportunity to help establish a vibrant business start-up market in the developing world. There is potential to create each year an estimated 410,000 new, innovative firms with an investment volume of between $16–18 billion, generating about 2.5 million new jobs annually.

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12 World Bank/Kauffman Foundation
1.3 The infoDev Start-up Incubators

infoDev is a global partnership program within the World Bank Group’s Financial and Private Sector Development Network (FPD) which works at the intersection of innovation, technology, and entrepreneurship to create opportunities for inclusive growth, job creation and poverty reduction. Since 2002, infoDev has developed a network of more than 400 small-business incubators—all locally owned and operated—in more than 100 developing countries. This network is a peer-driven community of practice and a platform for business linkages, delivering training, forming interest groups and engaging thematically (e.g. women and youth entrepreneurs, clean technologies, mobile, agribusiness), regionally and nationally. This network has supported about 25,000 new start-up enterprises, creating approximately 270,000 jobs.  

In 2011, infoDev organized a competition to identify 50 of the best start-up ventures from its incubator network. infoDev also welcomed applications from outside the network. infoDev received over 700 applications from 65 countries. A panel of judges – consisting of investors, VC experts, International Finance Corporation and infoDev—filtered out the Top 50 candidates, emphasizing a search for innovative and new mobile applications and climate technologies.

The finalists included a Syrian woman entrepreneur who developed accurate Arabic speech-to-text software, a Vietnamese content developer whose mobile application has now been downloaded over a million times from Nokia’s Ovi Store, an Argentine company converting algae biomass into clean energy, a group of Kenyan women engineers who have developed a mobile application for crisis management, and a company producing concentrated new photovoltaic semiconductors from Georgia.

The Top50 were featured in infoDev’s Global Forum on Innovation and Technology Entrepreneurship held in Helsinki, Finland in May of 2011. Some of the Top50 were picked up by investors in a short span of time. These entrepreneurs and investors all reiterated the challenges they faced in sourcing, operating and investing in innovative, albeit somewhat riskier new enterprises.

13 www.infodev.org
the areas of climate technologies, through its network of Climate Innovation Centers, as well as in mobile content development, via its network of Mobile Application Labs. infoDev is now developing a similar initiative to assist innovative growth-oriented agribusinesses, via Agribusiness Innovation Centers.

infoDev’s experience has consistently verified that the lack of access to financing significantly stifles new entrepreneurs. A 2008 infoDev study identified the main obstacles that prevent SMEs from obtaining adequate financing: informational asymmetries between small businesses and lenders or investors; the higher risk associated with innovative, smaller ventures; the transaction costs in start-up financing; and the lack of collateral that typically characterizes young businesses. In developing countries, these problems are often exacerbated by a range of other institutional and business regulatory factors.

The study outlines how entrepreneurs traditionally tap friends and family for start-up capital in the $50,000 range and below. For needs above $1 million, innovative start-ups can gain traction with VCs, Private Equity (PE) firms and banks, especially once a revenue stream has been established. But for those companies caught in the middle, it is often impossible to transcend the “Valley of Death” funding gap, which is estimated to be in the $50,000—$1 million range.¹⁴

Entrepreneurs and start-up companies also lack an ecosystem to support and sustain them. Business communities are fragmented, access to market information is hard to come by, burdensome business regulations come with heavy compliance costs, and entrepreneurs are stunted by the absence of basic business support services, lack of advice, mentoring and best-practice guidance, and limited market knowledge. Incubators play an important role in addressing these problems and asymmetries for entrepreneurs, and they create a ready community of practice for those engaged in the innovative start-up space to find advice and strength in numbers.

### 1.4 Angel Investors Networks

One factor that makes California’s “Silicon Valley” in the U.S. unique is the existence of angel investors, typically high-net-worth individuals who invest directly in early-stage businesses and then take an active role in mentoring the management team. A recent study on the financial returns of American angel networks showed that individual angels typically execute ten investments and exit two deals in their lifetimes. These individuals have spent roughly 14.5 years as entrepreneurs themselves, founded 2.7

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ventures and invested for an average of nine years.\textsuperscript{15} Angels typically invest roughly ten percent of their net wealth in the sectors in which they have specific expertise.

Table 3. Growth in Number of American Angel Groups

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\caption{Growth in Number of American Angel Groups}
\end{figure}

At present, there are an estimated 350 angel networks active in the U.S. market. An angel network is a coordinated group of angels which shares deal flow, conducts due diligence together, negotiates investment terms as a group and works together to share its combined capabilities with investee companies. Angel networks give their members access to deeper financial resources and a broader scope for investment.

Research indicates that between 1990 and 2006, the average return of U.S. angel investments stood at 2.6 times the investment in 3.5 years, equivalent to an internal rate of return (IRR) of approximately 27 percent. This outstanding performance starts with good deal flow, but significant advisory/mentorship is needed to tilt the high risk/high reward performance (53 percent of the portfolio resulted in loss, with high participation achieving 3.7x returns over 1.3x for low participation)\textsuperscript{16}.

The phenomenon of angel investment is not limited to the U.S. The National Endowment for Science Technology and the Arts estimated that in 2009 there were between 4,000 and 6,000 angels in the UK with an average investment size of UK£42 thousand per investment. Across all investments, 35 percent produced returns of 1-5 times the initial investment, while nine percent produced returns of multiples of 10 or more. The mean return, however, was 2.2 times the investment in 3.6 years, with an approximate internal rate of return of 22 percent gross.\textsuperscript{17}

\textsuperscript{15} Kauffman Foundation, “Returns to Angel Investors in Groups,”2007.
\textsuperscript{16} Kauffman Foundation, “Returns to Angel Investors in Groups,”2007.
\textsuperscript{17} UNH Center for Venture Research and PricewaterhouseCoopers USA Money Tree Survey 3 “Returns to US Angel Investors in Groups” by Wiltbank and Boeker—November 2007 4 “The European Angel Investing Market, Facts and Figures”—Claire Munck
VC is typically thought of as the first entry point for equity financing. But while VC financing is geared towards small, emerging companies, it typically requires firms to be operational with a first revenue stream to assess their viability. Angels tend to invest earlier in the life cycle of an emerging business and base their investment decision upon the business idea and the qualification of the management team. While angel networks and VC firms invest roughly the same amount in dollar terms per year in the U.S., the number of angel investments is significantly larger compared to the number of VC deals. Because angel networks have significantly lower operational costs, they can focus on smaller deals while experiencing equivalent return percentages.

In the developed world, angel investors and networks have filled an important niche in the financial ecosystem of business creation. In developing countries, on the other hand, the angel market has not
yet developed. Angel investments are exceptions, typically driven by individuals, and incubators with links to the Silicon Valley or to wealthy diaspora networks of investors. Since SME banks are also not particularly well established, this leaves new entrepreneurs with very few avenues.

To date, infoDev has assisted in the creation of angel networks in seven developing countries, including Jordan, Chile, Belarus, Moldova, Trinidad, Senegal, South Africa and Nigeria. In each instance, local high-net-worth individuals were identified, convened and advised on global best practices. Each angel network is currently operating with unique levels of sophistication and success as infoDev continues to tailor technical assistance to meet those specific needs. This expertise provides solid foundation for the angel network activities central to the ESIF facility.

Figure 1. History of infoDev Angel Network Creation
1.5 Project Development Objectives (PDO)

The ESIF facility’s primary development objective is to increase the number and sustainability of new and existing financially viable, innovative firms, by encouraging individual investors to supply early-stage investment financing for these firms and by encouraging and supporting other ecosystem players to contribute to their development.

The project will achieve this objective by providing financing and technical assistance to help jump start an ecosystem of well-functioning incubators, a ready network of angel investors, and the appropriate mentoring and support networks. This ecosystem depends on the different actors all interacting with one another and receiving the proper incentives to participate:

(1) **Start-ups** are looking for practical guidance and mentorship from investors who believe in them.

(2) **Incubators** are incentivized and assessed by the number of entrepreneurs that are able to establish successful and sustainable businesses and attract the financing they need after their incubation.

(3) **Angel investors** are looking for early-stage investment opportunities. They welcome mechanisms to generate and identify deal flow and want to mitigate their risks by partnering with other investors.

ESIF interventions are designed to jump-start and facilitate this collaborative ecosystem by:

- Crowding-in private investment capital through developing-country angel networks and a financing facility that will match angels’ investments;
- Leveraging public resources with private capital to facilitate this ecosystem and test the viability of this market mechanism for start-ups, and negotiate appropriate exits when markets and ecosystems are working well;
- Incentivizing members of infoDev’s incubator network to continually improve their performance and output, thereby creating more and better enterprises in deal flow, as well as strong and robust support structures for the entrepreneurs;
- Catalyzing angel culture and early-stage investment asset class in MENA;
- Identifying and championing a class of innovative entrepreneurs who can serve as positive success stories in their countries; and
- Ultimately, demonstrating the commercial viability, innovativeness and investment potential of enterprises in the developing world.

One direct result of the project is the creation and expansion of new enterprises, which will also lead to an increased number of high value-added direct jobs. The number of new jobs created by the project beneficiaries will be measured. However, this project’s indirect positive impact on job creation is expected to be even more significant, through spillover effects and business growth within the related
supply chain for goods and services. While this is difficult to capture there might be scope at a later stage to conduct and impact assessment.

The primary beneficiaries of the project are potential and existing entrepreneurs with new commercial ideas and existing start-ups that are on the verge of expansion. The project seeks to fill in the funding gaps faced by these firms due to the nature of the products or services they offer (such as mobile applications, software, or services) which cannot yet be collateralized and are seen as too risky by commercial banks. Businesses managed by or targeted to women will be prioritized for technical assistance - as in many countries unemployment among women has reached close to 50%. However, evidence shows they are very underrepresented in the entrepreneurship ecosystem.

The secondary beneficiaries of the project are various ecosystem enablers such as incubators, angel networks, etc, whose own capacity to help produce investable start-ups will increase.

1.6 PDO: Results Indicators

An initial ESIF results framework (see Annex “Results Framework”) lays out the logical results chain and some core indicators for inputs, outputs, outcomes and impact. The PDO results indicators that will be measured are:

1) Increase in access to finance for start-ups
   a. Total number of firms receiving equity financing.
   b. Total amount of equity financing received through the project.
   c. Total volume of financing generated by leveraging angel investors only.

2) Level of Innovation
   a. Number and types of new/improved products/processes offered.
   b. Number of new start-ups created under the project.

3) Growth of beneficiary start-ups
   a. Growth in sales/turnover of beneficiary start-ups.
   b. Number of new jobs created in beneficiary start-ups.

4) Commercial Viability of Angel Investing as an Asset Class
   a. Positive aggregate investing returns of the Financing Facility
   b. Creation of angel investor culture.
   c. Proof of MENA start-ups as an asset class.

5) Capacity and Quality Increase of Incubators (and other enablers) to support start-ups
   a. Number of new/improved supporting activities.
   b. Quality of new/improved supporting activities.
In addition to tracking the above results, continuous assessments are expected to identify and track the nature and level of innovation performance measures at a country level, as well as demographic data (such as region, sector, ownership, type of jobs, etc.) on the firms. This will enable analysis and comparison of firms that benefitted from facility activities. In addition, all data will be collected in a gender-disaggregated manner to enable evaluation and monitoring of women-owned business growth and employment. Regular workshops and meetings will be convened to share findings with donors, World Bank Group colleagues, development practitioners, and private sector partners.

Following the completion of the seven-year pilot phase, the success of the ESIF initiative will be independently assessed across all key dimensions.

### 1.7 ESIF Pilot in MENA

An effective ecosystem of incubators, start-up funds, angel and support networks requires geographic proximity between the entrepreneur, the incubator and the angel. It cannot be managed through arms-length relationships. Therefore, while equity financing mechanism normally can be structured globally, ESIF needs a local focus.

infoDev aims to pilot ESIF in MENA in partnership with MENA FPD for a number of reasons. The developmental and political challenges in terms of job creation are enormous. MENA’s strong entrepreneurial culture, combined with the presence of significant pockets of wealth and high-worth individuals willing to invest across borders (including diaspora investors), presents an excellent opportunity. Research has found that five to ten percent of the fastest-growing SMEs in MENA generate 50 to 80 percent of employment.\(^{18}\)

In the 2000s, countries in the MENA region grew relatively rapidly, with average GDP growth of about four percent. But this growth is to a large extent based on natural resources, with a low level of export diversification. Over the last decade, MENA created only about 3.2 million jobs per year—considerably less than is needed to absorb the rapidly growing labor force and integrating the economically marginalized into the formal economy.\(^2\) Unemployment in the Arab world is currently estimated at 10 percent\(^{19}\). This situation disproportionally affects women and youth, with nearly 25 percent of youth currently unemployed.\(^{20}\) The World Bank estimates that the MENA region needs to create 4 million new jobs per year between 2000 and 2020 to absorb new entrants to the labor force.\(^{21}\)

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The region’s financial sector is overall quite liquid, but its depth and reach in terms of SME lending, VC and similar mechanisms is extremely limited. Poor and small firms in the region therefore have access to financing that is roughly similar to firms in sub-Saharan Africa. Three main factors account for poor access to finance in the region. First, its financial infrastructure is still poor: coverage and depth of credit information are limited, and collateral and insolvency regimes remain very deficient. Second, bank competition is quite weak, which promotes connected lending only to large institutions. Third, non-banking financing institutions and financial instruments are undeveloped.

In addition to access to finance constraints, deficiencies in the investment climate also prevent greater SME development in MENA. There is a widespread perception amongst public officials that a small number of rent-seeking firms dominate the private sector- a group that has long been protected by all sorts of barriers to entry. Almost 60 percent of public officials interviewed across the region thought the private sector in their countries was rent seeking and corrupt. These interviews were conducted during various regional conferences organized by the World Bank in different MENA countries from 2007-2008 on the topic of investment and private sector development.

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22 These interviews were conducted during various regional conferences organized by the World Bank in different MENA countries from 2007-2008 on the topic of investment and private sector development.
of 183 economies) in the World Bank’s 2012 ease of doing business index. As a result, the region enjoys less competition than elsewhere. Connected, the entry of new firms is weaker than in Asia, Latin America, or Eastern Europe.

For entrepreneurs and start-up companies, this translates into a restrictive environment, in which gaining access to finance proves highly difficult. According to World Bank Enterprise Surveys conducted in 2010, the Arab world has the smallest share of firms (25.07 percent) with credit lines or loans from financial institutions. Fully 82 percent of loans require some type of collateral (qtd in IFC 2012). Only around six enterprises are formally registered each year per 100 people, compared to more than 40 in other high-income countries. Some nascent angel investment and enterprise acceleration mechanisms exist—such as Oasis500 in Jordan—often driven by diaspora nationals with experience in the U.S. or Europe. However, their reach is limited and angel networks do not yet exist at any significant scale.

Figure 2. Credit Growth & Sources of Investment Finance
MENA has a network of incubators and start-up support mechanisms. MENAinc, which infoDev has assisted for the past six years, is a regional network of business incubation and entrepreneurship support institutions, organizations and associations. It consists of 34 organizations in 15 countries, including Egypt, Tunisia, Jordan, Libya, Iraq, Syria, Morocco, Bahrain, Saudi Arabia, as well as Palestinian territories (the West Bank and Gaza). The network and its individual members help organize entrepreneurs and angels and are part of the community of players needed for the financial ecosystem (see insert on iPark in Jordan). MENAinc also can grow and improve its performance using ESIF metrics on the success of incubated companies as a primary measurement and incentive for participation. Other entities not in MENAinc that are doing similar and relevant work will also be engaged.

Moreover, MENA FPD has a series of programs within the region that are designed to address both business environment and financing constraints. This includes a tracking of Doing Business indicators and periodic Investment Climate Assessments with specific action plans to address these constraints in each country. Moreover, there are currently projects providing financing and TA support to MSMEs (on a regulatory, financial institution and enterprise level) that are ongoing or being prepared in Tunisia, Morocco, Jordan and Lebanon (a pilot VC fund) which ESIF can build on and learn from.
Feasibility and impact assessments will determine priority countries for the project. It is likely that ESIF in MENA will start with Lebanon, Jordan, Egypt, Morocco and Tunisia. These countries have better functioning ecosystems and larger populations. Landscape analyses have identified a number of relevant actors (angels, mentors, incubators, etc) within those countries. These can be found in the Annex “Country Analyses.”

2 Project Description

ESIF inMENA will consist of a $50 million co-investment financing facility managed by a third party financing facility manager (FFM) and a $20 million technical assistance facility managed by infoDev. Both will be governed by a Steering Committee (SC) that includes public and private sector representatives to ensure the parties’ commercial and development objectives are met. infoDev will also be responsible for the institutional initial setup arrangements for the project.

The co-investment facility aims to make investments in the range of $50,000-$1 million each in around 200 start-up companies, investing jointly with angel investors who are organized around an angel network or angel syndicate. The TA facility will spur the creation of about eight angel networks, strengthen the performance of around 50 incubators, impacting over 7,000 companies, to ensure a steady stream of investable projects, build a body of knowledge around the needs of high-growth entrepreneurs in the region and contribute to long-term capacity to support those needs. The two components will work collaboratively so that all PDOs are met. They will also facilitate and build ties with similar and relevant investment, seed funding and start-up support programs.

While ESIF will not focus exclusively on any specific industry, it is expected that the ultimate beneficiaries of the financing and technical assistance will be enterprises that are developing innovative products and processes in ICT, mobile applications, agribusiness and e-applications for education, health, media, and design. Which sectors benefit will depend to some extent on whether there are economic clusters of interest. The project will not, however, invest in or promote activities that involve pure real estate and construction transactions. A complete list of ineligible sub-activities that cannot be engaged with by the project will be included in the Operations Manual (OM) to be developed by the time of project implementation, in consultation with all donors and partners.
The ESIF TA Facility will focus on spurring the creation of angel investor networks, assisting new and existing incubators to improve their performance, and creating a global body of knowledge on building necessary ecosystems. The angel TA component will work with angels, angel networks and syndicates directly, while the incubator TA will work with incubators to increase the number and quality of investible start-ups in MENA. The TA components will be implemented and managed by infoDev. infoDev will coordinate closely with the financing facility.

Moreover, the TA component will focus on building a stronger pipeline of female entrepreneurs for financing. It is a challenge to balance specific support just for women while trying to foster entrepreneurs purely on their successful commercial viability. However, women in MENA hesitate to venture into starting their own companies. The challenge is not a lack of talent among women but a lack
of engagement and support for these women with marketable ideas and an entrepreneurial spirit. Evidence from the region on start up support and financing programs that apply additional focused mentorship and training (from AGFUND and UNIDO) shows that they do very well in terms of attracting women and successfully graduating them. The challenge is not a lack of talent among women but a lack of engagement and support for these women with marketable ideas and an entrepreneurial spirit. Hence, increasing the level and amount of these types of TA is an important strategic approach to increase success stories of women entrepreneurs. As female entrepreneurs are known to employ more women workers - such a support scheme will have the double benefit of supporting female entrepreneurs as well as more women in the general workforce.

2.1.1 Description of ESIF Technical Assistance

2.1.1.1 Technical assistance to angel networks

The angel TA component will develop angel networks by a) identifying potential high-net-worth individuals and active individual angels; b) advising and financially supporting the creation of syndicated networks of those individuals, by following the angel and community of practice development experience at infoDev; and c) facilitating co-investing with these newly created partners.

infoDev will leverage its experience of forming angel networks in Trinidad, Chile, Belarus, Jordan, Senegal, Nigeria, South Africa and Kazakhstan (see Octantis insert) to help establish eight local angel networks throughout the MENA region, composed of at least ten active investors who want to gain access to and jointly invest in innovative start-ups, and who understand the broader development impact ESIF seeks to achieve. To lower the initial operational costs for these nascent networks and encourage them to grow, infoDev will share best practices from around the world and provide guidance and technical expertise.
**ESIF will assess latent and nascent angel activity in each local context.** *infoDev’s* prior experience shows that building angel networks is a multi-year task that is unique to each local context. Undoubtedly, ESIF target countries will have angel groups at varying levels of maturity. The ESIF TA will actively customize its intervention to fit the level of sophistication of existing or nascent angel groups. As the angel network matures over time, the angel groups will mature into a ESIF financing facility co-investment partner.

**ESIF will seek partners (DFI, private and public, individuals, etc) and potential champions within each target country.** These institutions and individuals will provide the foundation for the growth and maturation of an angel group in each location. Partnerships will be merit-based and collaborative. Some potential partners in target countries are identified in the “Country Analyses” annex (Detailed Maps), but this is an initial, non-exclusive list. The convening power of the World Bank will be a good way to bring these potential partners together, via events that include local incubators, accelerators, universities, DFIs and others. Once relevant local partners have been identified, ESIF will offer training to these potential angels. Training materials similar to those of Band of Angels, Sophia Business Angels, Cambridge Angels, Canadian Angels and EBAN, as well as standardized angel documentation similar to materials produced by Kauffman Institute and the World Business Angel Association, will be developed. Thereafter, ESIF will provide advisory support to angel networks on issues such as software platforms (e.g. Angelsoft, Gust or others), staff support, appropriate management structures, investment processes and legal structures. The TA facility may also consider supporting the more robust and complex angel groups with an angel network coordinator for the purpose of conducting due-diligence, organizing pitch events and executing portfolio management, until such time as they are able to sustainably organize, fund and coordinate these issues for themselves.

**Once relevant local partners have been identified, the angel TA will provide targeted training to angels.** The TA and financing facilities will monitor the group’s initial investment activity. Additional technical assistance, such as any angel network might need as it becomes be a fully fledged co-investment partner with ESIF, may be considered on an ad-hoc basis, but will need to be paid for by the angel network itself.

**Angel networks will be groomed for co-investment with ESIF’s financing facility.** Once the appropriate structure is established and deal flow has been facilitated, *infoDev* and the financing facility will monitor the group’s initial investment activity.

The *infoDev* will also work with the financing facility and syndicate co-investment partners to coordinate other necessary support mechanisms, as needed. Post-investment technical assistance will not be directly supported.

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**2.1.1.2 Strengthening the Performance of Business Incubators**
The focus of the incubator TA component will be to: a) regularly assess the performance, capabilities and needs of incubators and accelerators and benchmark them against one another, as well as against best practice from around the world; b) supplement the business development and investment expertise and capacity of these incubators and accelerators; c) provide grants to improve and upgrade other aspects of their operations; and d) develop and disseminate training programs and other educational materials to client countries, development partners, donors and World Bank colleagues.

Assessments: infoDev will conduct regular needs assessments of incubators and accelerators to determine gaps and needs in consistently producing better and more companies. These assessments will include the views and perspectives of angel investors. They will be closely coordinated and shared with the financing facility to ensure that they address what these parties also identify as key needs.

Typically, needs assessments will cover issues such as financial literacy training, business plan development, financial and accounting training, marketing, strategic planning and legal support, operational and process improvement, and linkages to international supply chains. Comparative assessments will show which incubators and accelerators are performing better and incentivize a healthy competitive spirit among the entities. Assessments ultimately will lead to targeted interventions, classified as illustrated in the figure at right.

The following incubators and accelerators in the five initial target countries have been identified as high priority. They possess the potential to quickly identify quality companies. Therefore, they will be assessed first. The number of incubators assessed in these five countries is expected to increase throughout ESIF’s first year of implementation.
Table 7. High Priority MENA Incubators

<table>
<thead>
<tr>
<th>Lebanon</th>
<th>Jordan</th>
<th>Egypt</th>
<th>Tunisia</th>
<th>Morocco</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berytech</td>
<td>iPARK</td>
<td>Flat6 Labs</td>
<td>Sfax Technopark</td>
<td>Casablanca Technopark</td>
</tr>
<tr>
<td>Seeqnce</td>
<td>Oasis500</td>
<td>Tahrir2</td>
<td>Open Source Valley</td>
<td></td>
</tr>
<tr>
<td>Altcity</td>
<td>TIEC</td>
<td>Innoventures</td>
<td>WIKI Start-up</td>
<td></td>
</tr>
</tbody>
</table>

(Other countries, including Libya, Yemen, and Palestine, may be considered after ESIF’s first year of operation, depending on how the business, political and economic environment in these countries evolves. Any strategy for expansion into new countries will be determined in collaboration with the Steering Committee, the financing facility manager, donors and partners. Expansion will also depend on resource availability and the results of a monitoring and impact analysis of success metrics in the initial five countries.)

Business development/investment expertise: The TA Facility will invest in the placement of trained business development and investment personnel in incubators and accelerators, who, together with the manager of the incubator/accelerator, will work to fulfill the targets set out in the ESIF M&E framework. These business development and investment personnel might be housed in a single incubator or accelerator or could serve multiple entities, traveling between them to ensure harmonized outputs and outcomes. The business development/investment staff also could potentially be affiliated with the angel networks.

Targeted grants to improve overall functioning and performance of incubators and accelerators may also be considered to address a range of other gaps and needs identified during the assessments. These targeted grants would not be intended to cover the general operating or running costs of the incubator. They would instead address specific needs such as supplementing testing and technical facilities or business-case pitch-preparation services. In all cases, the incubator or accelerator must leverage grants received from ESIF with matching financing raised from other sources, so as to demonstrate broader buy-in and support for its work.

Training and capacity development/knowledge and good practice dissemination. infoDev will develop materials to capture learning and share good practices with others. Special attention will be given to the development of knowledge and learning products that could be used beyond the MENA region. One risk of recipient-executed activities is that lessons may be learned in isolation. However, transferability to the greater infoDev incubator network and elsewhere is important given the experimental nature of the ESIF pilot. It is also important to the wider World Bank and donor/development community, so that ESIF’s experiences are learned from, scaled and leveraged. Therefore, monitoring and evaluation components and educational materials will be built into any grants given to local incubators and accelerators, so that lessons can be codified and shared regularly.
ESIF Technical Assistance—Key Design Features

Working through intermediaries. ESIF will focus its technical assistance activities on intermediaries, that is, incubators and angel networks. It will build their capacity to assist companies and to participate actively in the innovation ecosystem of their countries. This differs from other financing initiatives (see Annex “Blended Finance Analysis”) that provide direct company-focused technical assistance. There are risks and rewards in either approach. Focusing on enterprises will yield strong results on a small number of “almost ready” companies and align more closely with private investors’ goals of immediate, tangible returns on the top 20 or 30 companies in an initiative’s portfolio. This focus is perhaps easier to design—the investor outlines the gaps in a company’s business model, and the TA facility fills those gaps. On the other hand, focusing on the intermediaries that work with companies has the effect of helping not just the top 20 or 30 companies but the next 50 as well, thereby steadily building a pipeline of promising enterprises that could become investment-ready over time. This approach runs the risk of not being specific enough for the needs of the “almost ready” companies. However, it could provide a more scalable method by which long-term ecosystem improvements can be made, and more companies can be assisted, while hopefully still injecting the commercial disciplines and market-based principles that will yield the improved company-level returns and quality deal flow that private investors seek. A long-term approach also means that these market players will be able to sustain themselves and survive after the ESIF exits. This is ultimately a delicate balancing act, which will need to be iteratively designed and thoughtfully managed.

The role of angels. Angel networks are important and bona fide intermediaries for the ESIF TA facility’s engagement and investment. Investment risk mitigation, not just broader development outcomes, is a top priority for angels. This is a welcome discipline for the TA facility and will help guide its implementation path. Increasing angel network capacity has proved to be a solid and rewarding contribution to an important set of players in the innovation and entrepreneurship ecosystem, as infoDev’s has experienced in developing these angel networks around the world.

Enterprise development outcomes: The TA facility will utilize a shared M&E framework with the Financing Facility, which will mitigate the risks mentioned above. This will ensure that all incubators and angel networks focus on the impact they have on companies, and are held accountable for their investment potential.

Tailored support and flexible architecture: Another design feature of the TA facility is its flexibility in dealing with differing needs and capabilities of the various ecosystem players in different countries. There is no “one-size-fits-all” approach or set menu of interventions. While this might increase the transaction cost and design complexity of the facility, it more adequately responds to the feedback of the financing facility manager, other stakeholders and the unique circumstances in each MENA country where ESIF becomes operational.

Assess-Develop-Monitor-Evaluate—ADME methodology: Due to its flexible nature, indirect assistance focused on both supply and demand side enablers, and its collaboration imperative with the financing facility, the ESIF TA Facility will adopt the Assess-Develop-Monitor-Evaluate methodology to programmatically assess, develop, monitor and evaluate a variety of its interventions, focusing on key learnings in a pilot such as this.
2.1.2 Monitoring & Evaluation

The monitoring and evaluation (M&E) framework of the TA facility is outlined in the Annex “Project Development Objectives.” Monitoring and evaluation of project components, sub-components, and activities will be a streamlined, integrated aspect of project implementation and management. Primary responsibility for results monitoring will fall on infoDev, which will present an M&E report to the Steering Committee on a semi-annual basis.

2.1.3 Management

The TA facility will be managed by infoDev. Through both Bank-executed and recipient country-executed components, the TA facility will adopt competitive selection processes. The TA facility will also actively seek out collaborations with other partner agencies and initiatives in this space and consult regularly with the financing facility manager to ensure consistency and cohesion with the investment priorities of ESIF.

2.1.4 Sustainability

The technical assistance delivered to angel networks will facilitate the development of an effective network of angel investors who can share information and resources long after the original assistance ends. The involvement of local stakeholders such as universities and local incubators reinforces sustainability, as these institutions will contribute local knowledge to angel networks and themselves be strong contributors to the overall ecosystem. Materials for training angel networks will be stored and easily accessible. infoDev will promote leading stakeholders within the angel networks to host and deliver training as appropriate.

Technical assistance delivered to business incubators will create a strong community dedicated to the development and financing of start-up firms. Improved organizational practices within incubators can result in more efficient use of resources and higher performance. The production of comprehensive educational materials helps ensure that learning and best practices are well-documented and circulated amongst all stakeholders.

2.2 ESIF Financing Facility

Together with its angel co-investment partners, the ESIF financing facility (FF) provides seed-stage capital to innovative companies in order to catalyze private-sector growth and promote access to finance in underdeveloped markets in the MENA region. The FF will be managed by a third-party manager (FFM) selected on a competitive basis in accordance with World Bank Group procurement procedures.
guidelines. A steering committee (SC) comprising infoDev officials, donor agency staff members, World Bank Group professionals and private sector representatives will govern the facility by identifying ESIF priorities and assess project impacts annually, consistent with World Bank Group conflict-of-interest principles, thereby ensuring that the financing facility be structured and managed on a commercial basis, but will be linked to the overarching development goals of ESIF.

While the final facility entity and structure will be agreed upon with the selected FFM, we anticipate that the financing facility entity will generally follow the ILPA Private Equity Principles and World Bank Group policy requirements for PE funds, as well as evolving industry practice and investor expectations for funds/facilities of this kind.

2.2.1 Investment Process of Financing Facility

The key characteristic of the FF is that it does not itself source and negotiate investment deals. Rather, it develops contractual partnerships with private sector investors, including business angels and angel syndicates. These partners then source deals, undertake a due-diligence examination and negotiate the terms and conditions of the deal. The decision to involve the FF in a deal rests with the partner. However, all investments that the facility makes are on equal terms with the partner. The intention of operating in this way is to avoid displacing private-sector activity.

This is a hybrid approach between doing a full due-diligence investigation of every deal (this classic FFM structure is simply cost-prohibitive at the seed stage) and treating the angels as a financial intermediary (which is the classic fund-of-funds structure and the preferred method for EIF’s European Angel Fund or Scottish Co-Investment Fund). The hybrid approach is necessitated by the fact that angel markets in the developing world are not as mature as their counterparts in the developed world.

The FFM first selects its co-investment partner angels through criteria and threshold metrics and treats them philosophically as financial intermediaries. Then, the FFM conducts a light due-diligence on the deals these partners bring, with all the required supporting material, before committing investments. It is expected that deals that conform to predetermined criteria and templates will also result in partnership discussions with the angels involved, since the angels’ own due diligence and effort as evidenced in best-practices material (Annex “Angel Co-Investment Fund Analysis”) would be a good indicator of their sophistication.

2.2.1.1 Co-investing with angels

The FFM will be involved with the angel development activities through its joint work with the TA manager, so that the identification of potential angel networks and syndicates happens on a continuous basis. The FFM will utilize due-diligence criteria to determine which angels and angel networks are ready for co-investment partnerships. ESIF does not expect the determination thresholds to mimic those used by the developed world practitioners (such as the European Angel Fund—see Annex “Blended Finance
Analysis”) due to the relative underdevelopment of many MENA angels. It will work with its angels to increase their capacity to higher levels, thereby also changing its own risk profile.

The FFM is expected to work with 10 to 20 angel partners in each country through the angel network/syndicate, and each angel partner is expected to invest in two to three start-ups over the life of the Financing Facility. Developing 10–20 bona fide and experienced angels is a joint task between infoDev and FFM supported by Angel TA activities. Only 10 percent of potential angel investors are expected to have or reach the level of maturity and other capacity needed to partner on co-investments. Our initial research in Lebanon, Jordan, Egypt, Tunisia and Morocco confirms the availability of angel investors who are ready to partner in all countries, and potential angel investors who may be incentivized to increase their investment with appropriate technical assistance and other activities. The FF prospectus and OM will list at least three angels per country who have been cleared, to indicate baseline capacity and methodologies.

2.2.1.2 Partner selection process

Formal or informal business angel networks/syndicates that may or may not have an existing relationship with ESIF can apply to be an ESIF partner.

Interested angels or angel syndicates complete an application form (Annex “Co-Investment Partner Application Template”). These are reviewed by the FFM and eligible candidates are interviewed. Among other things, this review process ensures that potential partners have the experience and credibility to make investments in early-stage businesses, and that the source of their funds is adequate and legitimate.

The FFM next makes a recommendation to the investment committee. The applicant then makes a presentation to the investment committee, following which a decision on partnership status is made.

Once approval is given, a contractual agreement setting out the parties’ mutual obligations and showing the partner’s financing allocation is signed by both partners. The money is legally guaranteed by the facility but is only paid to the company once an investment is legally concluded (see next section).

The funding allocation is agreed upon for a three-year period. However, the FFM reviews allocations every six months and the performance of the partners annually in face-to-face meetings. If the funds are not used, they may be withdrawn and reallocated to more active investors. At the end of three years, the allocations are again reviewed and a new legal agreement may be entered into until the end of the project funding period.
2.2.1.3 Co-investing in companies

A typical angel network investment involves screening start-up applications by one or more angel investors before bringing them to other members of the angel network. A self-formed team or “syndicate” of a few angels would then conduct further due diligence before negotiating a term sheet and providing funds. Not every angel will join forces in an investment (hence the difference between an angel network and an angel syndicate), and the leading angels take a very hands-on attitude towards their start-ups. Once a syndicate decides to invest in a company and indicates that it prefers to co-invest with ESIF, the leading co-investment partner starts the application process (Annex “Co-Investment Application Template”).

At that point, ESIF’s final due diligence on the company would generally be limited to a review of available materials through the application form and confirmation that policy requirements have been addressed, including integrity, social and environmental policies. The FF’s Investment Committee would accept or reject the opportunity consistent with its fiduciary obligation to the FF’s investors. The FFM will not investigate potential issues that are flagged in its “light touch” due diligence, instead passing on the opportunity to invest. This stance protects its integrity and also minimizes transaction costs. However, the FFM might use these opportunities and any other company-related due diligence as a way to educate/train the co-investment partner under its technical assistance objectives.

**Figure 4. Investment Origination and Process**
2.2.2 Target Investments

ESIF will target seed-stage, pre-venture investment opportunities with a clearly articulated business plan in which the Facility’s angel co-investment partners serve as a critical enabler of company growth.

Generally, ESIF will invest in self-liquidating preferred-equity or convertible-debt instruments, convertible into the Series A offering price (i.e., the offering to VC investors), at an agreed discount to the offering price. The financing facility will likely invest 12–36 months in advance of the Series-A financing. The total angel round would likely target $100 thousand to $1 million overall transaction sizes.

Portfolio companies will generally have a proprietary advantage, such as a unique technology development approach, intellectual property position or difficult-to-replicate business model. Financing will be tied to the achievement of agreed technology, financing or business development milestones in order to mitigate investment risk.

The FF would take minority positions with typical consent and governance rights, including board representation. It is anticipated that the FF would play a role in developing good corporate governance practices in its portfolio companies.

While the aforementioned characterization of investments is generally true, the FF enters into these investments through the angel co-investment relationship detailed in the next section. Therefore, the FF’s primary responsibility is to develop and work with angels and angel networks in MENA who would then actually determine the FF’s commercial returns and success. This reflects the philosophy and operating procedure of the FF which is in fact a hybrid between a fund-of-funds (i.e., treating angels as a financial intermediary) and a fund (i.e., investing directly in the companies).

2.2.3 Managing Investments

The FF will work closely with other angel investors in the relevant portfolio company to supervise and support its portfolio investments. Only in limited circumstances, and mostly to increase the angel’s capacity, do we expect the FFM to advise and support the FF’s portfolio companies directly.

Follow-on investments will be made contingent on investee performance and market conditions, as the FF’s investment committee determines to be consistent with its fiduciary obligations to the steering committee. We anticipate that follow-on investments will not be made in under-performing companies, unless the investment is accompanied by a material change in the company that enables it to better generate value. In making initial investments, the FFM will set aside adequate reserves for follow-on investments.
2.2.4 Exit Program

A strategic portfolio priority will be to deliver successful exits and returns within five to seven years. The return of capital to potential private sector investors (limited partners) and donors (recycling through the facility) by way of distributions following asset realizations is a priority for the FF. Investment opportunities that could potentially be sold, merged or listed on a recognized stock exchange within three to five years after institutional investors make their initial investment (targeted for within one or two years of co-investments) are preferred, particularly those that could be acquired in a trade sale or list shares on an appropriate exchange. In some cases, the FF may agreed to be “dragged along” by other members of the angel investing group, at not less than an agreed valuation, to facilitate exit. While the FFM decides on opportune exit actions, it will once again leverage the portfolio management decisions of the co-investment partners.

2.2.5 Reporting

The FF will use appropriate reporting frameworks to provide comprehensive reporting on its portfolio companies for both financial and social impact. The FF will require information from its portfolio companies in line with best industry practice, including annual audited financial reports, unaudited quarterly financial reports, and monthly management reports. Portfolio companies will also be required to report periodically on agreed development impact indicators specified in the M&E framework. IRIS metrics are preferred for a standardized benchmarking against other comparable facilities and funds.

2.2.6 Key Indicative Terms

The following key terms will be followed (a comparison with comparable angel co-investment funds is shown in Annex):

<table>
<thead>
<tr>
<th>The Financing Facility</th>
<th>Angel Networks Co-Investment Facility</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Manager</td>
<td>To be selected competitively</td>
</tr>
<tr>
<td>Target Financing Facility Size</td>
<td>Up to $50 million. Minimum closing size $30 million.</td>
</tr>
<tr>
<td>Minimum Commitment</td>
<td>$10 million, although the Manager may accept Commitments of lesser amounts.</td>
</tr>
<tr>
<td>Structure</td>
<td>The financing facility structure will reflect a standard limited partnership, corporate or similar (e.g., SICAV) structure. Depending on investor requirements and donor interest, a first-loss investor tranche may be offered.</td>
</tr>
<tr>
<td><strong>Investment Objective</strong></td>
<td>As outlined in this section.</td>
</tr>
<tr>
<td>--------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td><strong>Investment Period</strong></td>
<td>Seven years from the Final Closing of the Facility, subject to two one-year extensions each with supermajority approval of the investors.</td>
</tr>
<tr>
<td><strong>Geographic Focus</strong></td>
<td>Middle East &amp; North Africa as defined by the World Bank.</td>
</tr>
<tr>
<td><strong>Investment Size</strong></td>
<td>Co-investments range from $50,000 to $500,000 (for total transaction sizes of $100,000 to $1,000,000).</td>
</tr>
<tr>
<td><strong>Investment Types</strong></td>
<td>Equity and quasi-equity (convertible debt). No project financing or lending.</td>
</tr>
<tr>
<td><strong>Safeguards/performance Standards</strong></td>
<td>Facility will follow performance standards on social, environmental and other impacts per World Bank guidelines.</td>
</tr>
<tr>
<td><strong>Follow-on Investments</strong></td>
<td>Up to 20% of total commitments may be reserved for follow-on investments, for three years following the Investment Period. The reserved amounts may be used (among other things) to participate in rights issues and subsequent venture capital financing rounds as deemed appropriate by the FFM.</td>
</tr>
<tr>
<td><strong>Term</strong></td>
<td>10 years from the Final Closing.</td>
</tr>
<tr>
<td><strong>Preferred Return</strong></td>
<td>8% per annum.</td>
</tr>
<tr>
<td><strong>Carried Interest</strong></td>
<td>10% with a 4% hurdle.</td>
</tr>
<tr>
<td><strong>Waterfall and Distribution</strong></td>
<td>Aggregate basis. Private sector Limited Partners may receive their priority distribution per their Limited Partner Agreement. Donors entering into the Facility through the World Bank MDTF, and the consequent Second Grant Agreement to the Facility, shall cause their pro rate share of the distribution to be recycled in ESIF (either through the Technical Assistance component, or the Facility Component). Recycled distributions to the Facility will receive the same type of treatment and consideration of the original grant contribution.</td>
</tr>
<tr>
<td><strong>Manager Clawback and Escrow</strong></td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Management Fee</strong></td>
<td>2% of Commitments during the Investment Period; thereafter 2% of invested capital contributions less write-offs and write-downs. Facility does not pay placement fees.</td>
</tr>
<tr>
<td>-------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Investment Committee</strong></td>
<td>Professionals selected solely by the Manager. 5 members. Each member has one veto right. With Investment Committee's unanimous approval, FFM may proceed with the investment.</td>
</tr>
<tr>
<td><strong>Advisory Committee (Steering Committee)</strong></td>
<td>In ESIF structure, the Steering Committee detailed in this document serves as the Facility’s Advisory Committee. Other than the specific tasks associated with the SC, this governing body will have customary consent rights, such as conflicts of interest, valuations, and waivers of investment restrictions, and may have certain rights in respect of policy waivers and breaches. Steering Committee members will have fiduciary obligation to the Facility or its investors.</td>
</tr>
<tr>
<td><strong>Manager Removal</strong></td>
<td>Customary investor rights to remove the Manager with and without cause.</td>
</tr>
<tr>
<td><strong>Key Persons</strong></td>
<td>Key Persons to be agreed with the Manager. Customary Key Person events to trigger automatic suspension of the Investment Period.</td>
</tr>
<tr>
<td><strong>Other Investor Rights</strong></td>
<td>The Investment Period may be suspended by the Investors upon failure by the financing facility to achieve certain investment or developmental milestones, or upon change in control of the Manager.</td>
</tr>
<tr>
<td><strong>Co-investment Rights</strong></td>
<td>Core Investors to have customary rights to co-invest with the financing facility in certain investment opportunities identified by the FFM, pro rata according to their respective interests in the Financing Facility and without payment of any additional fees or carry to the Manager.</td>
</tr>
<tr>
<td><strong>Policy Requirements</strong></td>
<td>Financing facility to apply best practices in its investment operations in identified policy areas, including AML/IDD, social and environmental matters, and corporate governance.</td>
</tr>
</tbody>
</table>
2.2.7 Sustainability

With regards to the ESIF financing facility, the project’s structure promotes sustainability because it leverages the skills and experience of its angel network members to identify, validate, and confirm angel-driven co-investment opportunities. The technical assistance provided to these incubators will further reinforce their ability to successfully screen and invest in dynamic firms long after the seven-year ESIF facility operational horizon. Any positive financial returns will be rolled back into the ESIF financing facility to maintain continuity in the longer term and as needed by the market. A strategic portfolio priority will be to commence delivering successful exits and returns within five to seven years. Return of capital to potential private sector investors (limited partners) and donors (recycling through the facility) by way of distributions following asset realizations is a priority for the Facility.

3 Governance, Structure & Management

A detailed governance arrangement will be developed over the coming months, indicating how the entities involved with ESIF will interact with one another and the structure of the decision making process. In the Annex “Entity Chart”, a depiction of these entities appears. A draft operations manual (OM) will be completed and approved by both the FFM and infoDev prior to project negotiations, stipulating operational structure, financial management, governance, the decision-making process, eligibility, and selection (negative list) criteria for the investment activities. Below follows a brief description of the various ESIF entities. Some details are proposed below for the structure of the ESIF facility.

3.1 Steering Committee

As a blended finance facility, ESIF will be governed by its stakeholders and executives to achieve both developmental goals through its technical assistance operations and commercial goals through its financing operations. ESIF’s Steering Committee (SC) will strategically review on a quarterly basis ESIF’s progress. The SC will comprise nine appointed members of the facility, including a member from the World Bank, the manager of infoDev, the FFM, three members of donor organizations, and three members from the private sector as representatives of limited-partner investors and other stakeholders.

Duties of the SC include:

- governing the facility by establishing broad policies and objectives;
- supporting and reviewing the performance of the TA and financing facility;
- approving the annual technical assistance program and budgets;
accounting to the stakeholders for ESIF’s performance; and

formally coordinating the TA Facility and FFM, and resolving any differences of direction between the two.

This body also assumes the role of a typical fund advisory committee, in that it will have customary consent rights, such as conflicts of interest, valuations, and waivers of investment restrictions, and may have certain rights in respect of policy waivers and breaches for the financing facility.

3.2 Financing Facility Management

The FFM will administer equity investments through the FF entity and coordinate with infoDev on technical assistance. The OM mentioned above will be reflected in the FF’s prospectus and all other processes related to project implementation. Adoption of the final approved OM by the SC will be a condition of effectiveness. The FFM will have an investment/project manager, investment analyst, and technical assistance coordinator, along with an accountant and internal auditor shortly after the effective date of the agreement.

3.3 Investment Committee

The investment committee (IC) is a five-member committee appointed by the. This committee makes the ultimate investing decisions on all investments through a unanimous vote. The decisions are then carried out by the FFM. IC also approves all co-investment partners through a unanimous vote.

3.4 Financing Facility Entity

The financing facility’s functions and operations will be for no other purpose than to hold the equity investments until they are exited and rolled back for additional investment under the project or liquidated and processed in accordance with IC decisions. The entity (potentially an offshore special-purpose vehicle) will be established by the FFM after the project goes live, contingent upon a legal opinion that it has been established in accordance with applicable laws and is able to exercise its functions.

3.5 Technical Assistance Facility Management

Technical assistance will be administered and disbursed directly by infoDev through either bank-executed activities or grants to beneficiaries such as incubators and angel networks. The TA facility is managed by the infoDev in conjunction with the FFM. infoDev intends to have in place the following personnel by project start date. It will include: (a) one full-time project manager with the requisite qualifications and experience in technical assistance, start-ups and equity investment, who will be responsible for managing the project and meeting reporting requirements such as monitoring results
indicators, procurement, and financial activities; (b) an operations officer in charge of marketing, grants and outreach; and (c) an assessment, monitoring and evaluation expert. In addition, infoDev staff who are already experienced in incubator networks and other relevant technical assistance programs, and MENA FPD staff who work on similar projects in the MENA region may be available to ESIF.

4 Project Implementation

4.1 Institutional arrangements and implementation

The early-stage innovation financing facility will utilize World Bank structures and operations, and consistent with appropriate conflict of interest rules, accept both public and private funding for the project. The World Bank will set up a multi-donor trust fund, structured in a manner consistent with its trust fund rules, to house the funds for the project. This trust fund will be managed by infoDev. infoDev will select a FFM using World Bank competitive selection mechanisms, who will set up the $50 million financing facility as a distinct legal entity governed by its own board. An initial grant will then enable the selected firm. The FF will receive the remaining funds subject to World Bank financial intermediary procurement rules. An appropriate prospectus will be developed as a founding operational document of the facility, specifying its operations, governance, etc. The governance of the overarching ESIF will connect the FF entity to the TA facility entity in terms of common broad goals and collaboration mechanisms.

The $20 million Technical Assistance Facility will be administered and housed by infoDev, and governed in accordance with established World Bank trust fund rules.

While a prospectus will specify the operations of the facility, DFIs or private sector investors could enter into what is known as a Limited Partner Agreement (LPA) that governs the specifics of their relationship. The prospectus will dictate the key terms of such LPAs but certain details can be negotiated separately. For instance, a private investor might ask for capital protection in its LPA, and perhaps reduced fees. The financing facility manager shall facilitate these negotiations.
4.2 Identification/Coordination of Other Interventions and Linkages

The FFM and infoDev will determine which ongoing activities of public and private entities promote angel network creation, start-up technical assistance, export facilitation, mentor network creation, risk capital and start-up competitiveness. ESIF intends to complement and collaborate with existing interventions in the region to leverage resources and promote regional synergies.

Whenever possible and appropriate, TA activities will involve a consortium of partners to maximize resources and expertise for angel networks and business incubators. A number of organizations and institutions in Lebanon, Jordan, Egypt, Tunisia, and Morocco have expressed strong support for the project and willingness to contribute in kind as members of peer review/selection committees, policy reform, mentorship networks, and academic linkages according to their capacity and mandate. These institutions include private-sector institutions, existing incubators and accelerators, VC funds, and prominent universities. The project’s focus on linkages and partnerships enhances the quality of technical assistance provided by ensuring that experts from a variety of fields with diverse perspectives are recognized. Similarly, partnerships and linkages promote project sustainability by integrating local institutions that will remain in the markets long after TA efforts are completed.
5  Key Risks and Mitigation Measures

There are high risks associated with transferring an angel co-investment model tested in the United States and Europe to the MENA region. Fundamental cultural, legal, economic, and political differences will greatly impact the implementation of the ESIF facility in MENA. Countries, investment options and partners on the ground must therefore be very carefully selected.

The business environment for conducting business in MENA has been improving, but is still much less hospitable than the United States and Europe, where angels have experienced strong returns on their investments. Between 2006 and 2011, the cost of starting a business in the MENA region has fallen from 67.8 percent of income per capita to 38.0 percent. However, this is still much higher than OECD and high income countries’ average of 5.3 percent of per-capita income. MENA countries have streamlined the process for starting a business by introducing new technology, particularly since 2008; however, the use of e-services is still low compared with developed economies.  

The MENA region also presents significant risks associated with relatively weak legal protection for investors. This liability highly impacts the ability of companies to raise the capital needed to grow and compete. On a scale of 1–10, comparing the extent of disclosure, extent of director liability and ease of shareholder suits, average regional investor protection in MENA is 4.8. New Zealand is the global benchmark for strength of investor protection at 9.7.

Other risks relate to the strength of the entrepreneurship ecosystem in MENA and the ability of infoDev to meaningfully improve the ecosystem through technical assistance to network incubators. The infoDev incubator network in MENA needs its capacity to be strengthened, and new entities that are not in the network should be included. The prevalence of high-growth, innovative start-ups with investment potential is also not known with certainty.

infoDev, in close consultation with the World Bank Country Offices in the MENA region, and other ESIF partners, will examine these risks during the feasibility assessment stage, and recommend targeted mitigators.

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23 World Bank, Doing Business 2011
24 World Bank, Doing Business in MENA 2011
## Risk

<table>
<thead>
<tr>
<th>Risk</th>
<th>Description</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deal Flow</td>
<td>Lack of investable companies will undermine relationships between Angel Networks and incubators and undermine viability of ESIF financing facility</td>
<td>ESIF Technical Assistance offerings, especially including Angel activity and mentoring, will increase competitiveness and value of start-ups. Also, competitions will identify valuable MENA start-ups from outside infoDev incubator networks.</td>
</tr>
<tr>
<td>Tax/Legal</td>
<td>The MENA region lacks the tax incentives and legal frameworks which encourage Angel activity in the United States and Europe.</td>
<td>The ESIF financing facility’s proposed first-loss incentive would supplant tax incentives offered in the US and Europe. The risk mitigation for angels will encourage their participation in seed and early-stage deals.</td>
</tr>
<tr>
<td>Political Instability</td>
<td>Following the “Arab Spring,” the MENA countries- particularly Libya, Tunisia, Egypt, Syria- will provide entrepreneurs with an uncertain environment in which to grow their businesses.</td>
<td>There will be strong dependence on the World Bank MENA teams to advise on the political readiness of the countries, and ESIF feasibility and scoping missions will be regularly held. The application of Technical Assistance and investment decisions by the financing facility will be kept active and flexible. The blended TA and finance will be rolled out only in political contexts where entrepreneurs have long-term viability. The ESIF facility will be unable to directly mitigate political risk, but will be sufficiently agile to avoid environments where political risks preclude the growth of innovative start-ups.</td>
</tr>
<tr>
<td>Exits</td>
<td>In order for the ESIF facility to effectively signal other private sector actors to “crowd-in,” the mechanism will need to secure “exits” for the companies in which it invests. Corporate partnerships, IPOs, buybacks, etc are unproven for this asset class in MENA.</td>
<td>Mentorship and Angel networks will expose entrepreneurs to a global supply chains. Technical service offering, especially mentorship, will increase the competitiveness and value of companies and thus, increase the likelihood of public offering in regional and international exchanges.</td>
</tr>
<tr>
<td>Angels</td>
<td>Successful angels actively mentor the companies in which they invest. This trusted relationship between angel and entrepreneur is proven in developed world context, but may be impacted in unforeseen ways by unique cultural realities of MENA.</td>
<td>ESIF Technical Assistance will provide clear best practices for angel-entrepreneur relationships. Standardized investment procedures will serve to establish trust between entrepreneur and angel.</td>
</tr>
<tr>
<td>Structure</td>
<td>The ESIF model assumes a complex web of relationships between entrepreneurs, incubators, mentors, angels and the ESIF financing facility manager. Incentive structures remain undefined.</td>
<td>The ESIF mechanism targets the operating costs and lack of knowledge which often stymie the interaction between mentors, angels, incubators and entrepreneurs.</td>
</tr>
<tr>
<td>Redundancy</td>
<td>Initial research indicates a lack of risk capital available to start-ups in MENA. However, markets may allocate resources extremely quickly, and it is found that ESIF may be crowding-out other entities.</td>
<td>Innovative start-ups in MENA have yet to be proven as a viable asset class, yet there are a number of burgeoning private sector efforts to promote angel investment and two WBG projects to promote angel investment in the MENA region. The ESIF mechanism will actively coordinate all activities to collaboratively build local angel investor ecosystems. Ultimately, the ESIF model seeks to exit this market once it functions better by crowding-in private sector actors.</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Ecosystem enablers</td>
<td>There is a risk that the ecosystem enablers (angels, incubators, etc) may not accurately understand or articulate the TA needs of the investee firms</td>
<td>Independent continuous assessment of needs of projects by infoDev will ensure timely and relevant supply of TA. An M&amp;E specialist tasked with these duties, will conduct periodic information dissemination and reviews. Training will be provided to the ecosystem enablers.</td>
</tr>
<tr>
<td>Investment focus</td>
<td>Angel Co-Partners, rather than playing their true role of seeking out and structuring promising start-ups, could focus on private equity in existing firms with an established track record that need to be turned around and restructured.</td>
<td>The financing facility would preclude certain investment categories, and will have strict provisions to ensure that investments focus on firms that are in the valley of death.</td>
</tr>
<tr>
<td>Misuse of funds by the financing facility manager</td>
<td>Despite background checks and monitoring by infoDev, the financing facility manager could misuse funds</td>
<td>Contractual provisions in the agreement entered into by the financing facility manager and the World Bank will ensure disbursement of money at specific milestones/time intervals. Legal provisions to countenance such a situation will be included in the contract by working closely with the procurement, legal and other departments of the World Bank.</td>
</tr>
<tr>
<td><strong>Misuse of funds by investee firms</strong></td>
<td>Despite due diligence by the financing facility manager, the investee firms could misuse funds</td>
<td>The responsibility of monitoring the usage of the investment money would lie on the financing facility manager and co-investors. Misuse will be dealt with via a range of actions, including prosecution of the investee firm. The financing facility manager will need to demonstrate an awareness of this and experience in dealing with it during his/her selection process.</td>
</tr>
<tr>
<td><strong>Social Safeguards</strong></td>
<td>Possibility that social safeguards policies of WBG could be triggered.</td>
<td>ESIF will not finance any activities which, would involve land acquisition or involuntary resettlement impacts. ESIF will also not fund activities which can affect any indigenous people’s communities or groups.</td>
</tr>
<tr>
<td><strong>Conflicts of Interest</strong></td>
<td>The financing facility manager, during the due diligence process may get attached to the firms it is reviewing, become their champion in the awards process, and hence lose objectivity.</td>
<td>The independent Investment Committee (IC) will be established from experts in the field and will be deciding on the beneficiaries for the equity investments thereby, separating the review and application process from the decision-making process.</td>
</tr>
<tr>
<td><strong>Environment safeguards</strong></td>
<td>Possibility that the Bank’s environmental safeguard policies are triggered.</td>
<td>ESIF is expected to finance small enterprises in sectors like ICT, which are unlikely to cause any negative environmental impacts.</td>
</tr>
<tr>
<td><strong>M&amp;E</strong></td>
<td>Monitoring and Evaluation requirements are not properly understood and complied with.</td>
<td>M&amp;E training for all recipients will be conducted at the time of project launch. The training will cover: the basics of (a) monitoring and evaluation frameworks, (b) different types of indicators, including impact and outcome of the project indicators (c) collection efforts including survey-based collection of results data (d) reporting requirements for the World Bank project. M&amp;E experts will be deployed during the project to ensure that the agreed M&amp;E requirements are met.</td>
</tr>
</tbody>
</table>
6 Results Framework, Monitoring & Evaluation

ESIF’s development objectives are to support or create about 50 incubators, co-invest in 200 start-ups, impact more than 7,000 start-ups, establish or enhance about eight angel networks that reach at least 80 angel investors, and create about 5,000 direct and 20,000 indirect jobs through its investments.

As a direct result of ESIF TA interventions, 7,000 high-growth potential entrepreneurs will receive business development support, of which 500 will be evaluated by network angel investors. Two hundred eventually will receive angel and co-investment financing.

An initial ESIF Results Framework (see Annex “Results Framework”) lays out the logical results chain and some core indicators for inputs, outputs, outcomes and impact.

PDO level results indicators are as follows:

1) Increase in start-ups’ access to finance
   a. Total number of firms receiving equity financing leveraging angel investors
   b. Total amount of equity financing received (leveraged) through the project, leveraging investors
   c. Total number of angels and networks created

2) Level of Innovation
   a. Number of new/improved products/processes offered

3) Growth of beneficiary start-ups
   a. Growth in sales/turnover of beneficiary start-ups
   b. Number of new jobs created in beneficiary start-ups.

4) Commercial Viability of Angel Investing as an Asset Class
   a. Positive aggregate investing returns of the Financing Facility
   b. Creation of angel investor culture and proof of MENA start-ups as an asset class

5) Capacity Increase of Incubators (and other enablers) to support start-ups
   a. Number of new/improved supporting activities
   b. Quality of new/improved supporting activities

Intermediate level results indicators are as follows:

Volume Analysis

   a. Number of firms applying for TA grants
   b. Number of firms receiving TA grants
   c. Volume of TA grants
   d. Number of firms applying for ESIF funding
6.1 Monitoring and Evaluation Implementation

The M&E framework builds on the results outlined in the PDO and includes indicators to assess accomplishments against the PDO and components. Primary responsibility for results monitoring will fall on the FFM and infoDev. M&E reports will be created on a continuous basis but shared formally with the steering committee on an annual basis.

a) The full M&E results framework will be finalized with the support of the FFM in consultation with the ecosystem enablers by effectiveness. infoDev will also draw on experiences from infoDev’s Community of Practice program. Given the specifically focused nature of the facility, the results matrix is customized to meet the tracking the successful implementation of the objectives of the facility. However, given the pilot nature of the project in MENA and the potential it offers for learning, ESIF will additionally identify and track specific long-term impact measures such as the sector and growth profile and trajectory of the participating firms.

b) M&E training will be conducted by experts from the WBG at the FF and infoDev shortly after project start. The training will cover: the basics of (a) monitoring and evaluation frameworks; (b) different types of indicators required for project monitoring; (c) collection efforts including survey-based collection of results data; and (d) reporting requirements for the World Bank project.

c) Data collection and reporting will be automated where possible.

d) Periodic review may offer the opportunity to amend the indicator series or target values based on evolving circumstances.

The results framework will involve monitoring and evaluation at two levels. At the higher level, the SC would monitor the progress of the project and its overarching goals. This would provide insights into the
effectiveness of the broad strategy. At the more tactical level, ESIF joint management would continually monitor the outcome and outputs of specific activities executed by the FFM and infoDev along with incubators and angel networks.

**Additional Monitoring and Evaluation Considerations:**

Given the innovative nature of ESIF’s approach, assessment of the impact of ESIF must cover long-term as well as short-term issues. There will be enormous learning from this experience, as well as iterative adjustments made along the way to account for conditions on the ground, the expectations of the partners, the political and business realities in the markets concerned, and importantly, the feedback of the entrepreneurs and start-ups on whether ESIF really helps to ensure their longevity and sustainability. If ESIF succeeds, the potential exists to expand ESIF to other regions and, over time, to build a global community of start-up investment and support practitioners, much as infoDev has done with incubation.

The feedback and experience of the enterprises concerned will need to be assessed both qualitatively and quantitatively. Did the ESIF instrument effectively help them find the growth capital they need? How exportable are notions of angel investing, boot camps, and acceleration, which work so well in developed markets? Since start-up entrepreneurs need a community of support, has the interaction between the enterprises, the incubators and the mentors/angels been effective? Has the community of practice which infoDev brings made a discernible difference to these enterprises?

Finally, the possibility of launching ESIF in other world regions will be assessed. infoDev has the ability to reach a global audience through its incubator network and should use web-based tools, conferences and workshops to regularly disseminate findings and knowledge from the MENA pilot to its global membership.
# ANNEX — PROJECT BUDGET

<table>
<thead>
<tr>
<th></th>
<th>2012 (000s)</th>
<th>2013 (000s)</th>
<th>2014 (000s)</th>
<th>2015 (000s)</th>
<th>2016 (000s)</th>
<th>2017 (000s)</th>
<th>Total (000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Research &amp; Preparation</strong></td>
<td>500</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>500</td>
</tr>
<tr>
<td><strong>Financing Facility Investments</strong></td>
<td>3,000</td>
<td>5,000</td>
<td>10,000</td>
<td>12,000</td>
<td>12,000</td>
<td>42,000</td>
<td></td>
</tr>
<tr>
<td><strong>Financing Facility Management</strong></td>
<td>500</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
<td>8,000</td>
<td></td>
</tr>
<tr>
<td><strong>TA: Creating Angel Networks</strong></td>
<td>1,000</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td>5,800</td>
<td></td>
</tr>
<tr>
<td><strong>TA: Strengthening Incubators</strong></td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td><strong>TA: Promoting Global Knowledge</strong></td>
<td>750</td>
<td>750</td>
<td>750</td>
<td>750</td>
<td>750</td>
<td>3,750</td>
<td></td>
</tr>
<tr>
<td><strong>Monitoring &amp; Evaluation</strong></td>
<td>200</td>
<td>200</td>
<td>200</td>
<td>200</td>
<td>200</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td><strong>Project Management</strong></td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td><strong>WB Fees &amp; Overhead</strong></td>
<td>414</td>
<td>414</td>
<td>414</td>
<td>414</td>
<td>414</td>
<td>2,072</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,000</td>
<td>8,464</td>
<td>10,664</td>
<td>15,664</td>
<td>17,664</td>
<td>71,122</td>
<td></td>
</tr>
</tbody>
</table>

**Graph:**
- Research & Preparation: 59%
- Fund Investments: 11%
- Fund Management: 8%
- Creating Angel Networks: 7%
- Strengthening Incubators: 5%
- Monitoring & Evaluation: 2%
- Project Management: 4%
- WB Fees & Overhead: 1%
- Total: 100%
ANNEX—DETAILED ENTITY DIAGRAM (Subject to confirmation and further consultation)

Private Sector Investors → ESIF Financing Facility

Donors → World Bank MDTF

Steering Committee

Limited Partners → Class A Shares

8%-12 target return

ESIF Financing Facility

Limited Partnership (Luxembourg SICAV)

Investment Committee

Equity & Debt Investments

Seed, early, growth stage companies

Increasing Investment potential, Mentoring, etc

Co-Investment Partners

Incubators

ESIF Technical Assistance Facility (Managed by infoDev, WB Child TF)

Funding USD 20 m

Management Fees 9%

World Bank MDTF → Child TF USD 20 m

Grant agreement

Management Services

Equity & Debt Investments; Pipeline, Due Diligence, Analysis, Monitoring, Mentoring, Exits

Steering Committee

Grant agreement

Management Fees
## ANNEX—PROJECT DEVELOPMENT OBJECTIVES

<table>
<thead>
<tr>
<th>PDO Level Results Indicators*</th>
<th>Unit of Measure</th>
<th>Baseline</th>
<th>Cumulative Target Values**</th>
<th>Frequency</th>
<th>Data Source/Methodology</th>
<th>Responsibility for Data Collection</th>
<th>Description (indicator definition etc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Total number of firms receiving equity financing from the ESIF Financing Facility</td>
<td>Number</td>
<td>0</td>
<td>40 80 120 140 160 180 200</td>
<td>Semi Annual</td>
<td>Ongoing Monitoring</td>
<td>FINANCING FACILITY MANAGER</td>
<td>FINANCING FACILITY MANAGER</td>
</tr>
<tr>
<td>ii. Total amount of equity financing disbursed (including co-investment)</td>
<td>$ 000s</td>
<td>0</td>
<td>3,000 8,000 15,000 22,000 35,000 42,500 50,000</td>
<td>Semi Annual</td>
<td>Ongoing Monitoring</td>
<td>FINANCING FACILITY MANAGER</td>
<td>FINANCING FACILITY MANAGER</td>
</tr>
<tr>
<td>iii. Number of angels and networks created</td>
<td>Number</td>
<td>0</td>
<td>1 2 3 4 5 6 8</td>
<td>Annual</td>
<td>Ongoing Monitoring</td>
<td>FINANCING FACILITY MANAGER</td>
<td>FINANCING FACILITY MANAGER</td>
</tr>
<tr>
<td>iv. Number of new/improved products/processes offered</td>
<td>Number</td>
<td>0</td>
<td>0 20 45 65 80 95 115</td>
<td>Annual</td>
<td>Survey</td>
<td>FINANCING FACILITY MANAGER</td>
<td>FINANCING FACILITY MANAGER</td>
</tr>
<tr>
<td>v. Growth in sales/tturnover of beneficiary start-ups 25</td>
<td>%</td>
<td>0</td>
<td>not applicable</td>
<td>Project-End</td>
<td>Survey</td>
<td>FINANCING FACILITY MANAGER</td>
<td>FINANCING FACILITY MANAGER</td>
</tr>
<tr>
<td>vi. No. of new jobs created in beneficiary start-ups</td>
<td>Number</td>
<td>0</td>
<td>200 500 1,100 2,000 3,000 4,200 5,000</td>
<td>Annual</td>
<td>Survey</td>
<td>FINANCING FACILITY MANAGER</td>
<td>FINANCING FACILITY MANAGER</td>
</tr>
</tbody>
</table>

25 A proxy for measure of SME growth is the sales/tturnover of the portfolio of firms. This estimate is the Compound Annual Growth Rate (CAGR) of portfolio sales that would achieve the expected return for investors.
<table>
<thead>
<tr>
<th>Intermediate Result Indicator</th>
<th>Number</th>
<th>0</th>
<th>500</th>
<th>1,200</th>
<th>2,200</th>
<th>3,400</th>
<th>4,700</th>
<th>5,500</th>
<th>7,000</th>
<th>Quarterly</th>
<th>Ongoing Monitoring</th>
<th>infoDev</th>
</tr>
</thead>
<tbody>
<tr>
<td>1: No. of firms applying for TA grants</td>
<td>Number</td>
<td>0</td>
<td>80</td>
<td>160</td>
<td>240</td>
<td>320</td>
<td>400</td>
<td>500</td>
<td>620</td>
<td>Quarterly</td>
<td>Ongoing Monitoring</td>
<td>infoDev</td>
</tr>
<tr>
<td>2: No. of firms receiving TA grants</td>
<td>$ 000s</td>
<td>0</td>
<td>2,000</td>
<td>5,000</td>
<td>8,000</td>
<td>10,000</td>
<td>13,000</td>
<td>16,000</td>
<td>20,000</td>
<td>Quarterly</td>
<td>Ongoing Monitoring</td>
<td>infoDev</td>
</tr>
<tr>
<td>3: Vol. of TA grants</td>
<td>Number</td>
<td>0</td>
<td>80</td>
<td>120</td>
<td>160</td>
<td>200</td>
<td>240</td>
<td>280</td>
<td>320</td>
<td>Quarterly</td>
<td>Ongoing Monitoring</td>
<td>infoDev</td>
</tr>
<tr>
<td>4: No. of firms applying for ESIF funding</td>
<td>$ 000s</td>
<td>0</td>
<td>3,000</td>
<td>8,000</td>
<td>15,000</td>
<td>22,000</td>
<td>35,000</td>
<td>42,500</td>
<td>50,000</td>
<td>Quarterly</td>
<td>Ongoing Monitoring</td>
<td>infoDev</td>
</tr>
<tr>
<td>5: Total vol. of ESIF equity funding disbursed</td>
<td>Number</td>
<td>0</td>
<td>85</td>
<td>125</td>
<td>250</td>
<td>350</td>
<td>600</td>
<td>500</td>
<td>600</td>
<td>Quarterly</td>
<td>Ongoing Monitoring</td>
<td>FINANCING FACILITY MANAGER</td>
</tr>
<tr>
<td>6: Firms applying to ESIF for financing</td>
<td>Number</td>
<td>0</td>
<td>40</td>
<td>80</td>
<td>120</td>
<td>160</td>
<td>200</td>
<td>250</td>
<td>300</td>
<td>Quarterly</td>
<td>Ongoing Monitoring</td>
<td>FINANCING FACILITY MANAGER</td>
</tr>
<tr>
<td>7: Firms awarded ESIF financing—Seed, Venture &amp; Growth</td>
<td>$ 000</td>
<td>0</td>
<td>3,000</td>
<td>8,000</td>
<td>15,000</td>
<td>22,000</td>
<td>35,000</td>
<td>42,500</td>
<td>50,000</td>
<td>Quarterly</td>
<td>Ongoing Monitoring</td>
<td>FINANCING FACILITY MANAGER</td>
</tr>
</tbody>
</table>
Beneficiary Profile and Performance

In addition to the results framework, which is designed specifically to target the objectives of the project, ESIF will also monitor and report on specific indicators of beneficiary profile and performance for all enterprises that apply for financing, irrespective of their receipt of financing.

A. Beneficiary Profile Data

<table>
<thead>
<tr>
<th>NAME of start-up</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector in which start-up operates</td>
<td></td>
</tr>
<tr>
<td>Geographic Area of operation</td>
<td></td>
</tr>
<tr>
<td>Did firm receive TA ? What and how much?</td>
<td></td>
</tr>
<tr>
<td>Does start-up produce and report Annual Financial statements?</td>
<td></td>
</tr>
<tr>
<td>Are statements produced in a timely manner? (i.e. 90 days of year-end)?</td>
<td></td>
</tr>
<tr>
<td>Has the firm applied for a patent since establishment?</td>
<td></td>
</tr>
</tbody>
</table>

B. Beneficiary Performance

<table>
<thead>
<tr>
<th>Beneficiary Performance</th>
<th>Unit of Measure</th>
<th>Baseline</th>
<th>Cumulative Values**</th>
<th>Frequency</th>
<th>Data Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Margin</td>
<td>%</td>
<td></td>
<td>YR1 YR2 YR3 YR4 YR5</td>
<td>Annual</td>
<td>Survey</td>
</tr>
<tr>
<td>Category</td>
<td>Units</td>
<td>Annual</td>
<td>Survey</td>
<td></td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports (if any)</td>
<td>$000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of full-time employees</td>
<td>Number</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Of which % women</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Of which % youth (age &lt; 25 yrs.)</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of administrative /support/secretaries staff</td>
<td>Number</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Of which % women</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Of which % youth (age &lt; 25 yrs.)</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of managerial level employees</td>
<td>Number</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Of which % women</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Of which % youth (age &lt; 25 yrs.)</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of professional /technical employees (excludes managers and administrative/support/staff)</td>
<td>Number</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Of which % women</td>
<td>%</td>
<td>Annual</td>
<td>Survey</td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------</td>
<td>---</td>
<td>--------</td>
<td>--------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Of which % youth (age&lt;25 yrs.)</td>
<td>%</td>
<td>Annual</td>
<td>Survey</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of indirect jobs (outsourced, contractors and sub-contractors, suppliers or others in value chain (estimate)</td>
<td>Number</td>
<td>Annual</td>
<td>Survey</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total private investment in beneficiary start-ups</td>
<td>$000</td>
<td>Annual</td>
<td>Survey</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in the volume of other sources of financing</td>
<td></td>
<td>Annual</td>
<td>Survey</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Increase in loans from commercial banks</td>
<td>Ratio</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Increase in Equity from other sources</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ANNEX—COUNTRY ANALYSES

1. Missions were conducted to identify gaps (financing, business development services, etc) within the entrepreneurship ecosystems of Lebanon, Jordan, Egypt, Tunisia and Morocco, and highlighted possible interventions to address these gaps. Teams met with a number of early-stage entrepreneurs, business incubators, acceleration programs, angel investors, seed-stage venture capital, early-stage financiers, mentors, and various DFIs.

2. The teams also consulted closely with World Bank project teams, for instance with the Development Policy Review in Jordan, the Mobile Internet Ecosystem Project in Lebanon, the SME Innovation and early Growth project in Lebanon and the MSME project in Egypt and Jordan.

SUMMARY OUTCOMES

LEBANON

3. During the scoping mission to, Lebanon the team interviewed the following incubatees: Altcity, Seeqnce, Berytech technopole, Berytech tech and health, as well as the Business Incubator Association in Tripoli (BIAT) and BADER. The scoping team also spoke with management staff for two planned incubators, one at the American University in Beirut and the second near Solidere, the largest Lebanese conglomerate.

4. Companies housed in incubators expressed various views of quality of service they received from their host institutions. Generally, companies spoke positively about the effect of being among a community of fellow entrepreneurs in the institution. The proximity among companies gave them a useful sounding board during product development and refinement, and also kept them connected to activities and opportunities within the ecosystem.

5. The Kafalat loan guarantee program is the most pervasive financing option for entrepreneurs in Lebanon.

6. Seed-stage venture capital firms, including Berytech Fund, Cedrus Ventures and Middle Eastern Venture Partners, are very active in both financing local firms and promoting the Lebanese innovation ecosystem.

7. The Lebanese Business Angels are the only angel group in Lebanon. At the time of scoping, the majority of entrepreneurs did not consider angel financing a viable option for funding their businesses. Only a select few entrepreneurs who were fundraising internationally were familiar with the concept of “smart money” angel investing.

8. Issues and challenges include:
   - Financing gap: $50,000–$200,000
   - Entrepreneurs highlighted issue of trusting financiers
• VCs very active, angels still in very early stage of development and lacking experience
• Demand for business development services is outstripping the supply of incubators and other support programs, especially mentorship programs
• Active technology-enabled sectors: ICT, creative industries, medical technology agribusiness (in Tripoli)
• Political and security situation is extremely volatile and fluid

JORDAN

9. SMEs are important players in the private sector, contributing an estimated 50% of GDP and employing around 60% of the total workforce. The majority of SMEs are in retail, wholesale and trading. The fastest-growing sectors in Jordan are utilities, with both the electricity and water sectors growing by around 12 percent a year. Jordan ranks ninth on the list of best outsourcing destinations in the world.26

10. The infoDev team interviewed incubator managers from iPark, Oasis500, El Hassan Science City, Business Development Center, Al Urdonia Lil Ebda- Irbid, National Net Ventures (N2V), Queen Rania Center for Entrepreneurship, INJAZ and the Microsoft Innovation Center. A majority of these institutions were tied to and at least partially funded by the Jordanian government, including Oasis 500, which is the only true accelerator program in Jordan.

11. As a whole, entrepreneurs praised conditions for technology-enabled businesses in Jordan, and many realized that company founders and service providers alike were undergoing a necessary learning process. Specific gaps identified by entrepreneurs include the dearth of appropriate mentorship, lack of legal and tax experts related to start-ups, and the shallow level of assistance for business development and technical expertise available at most incubation facilities.

12. Entrepreneurs were sensitive to interactions with individual high-net-worth individuals during investment negotiations. Trust was a constant concern for company founders and often colored their perceptions of the availability of angel and seed finance.

13. Seed and Series A financing options for micro and small businesses in Jordan is very advanced compared with other countries in MENA. Government grant mechanisms, individual angels, angel networks, VCs and regional PE are all proven viable options for a number of potential high-growth enterprises in Jordan.

14. Issues and challenges include:

• Financing gap: $200,000-$500,000
• Active technology-enabled sectors: ICT, Services, Pharma, Climate (H20)
• Entrepreneurs highlighted issues of trust with, and efficacy of angel financiers
• VCs very active, angels activities in initial stage, first experiences available, but interest to learn and improve;

26 http://www.indexmundi.com/jordan/economy_profile.html
Demand for business development services is outstripping supply of incubators and other support programs, especially legal expertise

Government is very active in promoting entrepreneurship and innovation

EGYPT

15. Unemployment in Egypt continues to rise significantly, especially in urban areas and among Egyptian females. The countrywide tally reached 12.4 percent in December 2011 with 9.1 of men and 23.6 women jobless. As of December 2011, 84.8 percent of unemployed had attained an intermediate education or above.

16. A majority of entrepreneurs currently enrolled in accelerators had been educated within Egypt and had employment experience with large private corporations in Egypt. Only one entrepreneur interviewed mentioned previous employment by the government.

17. All entrepreneurs highlighted the very limited options for grant, credit and equity financing. Credit is inhibited by Egypt’s legal structure, in which bankruptcy is a criminal offense. There is only one active VC firm.

18. Private accelerators are experiencing growth in the number and quality of applications they receive. Regardless, managers of these programs see much room for improvement in the overall quality of entrepreneurs in Egypt.

19. Managers of both private and public incubators indicated a need for greater development of the wider entrepreneurship ecosystem in Egypt. Specifically, these needs included availability of mentorship, service providers for market analysis, marketing, and private business incubators to complement the existence of accelerators.

20. There is a significant gap in risk financing in Egypt from $50,000-$1 million, with an especially critical gap from $250,000–$500,000. According to industry experts, this range should be addressed through the expansion of angel investors in Cairo and greater Egypt.

21. There is only one locally-based venture capital firm providing seed capital in Egypt-Ideavelopers. This fund is a subsidiary of EFG Hermes, a larger private equity firm. It executes equity deals above EGP 3 million (about $500,000). OT Ventures and Sofico are holding companies that make smaller equity investments in technology businesses and acquire businesses with the aim of leveraging each business’s individual strengths across their portfolio to increase the net value of all entities.

22. The only angel syndicate located in Lebanon is the Cairo Business Angels. They are a burgeoning organization of local high-net-worth individuals convened through training and support of USAID’s Global Entrepreneurship Program in Egypt. The CBA does not pool assets in a fund and is not officially syndicated.

23. Issues and challenges include:
• Financing gap: $50,000–1,000,000,000; acute need $250,000–$500,000
• Active technology-enabled sectors: ICT, creative industries, medical technology.
• Business development services are vastly under-resourced
• Private industry very active and willing to partner to develop entrepreneurship ecosystem
• Only one angel group (inactive) and a single seed-stage VC firm
• Political and security situation is volatile and fluid

TUNISIA

24. Overall, quite a dynamic environment with a significant number of innovative projects brought by motivated entrepreneurs. It is estimated that out of the 597,321 private companies in Tunisia, almost 87 percent are one-person companies.27

25. A number of business development support organizations exist: publicly funded and managed business incubators in different regions of the country, centres d’affaires (i.e., business centers under chambers of commerce and industry) and a few recent private and public private partnership (PPP) initiatives.

26. Access to finance for start-ups and SMEs is available through various organizations covering public and private seed funds, business angels, publicly funded and managed venture capital firms, and a few private venture capitalists.

27. Issues and challenges include:
   ▪ A lot of public initiatives that do not correspond to the needs and expectations of the entrepreneurs
   ▪ Overall, there is a lack of coordination among the different actors, so stakeholders tend to work on their own without collaborating with others
   ▪ A few interesting private and PPP initiatives (combination of seed/venture capital and incubation) have begun, but it is too early to assess their results
   ▪ The administrative system is the same as before the Jasmine Revolution, a shift in people’s mindset needs to be encouraged

MOROCCO

28. Morocco has a dynamic environment with a significant number of strong entrepreneurs both from technical and managerial perspectives.

29. Business support organizations include pre-incubators initiated and managed by universities and coordinated by RMIE; Technopark Casablanca, which successfully created a supportive and dynamic

ecosystem for start-ups and is expanding to other main cities of the country; and support networks for start-up enterprises.

30. A recent and limited—yet promising—financial support offer to SMEs includes public funds, business angels and operational VCs.

31. **Issues and challenges include:**
   - Financiers seem to operate efficiently but offers are practically limited to “one of each kind,” that is one organization per type of financing
   - Business angels are active but lack experience and cooperation (co-investments/syndication). Therefore, the funds available are too limited
   - There are some promising public funds, but these are too recent to have been well evaluated
   - There is a “Missing Middle”—investments of $500,000 to $2 million. No VC fund in this section
   - Lack of financial, accounting and legal services easily accessible for entrepreneurs at the pre-incubation and start-up stages, which limits significantly the efficiency of the existing public investment support programs
ANNEX—ANGEL CO-INVESTMENT FUNDS ANALYSIS

The ESIF Facility project design team conducted analysis of four innovative business angel co-investment funds including Angel Co-investment funds- Angel CoFund (UK), European Angel Fund (Germany/Eurozone), Scottish Seed Co-investment Fund (Scotland), and New Zealand Seed Co-investment Fund (New Zealand). Key individuals at Angel CoFund, EAF and SCIF were also interviewed.

Collective experience of these four commercial-oriented funds backed by public funding adjusted to the developing world context provides key design elements for ESIF Financing Facility. Given the lack of technical assistance by these funds except for pre-screening of co-investment partners that can be a fairly useful capacity building exercise for such partners, ESIF Technical Assistance design has not benefited from the analysis.

Generally the funds seek to create angel investment markets, where previously there were none. These funds have formalized, organized and legitimized nascent angel cultures in each of their countries. Job creation lay at the heart of these initiatives given the public funding, although all were undertaken with the intent of commercial viability (data on rates of return not included within internal review of each Fund’s performance).

The four angel co-investment funds conduct comprehensive due-diligence on the co-investment partners, which include individual angels, angel syndicates and angel funds. Investment processes of the respective funds vary from light-to-medium deal-by-deal review to the pre-allocation of funds to a co-investment partner (no review of deals). Specifics of deal review processes are highlighted in the various case studies. All Funds assume equal terms with their co-investors (no first loss or fee shares) and minority positions in the companies in which they invest along with customary angel participation.

Across all the initiatives significant restrictions were placed on the business stage, sector and location of the investee company. High investment volume and high leverage rates by all funds indicate that these restrictions do not provide disincentive to potential co-investment partners.

**Case Study: Business Angel Co-investment Fund**

The Business Angel Co-investment Fund (CoFund) is a £50m (USD80m) fund created with a grant from the Regional Growth Fund and co-invests with business angels and angel syndicates exclusively in England. The fund was launched in November 2011 with the support of Capital for Enterprise Limited (CfEL) to provide fund administration services.

The CoFund seeks to increase the quality and quantity of business angel investing in England and to support the growth of long-term, high-quality jobs by growing start-up companies. Firms may not apply directly to the Fund, but rather through angel syndicates. The Angel CoFund will take equity or quasi-equity positions up to 49% with ticket sizes ranging from £100k and £1m (USD 160k- 1.6m).
Company Eligibility

Eligible firms are restricted geographically to the most “deprived” areas of England and are classified by the Department of Communities and Local Governments (DCLG) Index of Multiple Deprivation which factors a range of economic, social and housing into a single deprivation score for each post code. These areas are then ranked according to these measures of deprivation in comparison to the rest of the country. The higher the percentage the less deprived the area. The Indices are used widely to analyze patterns of deprivation, identify areas that would benefit from special initiatives or programs and as a tool to determine eligibility for specific funding streams. The Angel Co Fund will not invest in post codes which score in the top quartile against all three of these measures.

Investee companies must also meet the European Commission’s definition of SME: fewer than 250 employees, annual turnover less than €50m (USD80m) and balance sheet assets not exceeding €43m (USD 68m).

Angel Eligibility

Angel syndicates must consist of at least three investors and may submit proposals to the Angel CoFund where it has made the decision to invest but is unable to raise sufficient equity funding requirement of the investee business. Angel Syndicates apply for CoFund partnership using a three page Investment Proposal Form (attached in addendum). Following a formal review of the angel syndicate, a detailed investment paper is reviewed by the Angel CoFund’s Investment Committee. The Investment Committee will not visit prospective investee companies’ management, however, may interview angel syndicate members by telephone.

Investment Process

Angels are responsible for sourcing of deals and management of the portfolio. Angel CoFund does appoint counsel and provides standardized legal documentation for angel syndicates. Syndicates are obligated to provide the CoFund access to all future deals, although the CoFund is not required to invest. Angel syndicates must also agree to conform to CoFund reporting frameworks. Also, syndicates must not have prior interest in the potential investee.

In instances where the CoFund chooses to invest, a one-time fee of 2.5% will be allocated to the syndicate manager to subsidize the required investment monitoring and reporting activities. The syndicate will be able to collect an arrangement fee from the investee company on the CoFund contribution and primarily this should be used to pay costs (e.g. legal fees). “These fees will have to be transparent in the investment paper and the Investment Committee will be able to reject a proposal if they feel that fees and charges are too high. The CoFund will expect to share in any monitoring or other fees charged to the investee company on the same basis as other syndicate members. The one off fee will be kept under review and some partners may want to accept a reduced fee to be allowed, for example, a larger share of carried interest (a success related payment).”
Deals proposed to the CoFund are submitted through the Fund administrator (CFEL) and then reviewed by the investment committee (IC) which is independent of the CFEL. The IC seeks to determine “is it reasonable for an individual syndicate member to invest their own money into this deal?” CFEL members are paid at a “modest level” and are appointed by the Fund Admin on behalf of the Advisory Board.

**Fund Administration**

CFEL, as fund administrator, pre-screens investment proposals and serves as secretariat for the IC and the Advisory board. Also, CFEL is tasked with verifying the eligibility of potential investees, conducting money laundering checks and carrying out the requirement reporting.

Capital for Enterprise (CFEL) is a fund management company which designs, delivers and manages venture capital and debt guarantee schemes on behalf of the public and private sectors. CFEL brings together deep knowledge, experience and expertise in investment management along with a detailed understanding of SME finance markets (debt, equity and hybrids), public policy objectives and the interaction between the two.

CFEL is the largest single investor in UK venture capital, giving it a detailed overview of the UK venture market. Taken together, the debt and equity programs mean that CFEL has over £1.2bn of assets and liabilities under its direct management. When all of the private sector money is taken into account, these schemes under CFEL’s oversight have created financing schemes which total more than £4bn invested in, or available to SMEs.

**Investment Record**

The Angel CoFund may support businesses across all sectors and stage. The first 5 investments leveraged funds of more than 4:1.

The Angel CoFund was launched on the 29th of November 2011. Since launch we have invested in five companies.

**Case Study: EIF European Angels Fund**

The European Angels Fund is a fund of up to €80m (approx USD 100m) managed by the EIF which seeks to co-invest with business angels throughout Europe in SMEs in various sectors. The fund officially launched in March 2012 with €60m committed, half of the funds are committed by the EIF and the remainder by the Business Angels Netzwerk Deutschland contributing the remainder. The EIF hoped to raise a further €10m to €20m from other investors.

The Fund intends to stimulate the market segment in a targeted and sustainable way by supporting business angels and family offices with co-investments by the EAF. Family offices are firms which manage the private wealth of high net worth families.
**Investee Eligibility**

The selection of firms and the investment process grants a wide array of freedom to angels. Rather than granting co-investments on a deal-by-deal basis, the EAF forms contractual relationships with the angels themselves. Administrative processes are very lean and reporting frameworks are simple and standardized to lessen the impact on the angel investment process.

**Co-investor Eligibility**

The co-investment framework agreements (CFAs) are signed with approved angel networks or family offices through which the EAF grants a predetermined amount of equity for co-investment in SMEs. This allocation is done up front for future investments. The CFAs are largely standardized but vary slightly to accommodate for various investment timeframes, sector focus and number of investments.

Angel co-investment partners must establish their experience and past activity and their willingness and ability to conduct a certain number of investments during the investment period as well as proof of sufficient resources and ability to conduct the necessary co-investments.

**Investment Process**

Investment decisions are made by the angel at which point the investment is matched by the EAF. The amount available per each investment is between €250k and €5m (USD 315k – USD 6.3m). Investment related costs are shared between the EAF and the angel co-investor. Management fees are not paid to angels.

The Fund relies on business angels for all investments decision within a predefined investment area, specifically market sector, stage and business model, including potential follow-on investment.

The investment process is structured to coordinate with the usual investment processes of business angels. The EIF negotiates a contract with each individual business angel group to establish a standardized due diligence and review process, which does not change for each individual investment process. This process focuses on the selection of business angels to vet co-investment partners who will select and manage investments.

**Investment Record**

To date the EAF Angel Fund has made a single investment into Fotografen-Service (Photographer Service) which provides software as a service tool to support professional photographers throughout their entire business cycle from client acquisition and sales to business monitoring. The deal was done in partnership with angel Friederich Georg Hoepfner.

**Case Study: Scottish Co-investment Fund**
The Scottish Co-investment Fund (SCF) provides equity financing (sometimes convertible loans) of between £100,000 and £1m (USD160,000—USD 1.6m) into company financing deals of up to £2m. This total amount may be allocated in multiple tranches. All deals must be syndicated with active VC funds, individual angels or business angel syndicates. The SCF exists in sequence with the Scottish Seed Fund, which provides equity financing of between £20,000 and £250,000 (USD 32,212.95- 402,663.71), and the Scottish Venture Fund, which provides syndicated equity financing of between £500,000 and £2 million (USD 800,000-USD 5.4m) in company deals between £2 million and £10 million (USD 5.4m- USD 16m).

The SCF seeks to create a new market by making available equity up to £0.5 million (USD 800,000) per company which acts as a catalyst in encouraging additional players to enter the market, both by attracting investors from outside of Scotland and by encouraging the growth of new angel syndicates within Scotland.

**Eligibility of co-investors**

Opportunities to become a partner were originally advertised on the Official Journal of the European Union and interested parties had to complete the relevant application form, tailored to whether they were venture capitalists, angels or angel syndicates. These were reviewed by the Fund’s Executive Team and those felt to be eligible were interviewed. Amongst other things, this review process was to ensure that potential partners had the experience and credibility to make investments in early stage businesses and that the source of their funds was legitimate.

The capacity of the partners, in terms of the staff they employ to scrutinise investment propositions and undertake due diligence, varies considerably. Some have teams of staff to do this whilst in others this work falls on a single paid member of staff assisted by members of the angel syndicate. These varying capacities clearly impact upon the number of investment propositions that can be assessed over any set time period.

**Eligibility of Investee**

The investee company must conform to the EU definition of a SME: Additionally, the company must be centered in Scotland, have assets of less than £16 million, have less than 250 employees, be incorporated, and be doing a deal involving the sale of an equity interest. Also, companies must fall within the following sectors:

- Real estate/property development
- Social and personal services
- Pubs, clubs and restaurants
- Local services
- Banking and insurance
- Motor vehicles
- Nuclear decommissioning
- Professional services
- Retail

**Investment Process**

All deals are sourced by SCF co-investment partners. Companies seeking investment are encouraged to contact listed SCF partners directly. These partners are tasked with finding investment opportunities, negotiating terms of the deal and must contribute its own equity capital. If the company requires a capital contribution above the amount the SCF partner is able to put on their own, the SCF will co-invest on equal terms. The partner must determine the capital contribution from SCF, but this amount may not exceed that of the SCF partner. Ultimately, the SCF may not hold more than 29.9% of the voting rights of a company.

The Fund also pays partners an arrangement fee on completion of the deal. This is 2.5% of the Fund’s investment, increasing to 3.5% in areas eligible for ERDF support. This is to cover some of the transaction costs involved for such things as due diligence. As of January 2008, the Fund had paid out £1,055,361 in fees.

**Fund Administration**

The fund is managed by the Scottish Investment Bank (SIB and is partially funded by the European Regional Development Fund.

Scottish Enterprise’s Portfolio Management Team was responsible for management of all of the Fund’s investments, however, a survey of investees found that company managers were almost entirely unaware of the Management Team. The Fund’s role was officially described in various ways as a “dormant investor,” a “passive investor” and a “silent partner.”

**Investment History**
### TABLE 2.2  SCF Partners as at December 2007

<table>
<thead>
<tr>
<th>Type of partner</th>
<th>Number of partners</th>
<th>Number of investments 2003–2007</th>
<th>Amount of SCF investment 2003–2007</th>
<th>Size of Average Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>1</td>
<td>3</td>
<td>£550,000</td>
<td>£183,333</td>
</tr>
<tr>
<td>Venture Capitalist</td>
<td>5</td>
<td>30</td>
<td>£5,265,769</td>
<td>£175,526</td>
</tr>
<tr>
<td>Corporate</td>
<td>5</td>
<td>11</td>
<td>£1,430,000</td>
<td>£130,000</td>
</tr>
<tr>
<td>Angels and Angel Syndicates</td>
<td>15</td>
<td>201</td>
<td>£20,878,614</td>
<td>£103,873</td>
</tr>
<tr>
<td>TOTAL</td>
<td>26</td>
<td>245</td>
<td>£28,124,383</td>
<td>£114,793</td>
</tr>
</tbody>
</table>

**Note:**
1. Corporate partners are defined as ones that are part of a larger organisation with investment activities being undertaken as an adjunct of other more mainstream activities.
2. The angels and angel syndicates are very diverse, ranging from those that are investing the wealth of a single individual to ones that bring together the resources of a large number of individuals. One syndicate is now listed on AIM and as such is probably best not seen as an angel syndicate given that its drivers in the future are likely to be very different.
3. The number of investments by specific types of partners relate to the partners at the time the investments were made. As such they cover those partners who have subsequently ceased to participate in the Fund. They are not, however, included in the number of partners, which relates to the partners at December 2007.
4. The data in this column refers to individual investments rather than individual deals. Thus a deal is generally broken down into a number of separate investments that are paid when milestones are attained.

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Case Study: New Zealand Seed Co-investment Fund

The New Zealand Seed Co-investment Fund (NZSCIF) is a USD 40m fund which makes direct equity or convertible debt investments in early stage business with strong potential for high growth. The fund was established in 2005 and executed its first deal in 2006. Deals are executed on a 1:1 basis with private investment partners with the goal of enhancing the development of angel investors and angel networks, stimulating investment into innovative start-ups and increasing capacity in the market for matching experienced angel investors with new, innovative businesses.

As of April 2012, USD 19m of the USD40m had been invested in partnership with accredited investors. The NZSCIF will invest up to USD 250k into any one business with a potential for a further USD 500k for follow on investment in following financing rounds. Each follow on round is subject to the same approval requirements as the initial round. The NZSCIF will allocate a total of USD 4m total for each accredited co-investment partner with the ability to invest a further USD 4m following a formal partnership review process.

The SCIF will not invest in financial intermediaries, real estate, retail industry, mining industry or hospitality businesses.

Investee Eligibility

The companies which tend to participate in the NZSCIF are high-growth, technology enabled businesses, especially those in the ICT, life sciences and niche manufacturing. These businesses, similar to other angel markets, produce innovative products or services with the potential for international market expansion. All companies must be New Zealand businesses, which is defined as “the majority of assets and employees in New Zealand at the time that the initial investment is made.”

Co-investor Eligibility

Additionally, the applicant must establish the credibility of the key persons through the articulation of an investment history or knowledge of early stage investing. The applicant must establish that the board or investment management team has the necessary experience with co-investing and deal syndication to guarantee access to capital markets in New Zealand and beyond.

Finally, the applicant must provide evidence of an “extensive pipeline” of potential investments as well as the availability of at least USD 5m of private sector capital over the course of the 3–4 year investment period.
**Investment Process**

The investment process is driven by the application for co-investment by the co-investment partner. The co-investor submit a 10–20 page application to become an approved Seed Fund Co-investor which articulates the following details related to legal framework, governance, and commercial sustainability of investment structure. Also, the applicant must outline their processes and systems for sourcing deals, due diligence, negotiating of terms and managing investments. The partner must provide a full explanation of the investment decision making process, including all details related to key personnel, investment committee and any additional parties who will play a role in the investment decisions.

**Fund Administration**

The evaluation process by NZSCIF takes three to six months and includes a desktop evaluation, a site visit and detailed due diligence on the capabilities of the potential investment partner. If successful, a co-investment partnership will be offered to the investor by NZSCIF.

With each investment, NZSCIF appoints an “Investor Representative” to ensure that its investment interests are properly represented on a portfolio company board. For this reason it is important for SCIF to ensure that the Investor Representative is of good character, has the requisite business experience and has a sound business reputation. This person is usually, but not always, one of the other participating investors in the relevant investment. The Investor Representative will need to sign the standard form Investor Representative letter which outlines their obligations to SCIF in that role.

The only exception to the appointment of an Investor Representative will be situations where it may not be appropriate for a small initial “Proof of Concept” investment.

**Investment History**

<table>
<thead>
<tr>
<th>Capital Allocated</th>
<th>USD 40m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Seed Co-investment Partners</td>
<td>14</td>
</tr>
<tr>
<td>Number of Companies Funded</td>
<td>77</td>
</tr>
<tr>
<td>Amount committed through program (Seed + Private Sector</td>
<td>USD 112m</td>
</tr>
</tbody>
</table>
ANNEX—BLENDED FINANCE ANALYSIS

SMEs encompass a variety of businesses and sectors, ranging from relatively stable businesses looking to expand to companies that leverage innovation to transform a market. Despite the vast number of SMEs operating in the emerging markets, however, the market for venture capital (VC) and private equity (PE) for these types of businesses remains small. The persistence of an “equity gap” is not surprising given that access to any external capital, even debt, is challenging for SMEs operating in emerging markets. Yet unlike developed economies, where the equity gap is most likely to affect new and innovative companies, in developing economies, this phenomenon affects larger and more established enterprises.

The absence of sufficient equity capital for SMEs in developing economies has a secondary effect. In addition to capital, investors bring mentorship, knowledge and know-how to the companies in which they invest. Through active participation on the Board of Directors or in partnership with management, investors equip companies with critical improvements in governance, financial accounting, access to markets, technology, and other drivers of business success. At the same time, companies that lack access to these types of skills are often unable to seek financing due to a lack of this type of technical capacity.

Technical assistance, when partnered with investors, can considerably enhance the ability of SMEs in emerging markets to raise capital. Although providing this TA can be costly, it can provide tremendous benefits to investors, from mitigating risk to materially increasing the value of an investee company. Given the small size of most funds investing in SMEs in developing countries, however, these funds lack sufficient scale to fund TA projects. Thus, dedicated TA facilities financed by third parties such as DFI’s, governments, or other parties, have emerged to fill this critical need.

A recent IFC paper on “Blended Finance”29 details both the challenge and IFC’s own approach to overcome such challenge. By definition, “blended

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29 Blended Finance at IFC, IFC’s Approach to Blending Concessional Funds, March 15, 2012.
finance” involves a subsidy element. But the instrument for delivering that subsidy matters. When justified, IFC includes a subsidy element in some of its advisory services, and IFC and most other Development Finance Institutions (DFIs) have long experience using grants for particular purposes, including grants where disbursement is tied to performance, such as Output Based Aid approaches. IFC’s recent experience with such blended finance has been positive especially with respect to SME financing. Thirteen of the 30 projects have been evaluated under IFC’s Development Outcome Tracking System (DOTS), which evaluates projects based on performance in four areas—financial, economic, environmental & social, and private sector development. Seven of the 13 evaluated projects focused on climate change, 3 on SME financing, and 3 on student loans. The overall success rate was 77%—comprising 86% for climate change, 100% for SME financing, and 33% for the student loans. While the sample sizes are too small to draw clear inferences, the overall success rate compares favorably with the average of 67% for IFC projects in FY11.

**Private Equity and Technical Assistance: A Global Emerging Markets Survey**

This Study is based on a survey of investors in the emerging markets that work with TA in one of its various forms. (Please see Appendix I for detailed descriptions of each of the funds in Figure 2).

**Figure 2: funds Working with TA Included in this Survey**

<table>
<thead>
<tr>
<th>PE Funds with TA Representing Over $4 Billion in Capital Under Management</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global/Multi-Region</strong></td>
</tr>
<tr>
<td>Endeavor Catalyst</td>
</tr>
<tr>
<td>LeapFrog Investments</td>
</tr>
<tr>
<td>Bamboo Finance</td>
</tr>
<tr>
<td>GroFin</td>
</tr>
<tr>
<td>Acumen Fund</td>
</tr>
<tr>
<td>Verde Ventures</td>
</tr>
<tr>
<td>SEAF</td>
</tr>
<tr>
<td>EBRD Regional Venture Funds Program</td>
</tr>
<tr>
<td><strong>Africa</strong></td>
</tr>
<tr>
<td>African Agriculture Fund</td>
</tr>
<tr>
<td>African Agricultural Capital</td>
</tr>
<tr>
<td>DFID: Africa Enterprise Challenge Fund</td>
</tr>
<tr>
<td>Aureos’s Africa Health Fund</td>
</tr>
<tr>
<td>Fanisi Venture Capital Fund S.C.A.</td>
</tr>
<tr>
<td>Agora Venture Fund Central America</td>
</tr>
<tr>
<td>Business Partners L.t.</td>
</tr>
<tr>
<td>Venture Capital Trust Fund (VCTF)</td>
</tr>
<tr>
<td>Africap Microfinance Fund</td>
</tr>
<tr>
<td>Tuninvest - AfricInvest Group</td>
</tr>
<tr>
<td><strong>Asia</strong></td>
</tr>
<tr>
<td>Aavishkaar Group</td>
</tr>
<tr>
<td>China Environmental Fund (Tsing Capital)</td>
</tr>
<tr>
<td>Triodos Ren. Energy for Development Fund</td>
</tr>
<tr>
<td><strong>Middle East</strong></td>
</tr>
<tr>
<td>Siraj Fund Management Company</td>
</tr>
<tr>
<td><strong>Latin America &amp; Caribbean</strong></td>
</tr>
<tr>
<td>C-Ventures Primus</td>
</tr>
<tr>
<td>Leopard Haiti Fund</td>
</tr>
<tr>
<td>Adobe Capital</td>
</tr>
<tr>
<td>NXP Labs</td>
</tr>
<tr>
<td>21212</td>
</tr>
<tr>
<td>Angel Ventures</td>
</tr>
<tr>
<td>Start-up Chile</td>
</tr>
<tr>
<td>Progresa Capital</td>
</tr>
<tr>
<td>IGNIAS</td>
</tr>
<tr>
<td>EcoEnterprises</td>
</tr>
<tr>
<td>E+Co</td>
</tr>
</tbody>
</table>
How Do Investment Funds Use Technical Assistance?

Investors in emerging markets face challenges that their counterparts in developed markets rarely encounter. In developing markets, even established businesses often lack critical business tools, from management and financial planning to technology, that are common in developed market businesses. These issues are even greater for SMEs, many of which lack the resources or the know-how to develop required technical skills. Even when support services are available, they may be expensive and difficult to procure.

Given the range of needs for companies or projects, TA has become essential for actors investing in SMEs developing economies. For example, a 2009 study by the World Resources Institute entitled “On the Frontiers of Finance,” found that of the 18 emerging markets funds it interviewed, every one of the firms offered TA in one form or another. Yet while TA is accepted as an important tool for funds investing in SMEs, the models used for implementing TA vary widely. These models include:

- **VC Model:** In this model, the VC fund takes an active and hands-one approach in the style of Silicon Valley VC’s. There is no dedicated TAF, but rather the fund managers provide these services directly to their investee companies. Any required services can be covered from management fees because of the “pure profit” nature of the VC industry, whereby funds only invest in the strongest companies. Examples of this model include: Stratus, China Environmental Fund, Latin Idea Ventures, and Alta Ventures.

- **Stand-Alone TAF:** In such a model, an investor will raise a stand-alone TAF that will fund various projects related to its investment activities. This can range from paying for the cost of due diligence or covering fund legal expenses to supporting specific TA projects at investee companies. Dedicated TAFs work well for investors that are profit driven, but as part of their mission also support a broader range of companies than purely driven firms. Moreover, the small size of many funds investing in SMEs means that management fees (typically 2–3% of funds under management) are insufficient to fund TA initiatives in the absence of a TAF. Examples of this model include: the African Agriculture Fund, LeapFrog Investments, Fanisi Venture Capital Fund, Africap Microfinance Fund, and Leopard Haiti Fund.

- **Market Development TA Grant:** These types of grants are not used directly by a PE or VC Fund, but rather are used to develop the market by dispersing knowledge learned from the fund’s activities or by providing funds for the investors to educate other potential market players. These types of grants are included in fund-related TA, however, as they are made concurrent with an equity commitment to a fund in the relevant market. Thus, this type of grant serves to amplify the impact of an LP investment by strengthening the overall investment ecosystem. Examples include: C-Ventures Primus, Angel Ventures Mexico, and Progresa Capital.

- **One-Off TA grants:** These grants are not associated with a specific TA facility, but rather are made on a per project basis. These grants may also be facilitated by the relevant fund manager in each instance. Examples include: DFID Africa Enterprise Challenge Fund, Aavishkaar Group.
• **Shared Services Arrangement/Fee Funded TA:** In this model, an investor provides services to its portfolio companies such as shared accounting, legal, or other services, as part of its investment operations. There is no dedicated facility. Rather, TA is funded either from management fees charged on the fund or by fees charged to investee companies. Examples include: Gerbera, IGNIA, GroFin.

Additionally, it is important to note that in many of these circumstances, especially in the case of donor-funded TA, investee companies that are recipients of TA are expected to pay a range of 30–70% of the cost of such services. This matching commitment by the investee company is considered to be a critical component to making sure that there is sufficient buy-in from the TA recipient to make the project successful.

While technical assistance can range as a % of the fund it supports, industry rules of thumb put the size of a typical TAF at 5–30% of the size of the related fund. A sample of TAF sizes, relative to their affiliated funds shows that the average and median TAF size is approximately 7–10% of assets under management (Figure 3):

### Figure 3: Dedicated TAF Size vs. PE Assets Under Management

<table>
<thead>
<tr>
<th>Year</th>
<th>Fund Size</th>
<th>TA Facility Size</th>
<th>TA as % of Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leopard Haiti Fund</td>
<td>2011</td>
<td>75</td>
<td>3 to 5</td>
</tr>
<tr>
<td>Africa Agricultural Capital</td>
<td>2011</td>
<td>25</td>
<td>1.5</td>
</tr>
<tr>
<td>African Agriculture Fund</td>
<td>2011</td>
<td>151</td>
<td>13.3</td>
</tr>
<tr>
<td>Aureos’s Africa Health Fund</td>
<td>2011</td>
<td>105</td>
<td>8.4</td>
</tr>
<tr>
<td>Fanisi Venture Capital Fund S.C.A.</td>
<td>2010</td>
<td>50</td>
<td>2.0</td>
</tr>
<tr>
<td>LeapFrog Investments</td>
<td>2008</td>
<td>135</td>
<td>5.0</td>
</tr>
<tr>
<td>Business Partners Lt.</td>
<td>2006</td>
<td>85</td>
<td>8.0</td>
</tr>
<tr>
<td>Africap Microfinance Fund</td>
<td>2001</td>
<td>15</td>
<td>3.8</td>
</tr>
</tbody>
</table>

**Average** 9%  
**Median** 7%

**Source:** World Resource Institute, Proprietary Research

**Lessons Learned: An Evaluation of TA and Private Equity**

Given its myriad forms of implementation, the lessons drawn from funds that operate at the nexus of PE and TA are diverse. That said, there are clear best practices that may be drawn from the experiences of practitioners who have worked with PE and TA in various formats and geographies.
Case Study: African Agriculture Fund

The African Agriculture Fund is a $150 million fund managed by Phatisa that invests in agribusiness in Africa. The fund, which was raised in 2011, is associated with a EUR10 million dedicated TAF funded by the European Union and International Fund for Agricultural Development (IFAD). TechnoServe, a global NGO, manages the TAF, although the fund managers sit on the steering committee of the TAF along with the donors, who have a majority of the votes. The facility is structured to be disbursed over 5 years and reserves 15% of the capital for management, overhead, and travel. While the fund invests in both SMEs and larger projects, the TAF can only be used for investments of less than $5 million and may be used either pre- or post-investment. If the capital is disbursed pre-investment, the fund must be at least 50% certain that it will eventually invest in the business. Lessons learned from this case study include the following:

- TechnoServe’s role is to identify TA project opportunities, maintain a database of potential TA providers, and then tender out projects and administer the TAF.

- Depending on the case, the TA recipient will match some percentage of the TA received. This depends on the size of the recipient and also whether the fund is a majority owner of the company. If the fund is not the primary financial partner, the TAF will not pay for the project in its entirety. Moreover, when the investee company is large enough to fund a project itself (investments of over $5 million typically), the TAF will not pay for TA.

- The size of the TA facility and the expense allocation (roughly 10% of the size of the fund) is based on TechnoServe’s prior experiences with PE and TA. Still, the TAF director is concerned that a 15% allocation for expenses may not be sufficient.

- With hindsight, the TAF manager feels it would have been better to have a TAF that was longer than 5 years (the investment period of the fund) in order to be able to execute TA projects for companies that only receive capital from the fund in the fifth year of its fund life (the fund has an investment period of 5 years).

- The most impactful pre-investment TA projects are usually those that prepare a company for investment by the fund. This includes procuring audited financial statements, conducting market studies that validate the sector, and improving financial management. These can be conducted in a short amount of time (3–6 months).

- There is a tension between the commercial motivations of the fund and the development goals of the TAF. Having a separate TAF that is controlled by a distinct team and where the donors control the steering committee avoids conflicts of interest.

- The fund would prefer that the TAF be used to mitigate investment risks, but that is not the primary mission of the TAF and donors. The TAF is not meant to subsidize the fund, but rather to achieve development goals.
**Case Study: Triodos-Doen**

Triodos-Doen is a DFI funded by the government of the Netherlands. It invested in EcoEnterprise, a fund with a dedicated TAF that invests in SMEs in Latin America. It also invested in a similar fund in South East Asia (Triodos Renewable Energy for Development Fund).

- The relationship between a TAF and a fund can be a dilemma given that there can be conflicts of interest. It is critical to have independent management of the TAF so that such conflicts may be avoided. The TAF should pursue the goals of the donors and not simply those of the fund.
- Managing the relationship between the TAF and fund requires active involvement and oversight. TAF managers need to focus on executing successful projects and fund managers need to focus on managing their investments. Communication is critical.
- Access to a TAF can be a competitive advantage for a fund.
- The size of the TAF vs. the fund will differ depending on the maturity of the fund. It can range from 5% to 30% depending on whether the fund is a start-up or if it is more established.
- TA works well for projects such as financial management, strategic planning, and risk management.
- The Triodos fund in South East Asia did not perform well, despite having a TA fund, given that the market was at too early a stage for a commercially viable fund.

**Case Study: EBRD Regional Venture Funds Program**

Between 1993 and 1996, EBRD funded approximately $312 million to create 11 regional venture funds in the former Soviet bloc. These funds eventually made over 90 investments. Donors originally pledged to fund TA at a 40/60 ratio with investment capital. The actual drawdowns on TA funds ended up being significantly lower than projected and were mostly used to cover fees charged by investment managers. Overall returns for the fund, while taking many years to materialize, were acceptable. In fact, several of these initial funds created by the program are now leading funds in the region (Delta Private Equity, Horizon Capital). In total, the fund’s that were part of the program have now raised more than $2 billion in subsequent funds.

- As markets develop, funds supported with TA may eventually evolve to become scale, fully private sector-focused enterprises. This will occur if financial returns are attractive and the overall PE opportunity in the market is compelling. At this point, they will no longer require dedicated TA-funds, but rather will be able to fund any such needs out of management fees. When this occurs, however, former TA investors may elect to become LPs in the funds, alongside private sector investors.
• Smaller funds operating in less developed markets will have trouble attracting private sector LPs and will require continuous access to TA in order to continue to operate.

• It is best practice to stipulate that investee companies that receive TA should match a significant portion of the funds in order to ensure buy-in and commitment from both partners.

• Managing a TA program from the perspective of a TA donor requires dedication of long-term resources and a structured management process. The life of a fund, from inception to the sale of its final investments can be quite long in emerging markets, certainly in the range of 10–15 years. Thus, TA donors must be prepared to provide oversight for the duration of that time.

**Case Study: Angel Ventures Mexico**

Founded in 2011, Angel Ventures is an angel network that considers itself a “back office” for seed and angel investors in Mexico. With offices in Mexico City, Puebla, Guadalajara, and San Diego, the business connects new ventures—both in technology and traditional industries—with sources of funding. Angel Ventures is now raising a $20 million co-investment fund for which it received $4 million from FOMIN. FOMIN also provided a $500,000 dedicated TA facility alongside the fund.

• FOMIN provided a dedicated TA facility to allow angel ventures to undertake specific projects that would support the entrepreneurial ecosystem in Mexico. The concept behind these funds is to have a measurable impact on the overall market for early stage investing in Mexico. As such, Angel Ventures envisions using these funds to develop tools to train angels and also would like to create a customer relationship management tool for its angel network.

• FOMIN has a track record of using dedicated grants to support the overall entrepreneurial ecosystem in Latin America, with specific grants given for Colombia, Brazil, Mexico, and, by seeding the creation of the Latin America Venture Capital Association, for the entire region.

• While the TA funds are not yet available, Angel Ventures remains uncertain as to how the program will work. FOMIN will provide training to Angel Ventures, but at present the firm sees the details of the TA facility as being opaque.

• Angel Ventures is required to match 30% of any withdrawals from the TA facility with capital from external sources.

**Case Study: Rockefeller Foundation**

The Rockefeller Foundation invests in funds with a focus on impact investing and a BoP strategy. Among its investments are: (i) African Agricultural Capital, a $25 million fund with a dedicated $1.5 million TA facility, (ii) IGNIA Capital, a $102 million investing in BoP strategies in Mexico, (iii) Aavishkaar Group, a $120 million (target) venture capital firm which facilitates TA grants for its investees but does not have a dedicated fund. Rockefeller tolerates non-risk adjusted returns and expects returns of less than 10% per annum (versus target returns in excess of 25% per annum for market actors).
Rockefeller views TA as an important part of investing in funds in challenging markets.

They have seen examples of dedicated funds (African Agricultural Capital) and of TA that is not covered by a separate TA Facility (IGNIA, Aavishkaar).

The Africa Agriculture Capital facility is for exclusive use of the investee companies of the fund. It was provided by USAID and may be used to improve operations, secure access to new markets, and enhance overall competitiveness.

IGNIA takes a market-driven approach to TA by creating a business called IGNIA Shared Services. This subsidiary provides a back office platform to all of its investee companies, which, in turn, allows entrepreneurs access to best practice support. These services are provided for a fee.

IGNIA has a small ($200,000) TA facility, but did not request additional TA funding as it feels it has the scale and resources to provide these services as part of its investment activities.

TA would be particularly useful in the SME context in Colombia, Mexico and Peru, to provide training and best practices to investment professionals working at funds in the sector. Given the shallow nature of capital markets and the limited investment talent pool, investors would benefit from both technical and social impact training.

Aavishkaar does not maintain a stand-alone TAF, but it does help to facilitate such resources when appropriate. The Aavishkaar team is very “hands-on” with its portfolio and provides significant TA directly from its management team.

Case Study: Africap Microfinance Fund

Founded in 2003, Africap Microfinance Fund makes equity investments in microfinance institutions in Africa. The fund raised $14.6 million of PE along with a dedicated TAF, known as FinTech, which totaled $3.6 million. The Gates Foundation, FMO, and the EIB funded the TAF. The fund made 13 investments of which it has exited 6 of its positions. Africap raised additional capital for a second fund and now has over $40 million under management. It continues to provide dedicated TA services with a focus on technology and training.

The purpose of the TA facility was two-fold. First, it was charged with improving operations at investee companies. Second, it was charged with communicating and publicizing Africap’s activities to a wide audience in order to favorably develop this segment in Africa. Africap’s TAF also funded its own expenses.

With respect to the capacity building allocation of the TA, funds were disbursed in grants averaging $75,000 and were used for technology upgrades, training, and human resources. Investee companies felt that these grants were most impactful when combined with active participation by representatives of the fund on the Boards of Directors of the investee companies.
• One third of the TAF was used for communication activities such as: publishing annual reports, making small “social good” investments, and creating synergies among investee companies. The remainder, approximately one-third of funding, covered salaries, travel, and administrative costs.

• Given the immature stage of the markets where Africap invested, a TAF can successfully cover costs and mitigate risks. In more mature markets, such a facility may be unnecessary as TA can be provided commercially via a fund manager and financed with the manager’s associated management fees.

• In certain emerging markets, having a dedicated TA facility gives funds a competitive advantages vis-à-vis other funds when pursuing deals.

• The TA helped to offset a considerable amount of overhead at the Africap fund by covering costs such as pipeline development, deal costs, and fund promotion and communication costs.

• Africap believes that a TSF to investment ration of 1:3 is appropriate for its mission and the markets it covers.

**Case Study: Tuninvest-AfricInvest**

Tuninvest is part of AfricInvest, a leading fund in Africa with over $500 million under management. Tuninvest’s TA program includes a EUR500,000 grant from FMO and an allowance from the Fonds d’Investissement et de Soutien aux Entreprises en Afrique (FISEA), a division of Proparco/AFD and the French government.

• TA was one of the key forces responsible for supporting the emerging PE industry in Africa.

• Since 2010, Tuninvest has completed 8 TA-funded projects with an average grant size of $75,000. The use of the funds encompassed projects related to: information technology and system implementations, marketing, management training, and strengthening operational processes.

• TA proves beneficial in bridging the gap between the strategic advice that fund managers can provide and the more specific capabilities required by investee companies. Often, this expertise comes from international partners or sources.

• TA from specialists can help investees to develop projects while avoiding errors and optimizing both costs and time. TA experts from outside a country must work in an integrated fashion with investee company employees to ensure an effective knowledge transfer.

• A survey of Tuninvest’s investee companies found that investee companies feel that TA was at least as valuable as the capital that the fund invested as equity.

• Donors should seek to structure TAF’s to allow for flexibility will make them easier to use for funds and their investee companies.
• Dedicated TAFs have a competitive advantage versus one-off grants in that they allow a fund and a TA facility to work together to support an investee company over many years.

**Case Study: Endeavor Catalyst**

Endeavor is a global nonprofit founded in 1997 that operates in 15 countries. It works to catalyze global entrepreneurship by selecting, mentoring, and accelerating the strongest high-impact entrepreneurs in its geographies. These businesses have created over $5 billion in revenue and 180,000 jobs by Endeavor’s estimates. Endeavor has raised a dedicated co-investment fund, called Endeavor Catalyst, which will provide sustainable seed funding for its operations.

• Endeavor is a mentorship program that provides a specific type of TA to entrepreneurs by connecting them with relevant mentors via its “mentor capitalist” model. In return, Endeavor requests an annual contribution of $10,000 from each entrepreneur as well as 2% of the entrepreneur’s equity on the occasion of a liquidity event.

• Endeavor is now raising a donor-funded co-investment fund called Endeavor Catalyst that will passively co-invest in all Endeavor-backed companies that raise at least $5 million from a credible investor. Each investment will be at most $2 million and should constitute no more than 10% of a round. Endeavor Catalyst will not take board seats.

• The purpose of this fund is to provide long-term returns that will allow Endeavor to continue to execute its mentor capitalist model in new and existing geographies.

• In addition to the mentorship provided by Endeavor’s mentors (which is provided free of charge), Endeavor also provides centralized support for entrepreneurs such as education, connections with investors, and other ongoing support initiatives.

• Had Endeavor invested in the past in all venture capital rounds of $10 million of greater among its network, it would have generated returns of nearly 3.0x capital since inception.

• The anchor investor for this effort is the Omidyar Network.

**Case Study: Developing World Markets**

Developing World Markets invests equity in microfinance institutions in over 40 developing economies in Latin America, Asia, and Africa. It manages approximately $800 million in assets.

• TA would be very valuable to the businesses in which the fund invests, especially with respect to technology, financial processes, and managing growth. It is especially relevant for SMEs in Colombia, Mexico, and Peru, and would also work well in Bolivia.

• In the past, the firm has considered trying to raise a dedicated TAF to support its investment activities, but it has not proceeded with this project due to two considerations. First, as a for-profit enterprise, DWM found it difficult to manage both a donor-sponsored entity and a private sector entity. Second, structuring and managing a TA facility is outside of its core competency.
## ANNEX — FUNDS WITH ASSOCIATED TECHNICAL ASSISTANCE FACILITIES

<table>
<thead>
<tr>
<th>Region</th>
<th>Fund Name</th>
<th>Year</th>
<th>Assets Under Mgmt</th>
<th>Sector</th>
<th>Investment Style</th>
<th>Investment Size</th>
<th>Technical Assistance Component</th>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa and Asia</td>
<td>LeapFrog Investments</td>
<td>2008</td>
<td>$135 million</td>
<td>Microinsurance</td>
<td>Private Equity</td>
<td>$5–20 million</td>
<td>Provides TA through a $5 million- funded side-facility called LeapFrog Labs</td>
<td><a href="http://www.leafroginvest.com">www.leafroginvest.com</a></td>
</tr>
<tr>
<td>South Asia, East Africa, Oman, Nigeria</td>
<td>CleoFin</td>
<td>2003</td>
<td>Closed $710 million Africa fund in 2010</td>
<td>SMEs</td>
<td>Debt and Equity</td>
<td>$100k–1 million</td>
<td>Provides TA, but not through a separate Fund</td>
<td><a href="http://www.cleofin.com">www.cleofin.com</a></td>
</tr>
<tr>
<td>Multi-Region (S. Asia, Africa)</td>
<td>Acumen Fund</td>
<td>2004</td>
<td>$20 million</td>
<td>BoP, water, healthcare, housing, energy</td>
<td>Mostly debt, but adding equity</td>
<td>$50k–$75k</td>
<td>Part of investment model</td>
<td><a href="http://www.acumenfund.org">www.acumenfund.org</a></td>
</tr>
<tr>
<td>Global Emerging Markets</td>
<td>Verde Ventures</td>
<td>1998</td>
<td>Raised a $50 million fund (with side-car TA facility), $17.5 million invested in prior funds</td>
<td>SMEs in Sustainable Agriculture and Related Fields</td>
<td>OPIC, IFC, Starbucks Corporation</td>
<td>Loans, but with quasi equity structures</td>
<td>New fund will have a TA Facility, have collaborated with 3rd parties (i.e., Technoserve) in the past</td>
<td><a href="http://www.conservation.org/global/VerdeVentures">www.conservation.org/global/VerdeVentures</a></td>
</tr>
<tr>
<td>Asia, Latin America, Central &amp; Eastern Europe</td>
<td>SEAF</td>
<td>1995</td>
<td>Over $600 million across 20+ funds</td>
<td>SMEs</td>
<td>DFI, MFI, Development Agencies, Foundations</td>
<td>Focus on equity, but offers mezzanine/debt</td>
<td>$5–5 million and above</td>
<td>TA as part of the fund structure with some dedicated TA facilities</td>
</tr>
<tr>
<td>Transition Economies in the Former USSR Central/Eastern Europe</td>
<td>EBRD Regional Venture Funds Program</td>
<td>1994</td>
<td>$1.2 billion</td>
<td>SMEs in Basic Industries</td>
<td>USAID, EBRD</td>
<td>Private Equity</td>
<td>Varied</td>
<td>$74 million of Technical Assistance grants provided via USAID and the EBRD</td>
</tr>
<tr>
<td>Africa</td>
<td>African Agriculture Fund</td>
<td>2011</td>
<td>$15 million</td>
<td>Agriculture and Food-Related SMEs</td>
<td>European DFIs</td>
<td>Equity</td>
<td>$5–20 million</td>
<td>$13.3 million TA facility funded primarily by the European Union &amp; IFAD, up to $500k/grant per company</td>
</tr>
<tr>
<td>Africa</td>
<td>African Agricultural Capital</td>
<td>2011</td>
<td>$25 million</td>
<td>Agriculture and Food-Related SMEs</td>
<td>Gates Foundation, USAID, Rockefeller, JP Morgan</td>
<td>Equity</td>
<td>$500k–$2 million</td>
<td>USS1.5 million TA facility funded by USAID for investees companies</td>
</tr>
<tr>
<td>Africa</td>
<td>DFID: Africa Enterprise Challenge Fund</td>
<td>2011</td>
<td>$120 million</td>
<td>For Profit Businesses that Positively Impact the Poor</td>
<td>AusAID, Danish Government, DFID, IFAD, NMFA</td>
<td>Grants and non-recourse loans, company must match 50%</td>
<td>$250k to $1.5 million</td>
<td>Not affiliated with a PE Fund. Rather, directly granted to businesses</td>
</tr>
<tr>
<td>Africa</td>
<td>Aneroo’s Africa Health Fund</td>
<td>2011</td>
<td>$505 million</td>
<td>Basic Health Services</td>
<td>IFC, Gates Foundation, AIDB, Norfund</td>
<td>Equity</td>
<td>$250k–$5 million</td>
<td>Associated $8.4 million TA Fund</td>
</tr>
<tr>
<td>Uganda, Tanzania, Rwanda and Kenya</td>
<td>Fainisi Venture Capital Fund S.C.A.</td>
<td>2010</td>
<td>$50 million</td>
<td>SMEs in Agriculture, Health Care, Financial Services, Education, Retail</td>
<td>IFC, Norfund, Soros</td>
<td>Venture Capital</td>
<td>$1 million–$8 million</td>
<td>Separate $2 million TA facility for portfolio companies to address capacity gaps in management, environmental standards, health and safety requirements and governance</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>Agora Venture Fund Central America</td>
<td>2006</td>
<td>$500k</td>
<td>BoP, CleanTech, Manufacturing</td>
<td>USAID, DOEN Foundation</td>
<td>Debt and Equity</td>
<td>$25k–$50k</td>
<td>TA provided through Agora Partnership, a non-profit affiliated with the Fund</td>
</tr>
<tr>
<td>Africa</td>
<td>Business Partners Lt.</td>
<td>2006</td>
<td>$65 million (5 funds)</td>
<td>SMEs</td>
<td>IFC, EIB, Norfund</td>
<td>Private Equity</td>
<td>$50k–$2.5 million</td>
<td>Approximately $8 million of TA across all funds</td>
</tr>
<tr>
<td>Ghana</td>
<td>Venture Capital Trust Fund (VCTF)</td>
<td>2006</td>
<td>$100 million</td>
<td>Government initiative providing capital &amp; TA to SMEs fund in Ghana</td>
<td>Government of Ghana</td>
<td>Fund of funds investing in VC and PE funds</td>
<td>Recipient VC funds must invest $25k–$1 million</td>
<td>TA provided by VCTF</td>
</tr>
<tr>
<td>Africa</td>
<td>Taminvest - AfricaInvest Group</td>
<td>1994</td>
<td>$500 million across multiple funds</td>
<td>SMEs in General Industry, Technology, Healthcare</td>
<td>IFC, FMO, AIDB, CDC</td>
<td>Equity</td>
<td>$1 million and above</td>
<td>Dedicated Funds from FMO/Euro 500k and FISEA/A’/Agence Française de Développement</td>
</tr>
</tbody>
</table>
## Private Equity Funds with Associated TAFs (Continued)

<table>
<thead>
<tr>
<th>Region</th>
<th>Fund Name</th>
<th>Year</th>
<th>Assets Under Mgmt</th>
<th>Sector</th>
<th>Investments</th>
<th>Investment Style</th>
<th>Investment Size</th>
<th>Technical Assistance Component</th>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>Aavishkaar Group</td>
<td>2007</td>
<td>$14 million</td>
<td>BoP Basic industries</td>
<td>CDC, Cisco, FMO, IFI, Rockefeller</td>
<td>Micro Debt &amp; Equity</td>
<td>$50k-$500k</td>
<td>Facilitates TA funding when commercially justifiable</td>
<td><a href="http://www.aavishkaar.in">www.aavishkaar.in</a></td>
</tr>
<tr>
<td>China</td>
<td>China Environmental Fund (Tsing Capital)</td>
<td>2002</td>
<td>$500 million (3 funds)</td>
<td>Renewables &amp; Energy-related</td>
<td>Family Offices, Corporations, EDF</td>
<td>Equity</td>
<td>$1-20 million</td>
<td>VC Style</td>
<td><a href="http://www.celunl.com">www.celunl.com</a></td>
</tr>
<tr>
<td>South East Asia</td>
<td>Triodos Renew. Energy for Development Fund</td>
<td>2000</td>
<td>$13.5 million</td>
<td>Renewables</td>
<td>Triodos</td>
<td>Some equity, mostly debt</td>
<td>100k</td>
<td>TA covered by management fee</td>
<td><a href="http://www.triodos.co.uk/en/personal/investment/renewables/overview/">www.triodos.co.uk/en/personal/investment/renewables/overview/</a></td>
</tr>
<tr>
<td>Middle East</td>
<td>Siraj Fund Management Company</td>
<td>2011</td>
<td>$60 million first close, goal of $80 million</td>
<td>SMEs in Agriculture, Technology, Manufacturing</td>
<td>OFIC, Soros</td>
<td>Equity</td>
<td>$5-10 million</td>
<td>TA provided as part of fund, no apparent separate vehicle</td>
<td><a href="http://www.siraj.gs">www.siraj.gs</a></td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>C-ventures Primus</td>
<td>2011</td>
<td>Target of $50 million</td>
<td>Digital Media, Technology, Life Sciences, etc.</td>
<td>FOMIN, FINIP</td>
<td>Seed Capital</td>
<td>$5 million</td>
<td>Separate $1 million TA facility to support the VC industry in Brazil implemented by ARVCAP</td>
<td><a href="http://www.crp.com.br">www.crp.com.br</a></td>
</tr>
<tr>
<td>Haiti</td>
<td>Leopard Haiti Fund</td>
<td>2011</td>
<td>$75 million (target)</td>
<td>BOP, SME, Basic Industry</td>
<td>IFC, HNWI</td>
<td>Equity</td>
<td>$10 million</td>
<td>Envisions a $3-5 million TA facility</td>
<td><a href="http://www.leopardhaiti.com">www.leopardhaiti.com</a></td>
</tr>
<tr>
<td>Mexico</td>
<td>Adobe Capital</td>
<td>2011</td>
<td>$20 million</td>
<td>Impact Investing, Renewable/Sustainable</td>
<td>World Resources Institute</td>
<td>Equity</td>
<td>25k - 25MM</td>
<td>Partnership with New Ventures Mexico (World Resources Institute and the Fondo Mexicano para la Conservación de la Naturaleza)</td>
<td><a href="http://www.adobe-capital.org/">www.adobe-capital.org/</a></td>
</tr>
<tr>
<td>Argentina</td>
<td>NXTP Labs</td>
<td>2011</td>
<td>Undisclosed</td>
<td>Technology</td>
<td>ISNW</td>
<td>Seed Capital</td>
<td>25k</td>
<td>Incubator Program</td>
<td><a href="http://www.nxtplabs.net">www.nxtplabs.net</a></td>
</tr>
<tr>
<td>Brazil</td>
<td>21212</td>
<td>2011</td>
<td>$80 million (Target)</td>
<td>Technology</td>
<td>ISNW</td>
<td>Seed Capital</td>
<td>25k-35k</td>
<td>Incubator Program</td>
<td><a href="http://www.21212.com">www.21212.com</a></td>
</tr>
<tr>
<td>Mexico</td>
<td>Angel Ventures</td>
<td>2011</td>
<td>$20 million (Target)</td>
<td>Seed Investing</td>
<td>Fomin, CAF, Fondo de Fondos (Mexico)</td>
<td>Seed Capital</td>
<td>$30k-$2 million</td>
<td>$500k TA grant from FOMIN</td>
<td><a href="http://www.angelventuresmexico.com">www.angelventuresmexico.com</a></td>
</tr>
<tr>
<td>Chile</td>
<td>Start-up Chile</td>
<td>2010</td>
<td>N/A</td>
<td>Technology, Healthcare, Biotech</td>
<td>GADG, Government of Colombia</td>
<td>Equity</td>
<td>$5-50k</td>
<td>Incubator Program</td>
<td><a href="http://www.startupchile.org">www.startupchile.org</a></td>
</tr>
<tr>
<td>Colombia</td>
<td>Progressa Capital</td>
<td>2009</td>
<td>$24 million</td>
<td>Technology, Healthcare, Biotech</td>
<td>GADG, Government of Colombia</td>
<td>Equity</td>
<td>$1-3 million</td>
<td>$500k TA grant to foster the local VC industry</td>
<td><a href="http://www.promotora.com.co">www.promotora.com.co</a></td>
</tr>
<tr>
<td>Mexico</td>
<td>IGNA</td>
<td>2008</td>
<td>$102 million</td>
<td>Impact Investing</td>
<td>CAF, IF, JP Morgan, Fondo de Fondos (Mexico), GADG, Rockefeller, Ondasur, FOMIN, Soros</td>
<td>Equity</td>
<td>$1 to 10 million</td>
<td>Small Scale Facility, including $200k from FOMIN; IGNA Shared Services (ISS), a subsidiary, provides administration office for portfolio</td>
<td><a href="http://www.igna.com.mx">www.igna.com.mx</a></td>
</tr>
<tr>
<td>Meso-America, Andes, Amazon Basin</td>
<td>EcoEnterprises</td>
<td>2000</td>
<td>$6 million in Fund I, $30 million (target for Fund II)</td>
<td>Sustainability (agriculture, tourism, forestry, etc.)</td>
<td>Nature Conservancy and the GADG</td>
<td>Equity</td>
<td>$500k-$3 million</td>
<td>TA Fund administered by The Nature Conservancy ($325k for Fund I)</td>
<td><a href="http://www.ecoenterprisesfund.com">www.ecoenterprisesfund.com</a></td>
</tr>
<tr>
<td>Latin America</td>
<td>ExCo</td>
<td>1994</td>
<td>$45 million invested since inception</td>
<td>Clean Energy</td>
<td>FOMIN, FinnFund, Bio</td>
<td>Some equity, mostly debt</td>
<td>$50k - $1 million, average $150k</td>
<td>Training facility sponsored by the Rockefeller Foundation</td>
<td><a href="http://www.andco.net">www.andco.net</a></td>
</tr>
</tbody>
</table>
ANNEX—CO-INVESTMENT PARTNER APPLICATION TEMPLATE

TEMPLATE: Early Stage Innovation Financing (ESIF) Facility

Co-Investment Partner Application

(PLEASE COMPLETE ALL SECTIONS AND DO NOT CHANGE THE FORMAT OF THIS ELIGIBILITY CERTIFICATE)

General Information (“the investor”)

1. Last Name
2. First Name
3. Registered office / mailing address / website
4. Phone Number
5. Email Address
6. How did you hear about the Early Stage Innovation Financing (ESIF) facility?

Investment History

<table>
<thead>
<tr>
<th>Location</th>
<th>0–2 Years</th>
<th>2–5 Years</th>
<th>5–10 Years</th>
<th>10+ Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Amount (USD)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Amount Invested (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
</tr>
<tr>
<td>Minimum Ticket</td>
</tr>
<tr>
<td>Maximum Ticket</td>
</tr>
<tr>
<td>Average Per Deal</td>
</tr>
</tbody>
</table>

7. Please indicate in which sectors you have investment experience (ICT, clean technology, life sciences, etc.):

8. Please indicate in which stages you have investment experience (Seed, early-stage, later stage, expansion):

9. Please indicate the average number of financing rounds per investment:
Exited Companies Profile

<table>
<thead>
<tr>
<th>Investor exited companies at the following multiples to cost (# of companies)</th>
</tr>
</thead>
<tbody>
<tr>
<td>( x &lt; 0.5x )</td>
</tr>
<tr>
<td>( 0.5x \leq x &lt; 1x )</td>
</tr>
<tr>
<td>( 1x \leq x &lt; 3x )</td>
</tr>
<tr>
<td>( 3x \leq x &lt; 6x )</td>
</tr>
<tr>
<td>( 6x \leq x &lt; 10x )</td>
</tr>
<tr>
<td>( X \leq 10x )</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stage in investee company at entry (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
</tr>
<tr>
<td>Maximum</td>
</tr>
<tr>
<td>Average</td>
</tr>
</tbody>
</table>

10. Please indicate the investor’s history of syndication of deals:

11. Please indicate the investor’s average holding period of investment (in years):

12. Please list all countries/regions in which the investor has invested:

13. Please describe the investor’s business experience and significant accomplishments. Include companies, positions held and dates:

**Investment Strategy**

<table>
<thead>
<tr>
<th>Time</th>
<th>Investment Intentions (# of deals)</th>
<th>Indicative Amount (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–3 Years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3–5 Years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5–7 Years</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
14. Please indicate sectors the investor intends to target during this time:

15. Please indicate the stages the investor intends to target during this time:

16. Please indicate whether the investor intends to syndicate deals during this time:

17. Please indicate the countries within the Middle East and North Africa which the investor intends to target during this period:

18. Please list the investors main sources of deal flow during this time period:

19. Please indicate the total number of deals reviewed during the last year:

Declaration

I, ________________, heretofore referred to as “investor,” confirm that the statements made above are true and correct to the best of my knowledge.

Signature Signed on

_______________________________________
ANNEX – CO-INVESTMENT APPLICATION TEMPLATE

TEMPLATE: Early Stage Innovation Financing (ESIF) Facility

Co-Investment Application Proposal

(PLEASE COMPLETE ALL SECTIONS AND DO NOT CHANGE THE FORMAT OF THIS ELIGIBILITY CERTIFICATE)

Investee Company Details

20. Company name(s).

21. Company number(s).

22. Company registered office / mailing address / website .

23. Establishment date and place of registration.

24. Principal place of business.

25. A brief description of the legal structure of the business / subsidiaries etc (relevant if structure includes offshore entities which investors are to invest in).

26. Current shareholders and holdings:

   a. Please attach full capitalization table showing (a) current shareholdings and (b) shareholdings post this investment round. This should include a detailed breakdown of each previous investment round (including the price per share paid in each round) as relevant.

   b. Please provide details of any current shareholdings that any key person of the ESIF Partner (including the proposed ESIF Investor Representative) have in the company prior to ESIF investment.

27. Current directors.

28. Solicitors acting for ESIF Partner and ESIF (Name & address).

29. Nature of business (Please provide a detailed summary of the business description, including market description and non-technical business description.)

30. Details of key people / number of employees/contractors—including number working in MENA and/or overseas:

<table>
<thead>
<tr>
<th>Location</th>
<th>FTE</th>
<th>Description</th>
</tr>
</thead>
</table>

31. Total assets—including their location (MENA / Overseas) and including the location of key intellectual property.

32. Details of any fees/other remuneration of any nature paid (or to be paid) by the company to the ESIF Partner. Please complete Schedule 1 attached.

**Financial Details**

33. Details of the current debt and equity structure of the company (i.e. basic Balance Sheet), specifically addressing whether there are any convertible notes or shareholder loans in the business or planned to go in before the proposed funding.

34. Financial information (if applicable).

<table>
<thead>
<tr>
<th>(000, s)</th>
<th>Last Financial Year</th>
<th>Current Year</th>
<th>Next Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NPAT</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Investment Round Details**

35. Name of person who will act as ESIF’s Investor Representative.

36. Description of what the proceeds of the proposed investment will be used for.

37. Investment Round details:

   (i) Price per share and overall pre-money valuation:

   (ii) Percentage increase (decrease) of the price per share from the last investment round

   (iii) Amount of investment being sought (or a “range” where appropriate(EX: $0.5m—$0.75m):
(iv)  ESIF subscription amounts being sought (Please amend/extend this table as appropriate for the type of investment instrument and the different parties involved):

<table>
<thead>
<tr>
<th>Subscriptions amounts</th>
<th>$ Amount</th>
<th>No. of Shares</th>
<th>% of Company</th>
<th>Class of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESIF</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESIF Partner</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(“Matching” investment)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

(v)  Please provide details where any or all of the “matching” investment has already been advanced to the company. Please put N/A if not applicable.

**Current status of the investment from the ESIF Partner’s perspective**

38.  Please provide a summary of the current status of this investment from your perspective (i.e. in initial discussions with the company only; have been in discussions with the company for [x months] and now moving to terms sheet stage etc.). To the extent relevant, this should include a brief summary of:

a.  The level of due diligence that has been undertaken by the partner to date;

b.  The investment case analysis (e.g. covering the current valuation of the business, its capital requirements going forward and exit strategy and exit value(s)) done to date;

c.  The status of the Term Sheet for this investment round (i.e. not started/under negotiation/not anticipated that there will be one); and

d.  Expected completion date(s) for the investment.

All actual due diligence reports, investment presentations and other investment case analysis papers or financial modeling work etc. done already should also be specifically referenced as part of this summary. Please also refer to the “ESIF Deal Overview” document noted above for more information on this requirement.

**DECLARATION**
I, ___________, have considered this investment opportunity in light of the Early Stage Innovation Financing (ESIF) facility eligibility guidelines and has concluded that ___________ is eligible for Co-investment funding.

Signed on

_________________________________
ANNEX—DRAFT REOI: FINANCING FACILITY MANAGER SELECTION

infoDev seeks expressions of interest (EOI) from investment financing facility managers interested in managing the Early Stage Innovation Financing (ESIF) Facility, Regional Angel Networks Co-Investment Financing Facility

Description of the Opportunity

infoDev seeks expressions of interest (EOI) from investment financing facility managers interested in managing the ESIF financing facility MENA Compartment that will make early stage co-investments alongside existing or newly created Angel Networks in Middle East and North Africa.

infoDev will provide capital and funding in the range of USD 50 million to be managed and invested by the selected financing facility manager. This funding will be for investments as well as management fees and pre-agreed and appropriate Financing Facility expenses, including organizational expenses. The financing facility from infoDev will be invested on a commercial basis by the financing facility manager.

The Financing Facility will be structured and managed in line with best practice fund management and governance approaches and advance infoDev A2MF key program priorities as described in the business plan prospectus that has been established through an extensive stakeholder engagement process. The business plan should be reviewed carefully before submitting an EOI. Bidders nonetheless are not bound to the specifics of this plan and infoDev is not obligated to establish ESIF financing facility in strict adherence to this plan.

It is expected that the ESIF financing facility will be framed on the key principles outlined below. The framework for this Financing Facility may evolve and may be determined in discussion and negotiation with the selected investment financing facility manager.

Investment philosophy and approach

- The financing facility should aim to address the financing gap for start-up and early stage business models and growth-oriented start-ups through Angel Co-Investments.

- The Financing Facility should be managed as a ‘seed co-investment fund’ addressing the financing gap below the radar of the current set of impact and PE investors in the region. The range of investments is expected to be between $100,000 to $1 million per investee.

- The financing facility manager should develop an effective mechanism that leverages the due diligence, mentorship and ongoing portfolio management expertise of the angels in the angel networks in Jordan, Lebanon, Egypt, Morocco, and Tunisia.

Angel Network development
• The financing facility manager should demonstrate the strategy and capability to rapidly develop relationships with appropriate angels and angel networks.

**Financing mechanisms**

• The financing facility manager would need to assess the viability and commercial potential of each co-investment while fully leveraging the co-investment partners and structure the financing to ensure appropriate influence, commercial viability, an appropriate return on the investment, and potential exit within the defined exit parameters of the Financing Facility.

• Investment parameters should follow best practices and be designed to provide focus and market and investment discipline.

**Leverage**

• The financing facility manager may be required to leverage the capital committed from the ESIF financing facility by attracting additional investment capital from other investors.

• Options for leveraging could include (i) raising additional capital from other likeminded investors, or (ii) contributions from other funds that the manager may already be managing.

**Regional presence and relevant experience**

• The financing facility manager should demonstrate regional presence and an understanding of the MENA context and market opportunities and challenges.

• The financing facility manager should demonstrate relevant experience and track record in fund management and impact investing and a strong interest in technology sectors.

• At the proposal stage, the bidding firm will be required to present the specific profile and experience of the senior management team including the profile of the key senior investment officer(s) who would drive and be accountable for the Financing Facility.

**Benchmark returns, expectations and exit value**

• In negotiation with infoDev, the financing facility manager would set an appropriate target return to investors in the Financing Facility and exit mechanisms and timelines.

• The financing facility manager would define, in partnership with infoDev, supplementary targets and indicators to advance ESIF’s overarching objectives.

**Link to the ESIF TA**

• While the ESIF financing facility would be managed and governed independently from the ESIF TA, the two components are complementary and the Financing Facility must be clearly linked to the TA programs. The two will share the same Steering Committee (which acts as the traditional
advisory committee representing investors in a typical fund) but ways to ensure this link will be
developed by mutual agreement by all parties concerned.

**Submitting Expressions of Interest**

*infoDev* now invites EOIs from eligible financing facility managers. Based on responses to this request for
EOI, a shortlist of applicants will be established and invited to submit a full technical and financial
proposal based on a detailed request for proposals.

Interested firms must provide information indicating that they are qualified to perform the services
(description of similar fund management experience and track record, profile/brochures of funds under
management, investee case studies, team profiles, experience in similar conditions and markets,
experience in MENA, availability of appropriate skills among staff, etc).

At this stage, important evaluation criteria include:

- Capabilities and experience to actively manage co-investment funds, including structuring new
funds with public-private partnership features, strong internal governance frameworks and a
track record of fiduciary responsibility and accountability.
- Track record of successful VC type investments in early-stage companies in emerging markets,
particularly in MENA.
- Track record of successful relationships with angels, angel networks and other co-investment
partners.
- Experience with mentoring of early stage businesses in emerging markets, particularly in MENA.
- Ability and track record to leverage existing and additional sources of funding.
- Existing presence or ability to establish a presence in MENA.
- Proven team capability and experience and/or ability to attract and build a strong team of
individuals with necessary skills. Profile of the principal managers likely to be involved in
managing the Financing Facility would be an advantage.

Ability to implement and maintain appropriate financial management and reporting processes and a
comprehensive impact assessment (M&E) strategy.