

## LEARNING PIECE ON FACILITATION OF ACCESS TO FINANCE BASED ON TRADE ACTIVITIES OF THE USAID TRADEHUB

*The USAID Southern Africa Trade and Investment Hub (USAID TradeHub) employed a distinct partnership model to encourage financial service providers (FSPs) to increase access to finance from South Africa-based capital providers into targeted Southern African countries. For purposes of this project, the FSPs were broadly defined in three categories, namely capital providers (lenders and investors), transaction advisors, and providers of financial education services. In the USAID TradeHub project, “investments” refer to the various debt and equity financing solutions. The USAID TradeHub worked through the FSPs to offer services that increased financial literacy, prepared capital seekers to be investor-ready, and prepared and improved their investment memoranda and funding applications. This was done to ensure that the capital seekers’ financial requirements would be assessed by the capital providers, with the goal of de-risking capital providers’ investment in new sectors and geographies. The following learning piece offers key lessons learned and best practices.*

### INTRODUCTION

The USAID TradeHub’s market systems model is based on working through market actors to facilitate access to various trade enhancing services that increase exports from the Southern Africa region to South Africa and to the United States, and that increase the flow of capital and technology from South Africa to targeted Southern African countries. For example, to promote exports, the USAID TradeHub worked with entities that encouraged and enhanced the listing and trading of firms on e-commerce platforms, participation in tradeshow, compliance with safety standards for

product export, obtaining relevant certification required by the destination market, and compliance with United States Food and Drug Administration (U.S. FDA) regulations, packaging and labelling. These services were aimed at increasing regional firms’ access to the South Africa and U.S. markets. The partnership with FSPs and the services they offered, complemented these export-oriented activities by providing access to trade finance and the required working capital to turn market linkages created and trade capacity enhancements into new exports from the region to South Africa and to the United States.

### USAID TRADEHUB THREE KEY OBJECTIVES:

#### Objective 1

Increased exports to South Africa from targeted Southern African countries.

#### Objective 2

Increased investment of capital and technology out of South Africa to targeted Southern African countries.

#### Objective 3

Sustainable utilization of the African Growth and Opportunity Act (AGOA) opportunities by targeted Southern African countries.

The USAID TradeHub project’s target countries were Angola, Botswana, Eswatini, Lesotho, Malawi, Mozambique, Namibia, South Africa, and Zambia. South Africa was the destination market for Objective 1 and the source of finance and investments in Objective 2. In Objective 3, the United States was the destination market for the aforementioned project target countries. The USAID TradeHub classified the export firms it supported into three categories (see Figure 1). While there was broad interest among capital providers to extend financial services and products to businesses in Southern Africa, many firms, particularly those in Tier 2 and Tier 3, struggled to meet all the due diligence requirements to access the debt and equity solutions. The USAID TradeHub’s interventions, through the partner FSPs, filled this gap by improving readiness and due diligence support to capital seekers to increase their likelihood of accessing finance. The USAID

TradeHub also worked to improve Southern Africa's financial ecosystem by helping FSPs see the business potential of offering their services to Tier 2 and Tier 3 firms.

**Figure 1: USAID TradeHub Broad Classification of Firms**



## A UNIQUE SOLUTION TO A COMPLEX PROBLEM REACHED IN COLLABORATION WITH CAPITAL PROVIDERS AND TRANSACTION ADVISORS

South Africa is a driver of economic growth in the region; it has the largest economy and greatest demand for the products in the region, as well as the largest financial institutions and investors in search of attractive investment opportunities. The approach of engaging **financial service**

**providers** (FSPs) represented a deliberate shift away from direct, firm-level assistance from the USAID TradeHub to a **market systems approach** in which Southern Africa service providers were engaged to deliver investment facilitation services.

### Developing a Learning Agenda for Increasing Access to Financial Services

As part of the project's shift from direct, firm-level assistance, the USAID TradeHub posed five learning questions in Fiscal Year (FY) 2020 to help USAID assess the impact of FSP support models and to generate lessons that could be used for future USAID activities:

1. What incentives will be effective in catalyzing South Africa capital providers to enter new markets in the region?
2. What incentives will be effective in supporting capital providers to move toward smaller, less formalized businesses?
3. Which markets in the region provide investors with attractive investment opportunities based on results?
4. Do examples of first-time investment in new markets lend to an effective demonstration effect and future investment?
5. What FSP models are effective, and how, in reaching lower deal sizes in emerging markets?

In 2019, the USAID TradeHub hosted two FSP co-creation workshops to better understand the systemic challenges and market barriers that impede provision of FSP services to smaller firms. This workshop also identified the need to improve management and financial capacity, particularly for smaller or new exporters. From the workshop, market actors co-developed market solutions to build trade and investment facilitation services that are accessible to small, but promising businesses in Southern Africa. The USAID TradeHub subsequently issued calls for proposals from transaction advisory service providers, capital providers, and financial education providers focused on two objectives:

1. To advance the investment-readiness of firms; and
2. To de-risk finance and investment services to underserved market segments, i.e., small and medium enterprises (SMEs), and new geographies (firms outside South Africa).

In response to the call for proposals, service providers would also be expected to respond to the need identified by smaller or new exporters: exporters cited greater demand for debt funding in the suite of debt and equity financial solutions. The demand for equity investment as a financing solution was minimal due to the low and unappealing company valuations which raised the concern on the level of interest and control for the equity investment and, as a result, reduced the interest in equity investments. There was also a need for trade and purchase order finance to support export trade and revenue growth. Of note, during the period of performance, the COVID-19 pandemic interrupted many firms' plans for business growth and affected their ability to raise funds.

## FINANCE AND INVESTMENT FACILITATION

In 2020, the USAID TradeHub released calls for proposals to identify FSPs that specialize in transaction advisory, capital raising, and financial literacy services to accelerate the trade performance of USAID TradeHub export firms and enhance their business sustainability. The partnerships with these service providers were aimed at delivering trade finance, asset-based debt finance and equity investment on a pay-for-results (P4R) basis (i.e., evidence of the deals facilitated, improved or financing applications, improved financial literacy and network of SME capital providers). The partners were encouraged to propose cost-sharing arrangements with the exporting firms with the understanding that the export firms would bear full costs in the future. In addition, during 2021 the USAID TradeHub released a call for grant proposals from FSPs to support and improve their product and service offering.

The USAID TradeHub contracted three capital providers and two transaction advisors to address the funding gaps by making the funding process more efficient and cost-effective. The USAID TradeHub

also contracted two firms to provide financial education to the exporting firms. The partners were identified to fit into the USAID TradeHub hypothesized financial service ecosystem as part of the market systems approach to support exporting firms in the regions. The ecosystem consisted of the following three business models:

### Transaction Advisory Model

The USAID TradeHub partnered with two transaction advisors – Foxfin and Nations Capital Projects – to help firms identified by the USAID TradeHub access the finance and investment they needed to grow their businesses and export capacity.

Under this model, the transaction advisors improved the investor readiness and funding applications of the client (the export firm) via the preparation of an Investment Memorandum (IM) for consideration by capital providers (e.g., Foxfin, Cala Capital Africa, IDF Capital or other interested parties). The transaction advisors' support in the preparation of IMs include verifying the information and other risk mitigation analysis provided by the client (e.g., business case and risks analyses, market strategies, financial modelling and forecasting, feasibility and valuation) to better demonstrate investment worthiness.

All services provided by USAID TradeHub partners were extended on a cost-sharing basis with the exporting firms. The exporting firms were expected to pay the success fee once the funding was raised or arranged by the transaction advisor. This approach focused on smaller or new exporters that had greater capacity for co-investment. The transaction advisors were pleasantly surprised at the scale of the interest and number of firms willing to utilize transaction advisory services, implying that if the advisory services are well structured and linked to the highly demanded debt financing solutions, this approach could be sustainable beyond the USAID TradeHub.

The African Trade Platform (ATP) is an online trading platform developed by USAID TradeHub FSP partner Foxfin, launched in 2020. The platform serves as an online marketplace that utilizes state-of-the-art algorithms to match trade stakeholders (buyers, sellers, trade financiers and logistics service providers) in export transactions. The ATP allows suppliers to list their products, buyers to indicate their price, quantity and quality requirements, financiers to indicate their finance offerings and logistics providers to promote their service options, all on one platform: <https://africantradeplatform.com>

### Capital Provider Model

The USAID TradeHub also partnered with three South Africa-based capital providers – Foxfin, Cala Capital Africa and IDF Capital – to de-risk smaller loans and investments for less formalized businesses within the USAID TradeHub target countries. The de-risking was attained through the market enhancement activities and services of the USAID TradeHub (i.e., through relevant market actors that assisted businesses to meet target market entry requirements and improve their export market access) and linkages with buyers with well-established trade and financial track records. Under this model, the selected capital providers offered various debt products such as trade finance, asset-based finance, debt finance, and equity investment to firms identified by the USAID TradeHub. The partnership enabled these capital providers to extend services to firms that they would not have previously financed due to the small deal size or the capital providers being relatively unfamiliar with the market.

All services were offered on an incentivized P4R basis with clearly demonstrated additionality<sup>1</sup> on the deals facilitated by the USAID TradeHub. The USAID TradeHub trade enhancement activities supported the mitigation of market and buyer risk as a form of de-risking for the capital providers. This was also enhanced by the support of the transaction advisors that presented opportunities that had undergone pre-screening and selection, lowering the transactional costs of the capital providers. This was significantly enhanced under the African Trade Platform (ATP) (see box above) with stronger linkages between the seller and buyer.

<sup>1</sup> Additionality: the activity resulted in new services and support that would otherwise not be offered.

### Financial Education Model

To address the need to improve management and financial capacity, the USAID TradeHub partnered with a digital financial education partner, Netcampus, to offer business financial literacy courses at the new export firms to increase the potential supply of investable firms in the region. The USAID TradeHub supported Netcampus to develop 18 financial education modules, which remain available on its digital learning management system. Netcampus developed the modules in stages, with eight financial learning modules developed after the first ten. All 18 modules were available in both English and Portuguese to the USAID TradeHub export partners at \$6 per module compared to \$10 per module without USAID support. In addition, Netcampus provided a voucher for the USAID TradeHub supported firms to waive the cost (\$6 per module) until August 30, 2022. The USAID TradeHub also partnered with the African Women Innovation and Entrepreneurship Forum (AWIEF), an organization that supports women entrepreneurs in Africa, to grow their businesses and fulfill their potential to train and improve export and investment of SMEs in the USAID TradeHub target countries.

The USAID TradeHub positioned the provision of this service in the private sector so that the service could be modified based on the demand and level of utilization. After the USAID TradeHub closure, the modules will remain available at cost to SMEs that aim to build their business acumen.

### FINANCE AND INVESTMENT PARTNERS

The following partners were selected and contracted after the various calls associated with the finance and investment activities:



# SOUTHERN AFRICA TRADE + INVESTMENT HUB



[African Women Innovation and Entrepreneurship Forum \(AWIEF\)](#) is located in Cape Town, South Africa. It supports women entrepreneurs in Africa to grow their businesses and fulfill their potential. AWIEF's mission is to foster a holistic program in the broader entrepreneurship ecosystem to develop women's empowerment on the African continent. Using a USAID TradeHub grant, AWIEF trained women led SMEs to enhance their investment and export readiness through a digital platform. AWIEF, with the support of the USAID TradeHub, targeted and achieved the training of 100 SMEs operating in the Southern African region. The training and support focused on improving export trade, scaling up operations, and enhancing investment readiness.



[Foxfin](#) (formerly Sebvest Capital Partners), is a leading transaction advisory firm and capital provider in Africa, located in Johannesburg, South Africa. Foxfin targets mid-size to large firms with capital yielding opportunities in stable but growing sectors of the global economy and works to advance growth in the businesses through innovative financial solutions to help its clients to achieve their desired business goals. Foxfin provided various debt financial solutions to the USAID TradeHub supported firms. The creative purchase finance solution established as an add-on solution on the African Trade Platform (ATP) played a significant role in ensuring that trade transactions were completed for the trade opportunities identified and created.



[Cala Capital Africa](#) (formerly Neu Capital Africa), is a capital provider located in Durban and Johannesburg, South Africa. Cala Capital assists mid-market capital seekers in Africa to find appropriate debt and equity investors seeking to invest \$5 million to over \$50 million. Cala Capital Africa, through its matching platform, presented USAID TradeHub identified firms to a number of its accredited investors and capital providers. The USAID TradeHub also supported Cala Capital which was contracted to support the raising of the initial \$7 million for Horizon Equity Partners (HEP) towards the Horizon Equity Partners Prosperity Fund (HEPPF's) first close. The Horizon Equity Model mobilizes capital, supports business governance skills development, and endeavors to empower entrepreneurs. It acts as an "orchestrator" of capital targeting investments of less than \$1 million through a regulated permanent capital vehicle fund structure where administration costs are kept low, with high governance, compliance and reporting standards. This "orchestrator" also gives access to proprietary transaction processes, standard equity investment products and access to experienced and skilled mentors. This supports the development of the necessary governance structures.



[IDF Capital](#), is a capital provider located in Johannesburg, South Africa. It specializes in entrepreneurial financing, fund management and fund administration for various corporate and institutional clients. It invests in the entrepreneurial SME landscape by providing appropriate financial and non-financial products and support to unlock the value of the SME sector with a focus on woman managed and owned businesses. IDF actively assessed and undertook due diligence of investment opportunities presented by the USAID TradeHub.



[Nations Capital Projects](#), is a transaction advisory firm located in Johannesburg, South Africa, and specializes in corporate finance advisory, financial advisory, financial accounting, internal and external auditing, as well as taxation services to clients. Nations Capital supported a number of the USAID TradeHub firms to prepare their investment memoranda and present them to various capital providers.



**NETCAMPUS**  
LEARN. INNOVATE. EVOLVE

Netcampus, is a financial education provider, located in Centurion and Cape Town, South Africa. It is a 100 percent black, women-owned training service provider, with a core focus on cross industry, cross modular, technical training, soft skills, business skills and custom build learning solutions. Netcampus with the support of the USAID TradeHub developed 18 financial education modules in English and Portuguese and these will remain accessible beyond the USAID TradeHub project.

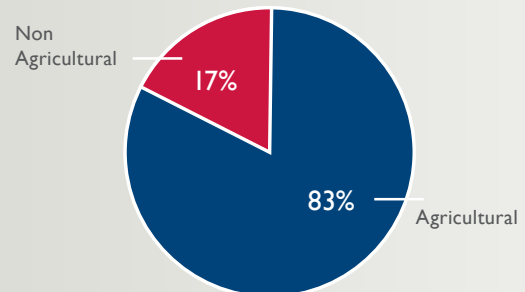
**INVESTMENTS FACILITATED (EQUITY AND DEBT): FY 2020 – FY 2022**

**From October 2019 through June 2022,**

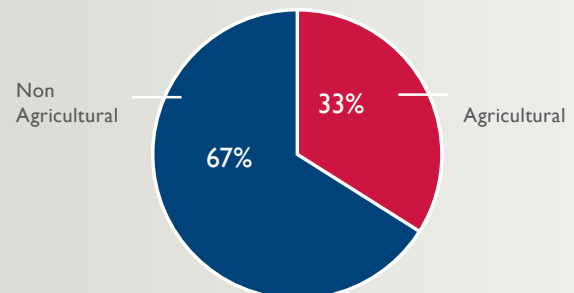
- Four SMEs (two in the agricultural and two in the non-agricultural sector) raised \$25 million in equity investments, of which \$21 million was in the agricultural sector and \$4 million in the non-agricultural sector.
  - The two agricultural firms raising equity were based in Eswatini (\$0.4 million) and Malawi (\$20 million).
  - The two non-agricultural firms raising equity were based in Lesotho (\$0.6 million) and Mozambique (\$4 million).
- Twenty-six SMEs (18 in the agricultural and eight in the non-agricultural sector) raised various debt products (including long term loans, trade finance and asset-based finance) to the value of \$34.3 million with \$11 million in the agricultural sector and \$23.4 million in the non-agricultural sector respectively.
  - The 18 agricultural firms which utilized long term debt (\$7.7 million) and trade finance (\$3.3 million), were mainly from Zambia, with two in Malawi and one in Mozambique.
  - The eight non-agricultural firms which utilized asset-based finance (\$19.6 million) and trade finance (\$3.8 million), were all based in Zambia.

*“You must understand your target market, your competition and your offering: what problem are you solving, how much and how often will your target market be prepared to pay, how much does it cost to deliver, how long will it take to get paid?”*  
Mark Taylor – CEO Cala Capital

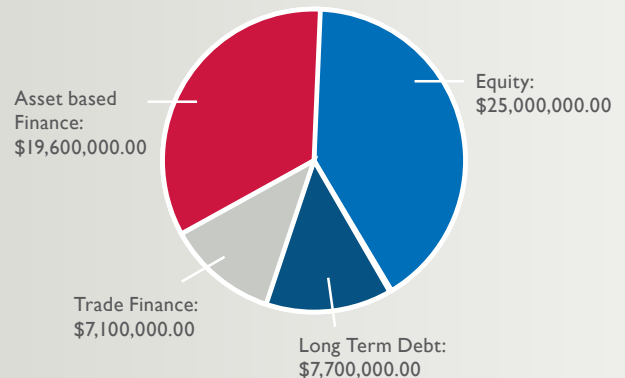
Distribution of private sector investment across sectors, leveraged as a result of USAID TradeHub support.



Distribution of financing raised across sectors, as a result of USAID Tradehub support.



Finance solutions utilized.



*“Cash flow is the heartbeat of any SME. Poor cash flow management will cripple 99% of SME’s. In the trade environment international buyers often pay within 60 to 90 days which can be devastating to an SME therefore the cost of invoice discounting needs to be accounted for in every transaction.”* **Warwick Blamey – CEO of African Trade Platform**

## LESSONS LEARNED

A survey conducted in June 2022 with partner FSPs provided insights into their experiences with the USAID TradeHub. The survey also addressed the questions from the USAID TradeHub’s learning agenda at the start of FY2020.

### **I. What incentives proved effective to catalyze South African Capital Providers and Financial Education Providers to enter new markets in the region?**

Capital Providers traditionally rely on the availability of independent credit scoring or numerical system(s) to assess the ability or likelihood of borrowers to make payments. These tools are not commonly available in many African countries. The USAID TradeHub’s partner models served as risk mitigation tools that allowed partner capital providers to fill this gap and make more informed lending decisions on the basis of improved borrower financial literacy, loan documentation and due diligence analysis. However, capital providers noted that further work in Southern Africa’s financial market system is needed, through guarantee products or the underwriting of financial tools from development organizations or sovereign institutions, to systemically offer financial risk assessment data in these markets for broader and sustained impact.

The USAID TradeHub’s experience demonstrated that favorable lending decisions can be made to smaller businesses and that support to South African capital providers can incentivize them to expand into new markets in the region. Equipping borrowers with financial literacy proved critical to help borrowers in new markets attract the attention of capital providers through better investment applications. This allowed capital providers to conduct more informed risk

assessments based on a clearer understanding of risk factors for new borrower profiles and geographies. Education providers also proved to be an important partner, offering a business case for future partnerships with capital providers to supply financial literacy courses that help capital seekers present stronger applications.

### **2. What incentives were effective in supporting FSPs to move towards smaller, less formalized businesses?**

As profit making institutions, FSPs are naturally conscious of the need to deliver adequate returns to their shareholders and investors. As boutique lenders in Africa, many of the USAID TradeHub’s FSP partners have funding/investment profile models that demand higher returns than mainstream banks. As such, for smaller business it is critical that they fully understand and are responsive to the application and the mandatory governance readiness requirements of the business. Access to trade enabling services was the greatest incentive for FSPs’ to lend to smaller or new exporters. Venturing into new market segments requires greater resources to service than more traditional markets. Access to trade enabling services was important to improve the exporter’s risk profile via certified quality standards and secured buyer relationships.

### **3. What markets in the region provided FSPs with attractive investment opportunities based on results?**

Among the USAID TradeHub target countries, the most activity in the financial services market was observed in Zambia (24 transactions facilitated) Malawi (three transactions facilitated), Mozambique (two transactions facilitated) and one in Lesotho. The

*“Financial acumen is an important ingredient for success for any entrepreneur. However, not many SME’s or their staff have had the opportunity to work with the financial services industry in the early stages of an expanding business. Not everyone understands the financial terminology, processes and details required when they want to submit a finance application.”* **Leon Visser – Senior Manager, Netcampus Operations**

demand for financial services linked to increased trade is expected to continue showing marked increases in these three countries. Despite strong demand in Mozambique for financial solutions, firms tended to seek cheaper financial solutions to replace what they were able to source directly.

**4. Do examples of first-time investment in new markets lead to an effective demonstration effect and future investment?**

FSPs noted that the move into business sectors that they would previously not have considered did generate many new investment leads. While it is still too early in the investment cycle to say if these first-time investments in new markets provided a demonstration effect for similar future investments, FSP partners indicated that they have developed new internal digital filtering and resource allocation systems to look at prospective deals which they may not have considered previously. In addition, these newly developed systems will continue to be applied when exploring future investment opportunities of this nature. Trade

finance deals are growing in number and size, and there have been several repeat trade finance transactions for macadamia nuts and tea tree oil. Foxfin has shown increased interest to scale up the trade finance linked into the ATP and explore areas to leverage the asset finance guarantee secured from the Italian Government.

**5. What FSP models are effective, and how, in reaching lower deal sizes in emerging markets?**

While each FSP model proved effective in its relative area, the overarching success was the complimentary nature of the service offerings, with transaction advisory work linking to capital providers and educational FSPs support a key element of investor readiness. It was helpful to bring together FSP partners together to generate mutual and sustainable interaction, and collaboration. Regular podcasts and webinars, brought about by the COVID-19 pandemic, also generated interesting topical material and attracted knowledgeable panelists that raised the profile of regional opportunities.