

DeSIRA CONNECT Days

# **Roundtable 5**

## **Funding Innovation Scaling**

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26 September 2024

# INTRODUCTION

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# Context

HORUS has been mandated by DG INTPA / DeSIRA-LIFT to conduct the following assignment:

**“ Funding mechanisms for responsible innovation to contribute to the transformation of agrifood systems in Africa: Making options for DeSIRA projects explicit”**

The study started in May 2024. We will present the first results today.



# Horus Development Finance



## IDENTITY

### PLAYING A KEY ROLE IN INCLUSIVE FINANCE SINCE 1994

**HORUS Development Finance is a consulting firm that has been specializing in financial inclusion for nearly 30 years.**

Our mission is to expand access to and enhance the quality of financial services for micro, small and medium-sized enterprises (MSMEs), farmers and women in developing countries.

**HORUS** is active in all areas of financial inclusion, which gives us a 360° view of current issues and enables us to offer a wide range of support to our clients and partners.

**HORUS** is an independent firm, working with a multidisciplinary team of permanent consultants. Our first commitment is our quality of service.



**30 YEARS'  
EXPERIENCE**

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**IN MORE THAN  
45 DEVELOPING  
COUNTRIES**

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**ON 5 CONTINENTS**

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# Objectives and methods

## Objectives

- To support DeSIRA projects in identifying relevant funding mechanism to scale their innovations.
- To capitalize and disseminate results

## Outputs

- A practical handbook to support DeSIRA projects in the identification of suitable funding mechanisms and funding strategies to scale up their innovations
- 15 projects have expressed the need for funding to scale their innovations;
- 5 innovations are equipped with a funding strategy;
- A policy brief to summarize the main elements of the study (typology, funding needs to scale innovations; examples of strategies to access relevant funding in different innovation domains).

## Methods

- Identify a large variety of funding mechanisms
- Conduct needs assessment
- Develop the handbook in parallel, based on concrete « use cases » and following a collaborative approach

# FIRST RESULTS OF THE STUDY

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# Scale up modalities – insights from the first needs assessments



**Scaling up generally requires the coordinated action of various types of players**



**Scaling up means sustaining the innovation through permanent structure(s) and business model(s)**



**Scaling up often involves partnering with private sector players**

# Concrete examples for innovation scaling

## Use Case 1

Create a (public or private) economically sustainable structure to scale up your innovation

## Use Case 2

Transfer your innovation to existing private sector players

## Use Case 3

Set up a commercial distribution network relying on existing private sector players

## Use Case 4

Support end-beneficiaries in accessing the innovation



# Matching financial needs with appropriate financing tools

## What can be financed by non-grant funding?

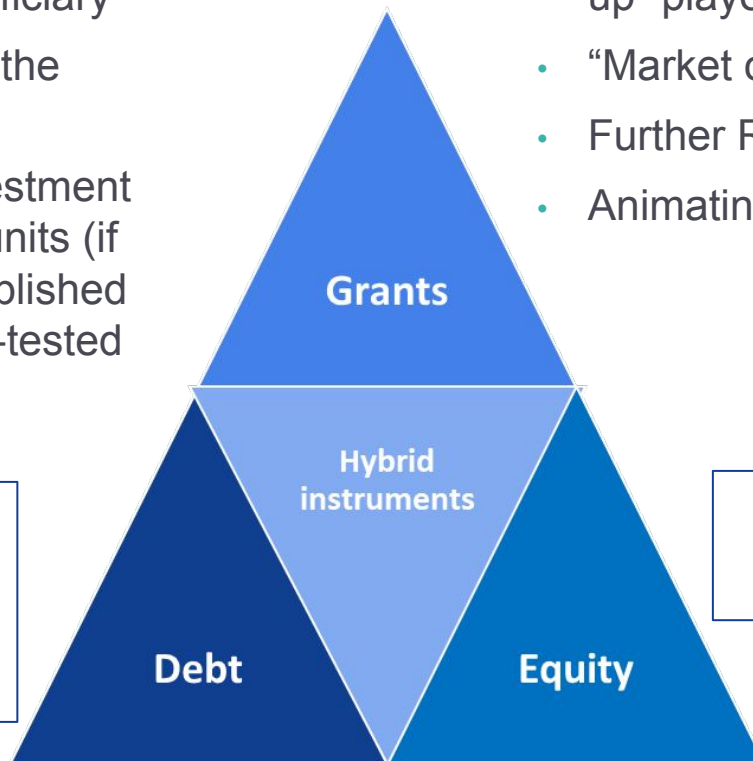
- Acquisition cost of the product / service for the end-beneficiary
- Working capital costs of the distributors
- Working capital and investment costs of the production units (if they can rely on an established business model and pre-tested market)

□ Sustainable business model, private or public company, private or public revenue sources

## What will need additional grant financing?

- Building capacities of the “scale up” players
- “Market opening” costs
- Further R&D
- Animating a network of players

□ Pre-market entry costs  
□ Non-economic activities



# Grant-based financing mechanisms

	Examples	Typical beneficiary
<b>Grant-based Innovation funds</b>	Fonds d'Innovation pour le Développement, DIV-USAID, Financing Innovation Tool, DFCD, Global Innovation Fund, African Visionary Fund	Some of them are business-oriented and target private companies Selective on the « innovation » and « impact » aspects
<b>Incubators / accelerators proposing funding</b>	BPOinc, Bridge for Billions, Grindstone Ventures, Katapult Africa, 2scale	Exclusively business-oriented, target start ups
<b>Research-oriented awards and prizes</b>	The AFRICA Awards, African Women in Agriculture Research and Development (AWARD), Gogettaz, Africa Food Prize, WAYA	Target varied beneficiaries from NGOs to start ups and SMEs
<b>State budget</b>	The Government of Togo partners with the company Bboxx to subsidize solar-powered waterpumps	SHFs, small companies, Farmers' Organizations, local NGOs, resource centers...
<b>National or local development funds</b>	FNDA (Bénin), Décentralisation Fonds Climat (Sénégal)	SHFs, Communities, Farmers' Organizations, local NGOs ...
<b>Carbon / biodiversity finance</b>	L3F, BioFa	Structures fostering the development of economic initiatives close to protected areas

# Equity-based financing mechanisms

**Pre-requisites: The structure asking for finance is a private, capitalistic company. Business plan is established and at least 1-2 top managers are in place.**

	<b>Examples of existing mechanisms</b>	<b>Typical financing need and beneficiary</b>
<b>Impact investing funds</b>	AATIF, ABC Fund, Huruma Fund, AgriFi, Acumen, Aceli, SIDI, Shared Interest, FADEV	Target private companies. Minimum ticket (e.g 1M EUR) often exclude small companies and start ups
<b>Impact venture capital funds</b>	Mercy Corp Ventures	Specifically target start ups. Often digital-oriented. Very few active on the African continent
<b>Local PE funds</b>	Sinergi (Niger), Mirakap (Madagascar) Omnivore (India)	Target private companies. Don't exist in many countries. Sometimes don't finance agriculture
<b>Equity-based crowd funding</b>	GrowForMe (Ghana), Agrivest Africa, Crowdfunding Afrik, Smart Farmer, Kwidex	Not available in all the countries. Small tickets. Target Middle-sized farms and SMEs/start ups
<b>Love money</b>	Family, friends, diaspora	
<b>Industrials</b>	EDF investing into Bboxx	Often focused on tech. solutions

NB: Impact investing funds and equity-based innovation funds can also propose grants or mixed tools to cover some seed costs such as R&D, market surveys, etc.

# Credit-based financing mechanisms

**Prerequisites: the economic activity exists and has a track record. The structure asking for finance can provide a guarantee (assets or alternative guarantees).**

	<b>Examples of existing mechanisms</b>	<b>Typical financing need and beneficiary</b>
<b>National public development banks / funds</b>	TADB (Tanzania), BNDA (Mali), BAGRI (Niger), ADB (Ghana), BoA (Nigeria)	Middle to large size projects having long term investment needs Large FOs having working capital needs
<b>Commercial banks</b>	BoA, Ecobank, ...	SMEs and large companies having short term or mid term financing needs above EUR 30,000
<b>Microfinance institutions</b>	UBTEC (Burkina Faso), Caurie Microfinance (Sénégal), ...	SHF or farmers' groups, SMEs, having short term financial needs below EUR 50,000
<b>Value chain finance</b>	Offtakers proposing inputs and services on credit	SHF having short term input financing needs
<b>Impact investing funds</b>	SIDI, Shared Interest, ...	SMEs or Cooperatives. Often contract-backed loans

NB: In some countries, leasing can solve the collateral issue. Some MFIs can lend based on alternative guarantees such as group guarantee.

# De-risking mechanisms to bridge the financing gap

## Revolving fund

- Market failure(s) addressed: liquidity issue, lack of long term financial resources, high risk perception on FI's side

## Guarantee fund

- Market failure(s) addressed: high risk perception on FI's side, lack of adequate collateral at end-beneficiary level

## Matching grant

- Market failure(s) addressed: High upfront cost of the innovation, competition with cheaper solutions, reduces the return on investment period for end-beneficiaries

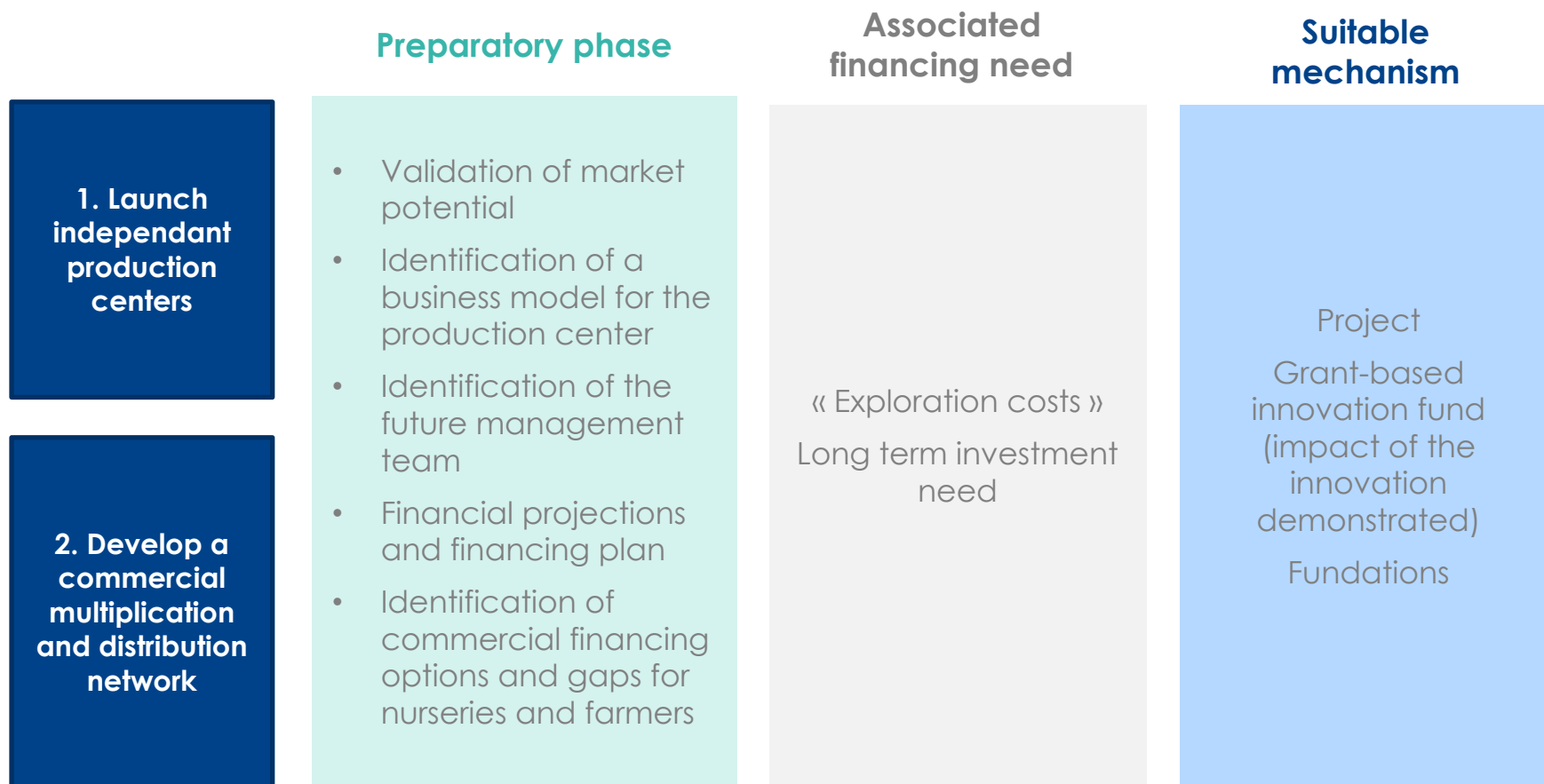
## Interest rate subsidy

- Market failure(s) addressed: High operational costs engaged to serve rural areas / high refinancing costs for the FI turning into unaffordable interest rates for end-beneficiaries

Capacity building for end-beneficiaries AND for financial institutions can also be considered as a de-risking mechanism.

# Funding strategies for DeSIRA Projects

## Innovation 1: Production and distribution of innovative seedlings



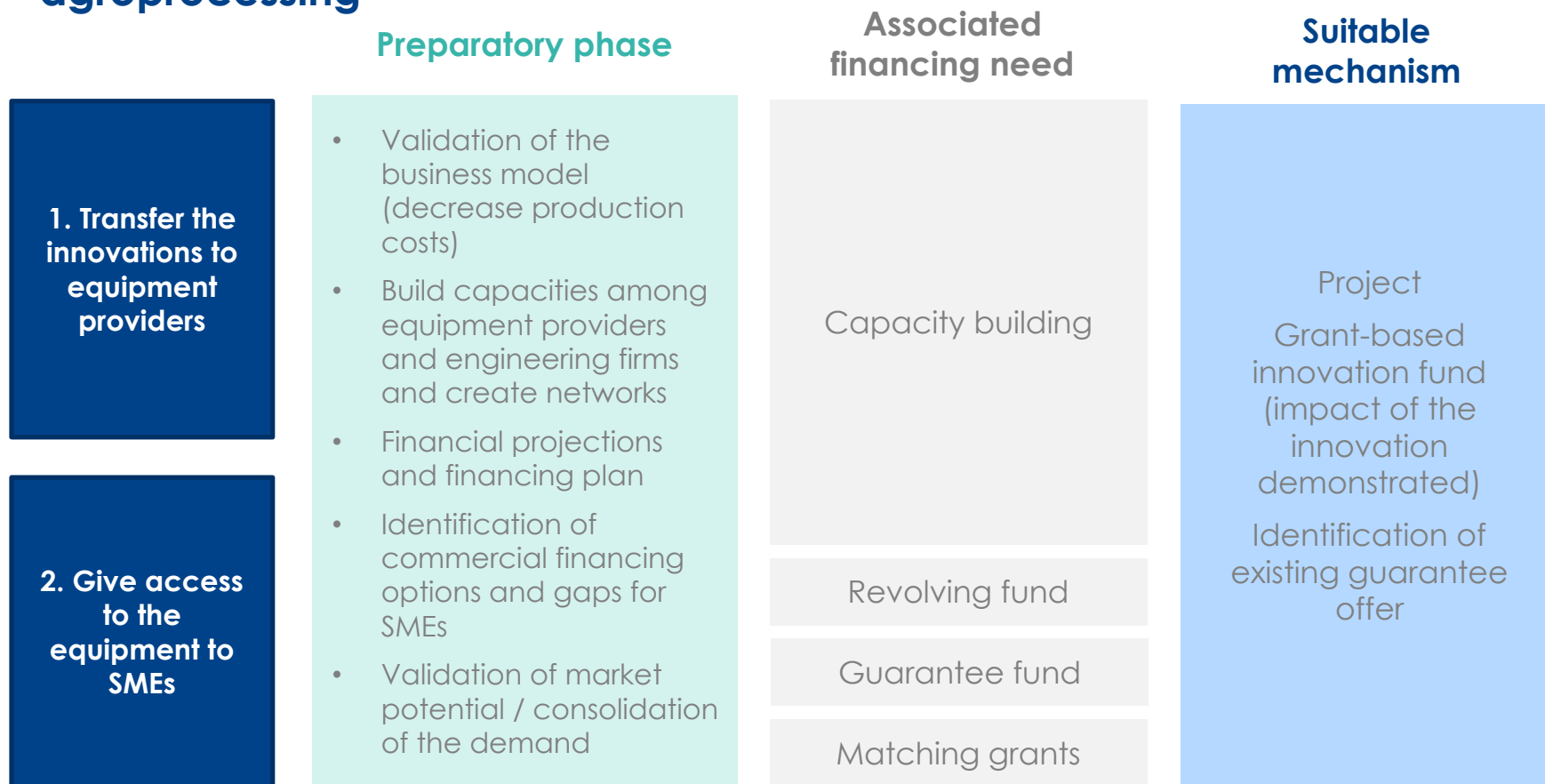
# Funding strategies for DeSIRA Projects

## Innovation 1: Production and distribution of innovative seedlings

	Scale up phase	Associated financing need	Suitable mechanism
<p><b>1. Launch independent production centers</b></p>	<ul style="list-style-type: none"> <li>Buy labs / Greenhouses</li> <li>Buy raw material</li> <li>Pay for operational costs</li> </ul>	<ul style="list-style-type: none"> <li>Long term investment need</li> <li>Working capital need</li> </ul>	<p>Grant-based or equity based innovation funds</p> <p>National agricultural development bank</p>
<p><b>2. Develop a commercial multiplication and distribution network</b></p>	<ul style="list-style-type: none"> <li>For nurseries: buy seeds and multiply them</li> <li>For FOs and farmers: buy seeds</li> </ul>	<ul style="list-style-type: none"> <li>Working capital need</li> </ul>	<ul style="list-style-type: none"> <li>Microfinance institutions</li> <li>For the biggest nurseries/Fos: national agricultural development bank or commercial bank</li> </ul>

# Funding strategies for DeSIRA Projects

## Innovation 2: Local conception and production of sustainable energy for agroprocessing





# Funding strategies for DeSIRA Projects

## Innovation 2: Local conception and production of sustainable energy for agroprocessing

	Scale up phase	Associated financing need	Suitable mechanism
1. Transfer the innovations to equipment providers	<ul style="list-style-type: none"> <li>Buy raw material and other consumables</li> <li>Cover production costs</li> </ul>	Working capital need	MFI/commercial bank
2. Give access to the equipment to SMEs	<ul style="list-style-type: none"> <li>Buy bioenergy production equipments</li> </ul>	Long-term investment need	MFI/commercial bank/impact fund + matching grant + guarantee fund

**THANK YOU FOR YOUR ATTENTION!**

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