



Kick-off Meeting: Innovative Financing Strategies for African SMEs

Enhancing Access to Finance and Sustainability for OVO

October 16, 2024



Background

History

- OVO was founded in 2000 to link Belgian companies with development projects
- Focus was mainly on fundraising for Belgian NGO projects

Current Focus:

- Empowering African entrepreneurs, especially SMEs in the “missing middle”
- Through SusTech4Africa (°2018), OVO Acceleration Fund (°2019) and syndicated loans (°2019)
- Debt financing



Challenges and Opportunities

Challenges:

- OVO provides limited number of SMEs with access to finance
- OVO only offers traditional debt financing, which is not always the appropriate instrument
- Fragmented support networks



In 2018, OVO launched activities to support African companies...

Limited access to business development services



Business
Acceleration
Program
SusTech4Africa

Status: 220+ businesses coached

Limited access to finance



Investment
Vehicle
(OVO Acceleration Fund +
Business Angels)

Status: 60+ businesses received loan



...companies that are in the missing middle

African companies

- ✓ Too big for microfinance
- ✓ Too small for impact investing
- ✓ Not yet able to access mainstream finance

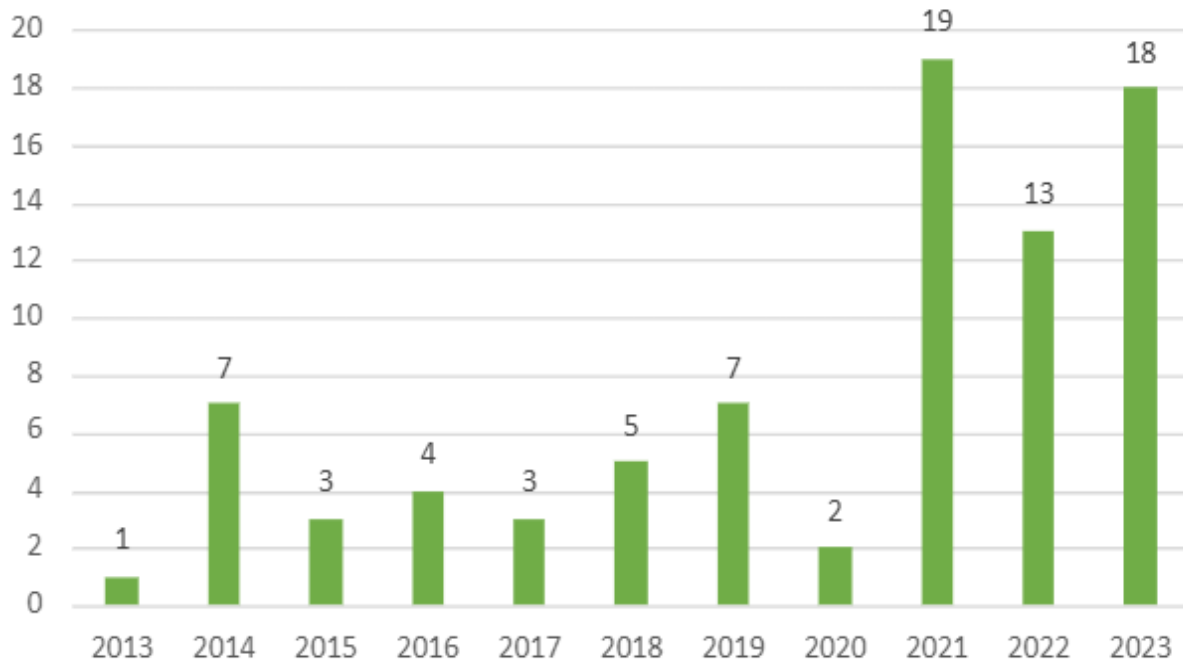
lack of formality, insufficient track record, high interest rates, insufficient fixed assets to provide collateral

- ✓ With a high growth potential and social impact

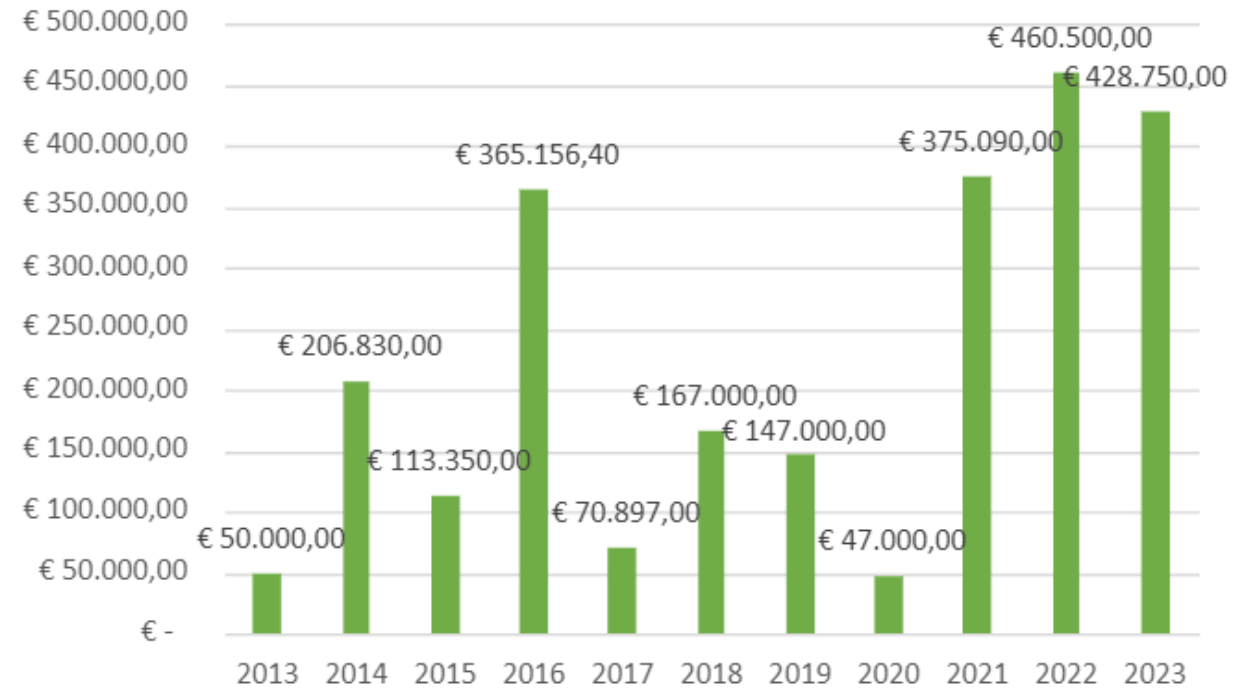
Debt investments by peer-to-peer lenders and the OVO Acceleration Fund, facilitated by OVO



Loans released per year

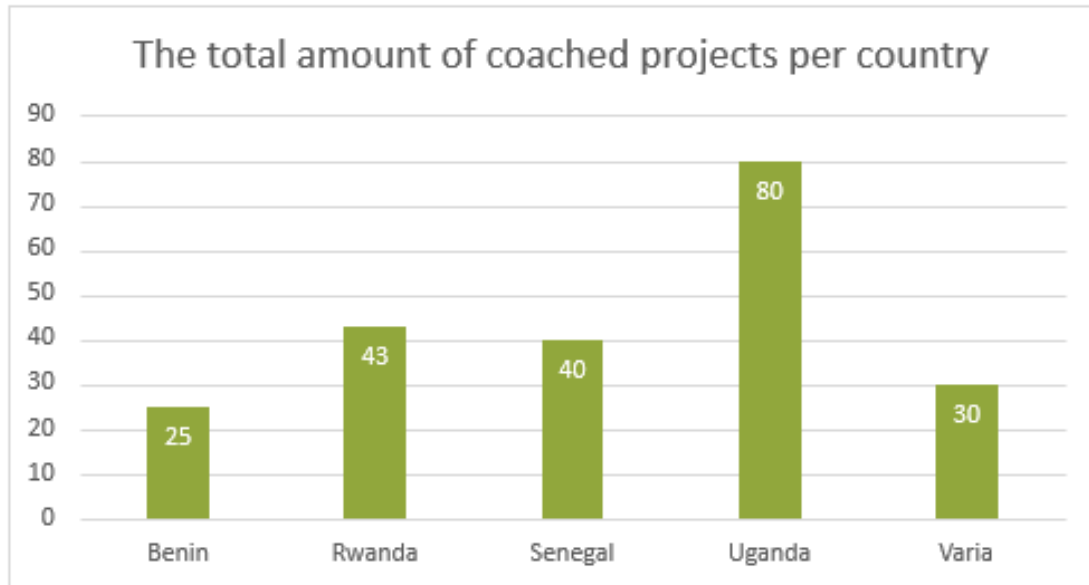


Principal funded per year





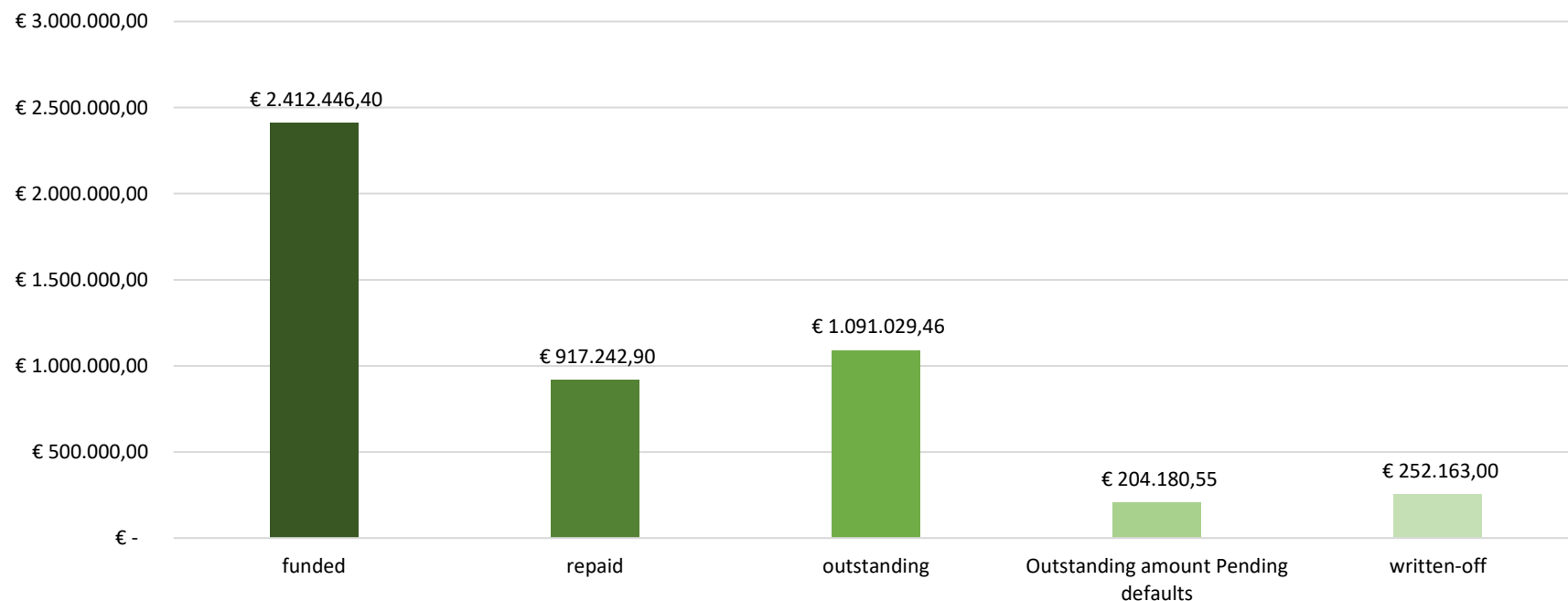
Peer-to-peer coaching



Status March 2024

Sector	Share of businesses coached
Agriculture & Food Industry	38,99%
Manufacturing	16,97%
Other	10,09%
Services & Informatics	8,72%
Energy	6,42%
Education & Training	5,96%
Recycling & Circular Economy	5,05%
Health	3,67%
Finance	3,67%
Water Supply	0,46%

Outstanding Balance Loan Portfolio



Default rate:

written-off/funded

10,45%

Default rate:

(written-off + pending defaults)/funded

18,92%

Interest Repaid

€ 159.835,02

Funded	The initial amount of money borrowed, excluding interest or additional charges.
Repaid	Total amount of principal repaid on all loans
Outstanding	Total amount of principal of which is still outstanding
Open loans	All loans that have been facilitated by OVO, which are still ongoing. These loans are active and ongoing until the borrower fulfills all repayment obligations according to the terms agreed upon in the (rescheduled) loan agreement.
Pending default	A loan that is already anticipated to default, though the exact amount of principal to be recovered and whether it will result in a negotiated agreement, or a default remains uncertain.
Written-offs	Total amount of principal which is officially written-off.

Status	Overall
Fully paid	15
Outstanding	47
Pending defaults	12
Defaults	10
Total	84

Rate of Recovery (Open, Fully Paid, Default Loans)

Percentage of the due amount that is paid for all loans until today

Benin Branch:

97.81%

Nonfocus-countries Branch:

65.78%

Rwanda Branch:

49.94%

Senegal Branch:

43.00%

Uganda Branch:

52.43%

**Overall
60,31%**

Rate of Recovery (Open Loans)

Percentage of the due amount that is paid for open loans until today

Benin Branch:

23.20%

Nonfocus-countries Branch:

61.98%

Rwanda Branch:

59.57%

Senegal Branch:

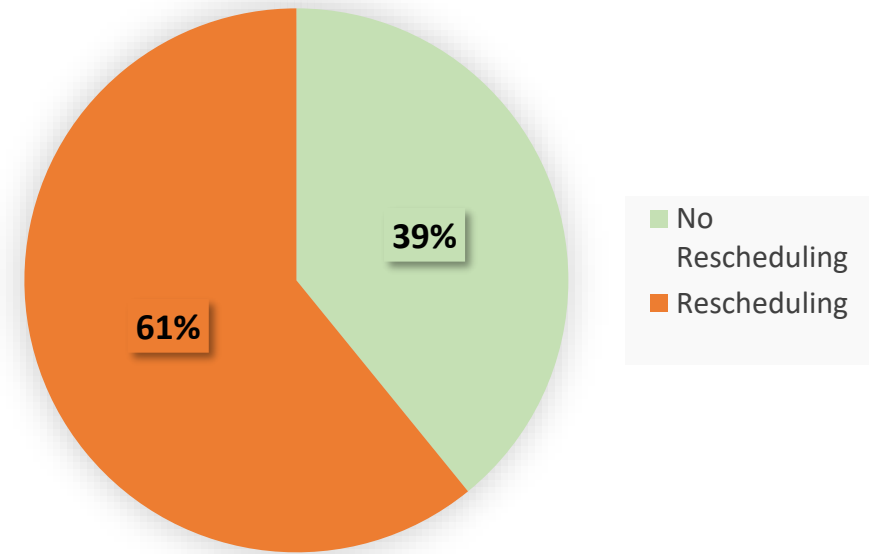
51.83%

Uganda Branch:

48.45%

**Overall
51,02%**

Rate of Reschedulings





Objectives

- **Evaluate current offerings:** Assess existing financial products for adaptability to market needs.
- **Improve access to finance:** Develop new initiatives for diverse SME financial needs
- **Strengthen sustainability:** Diversify OVO's revenue streams through innovative financing mechanisms
- **Establish strategic partnerships:** Collaborate with local organizations and impact investors to enhance support networks



Access to Finance

Financial Instruments

Financial instruments refer to the various methods of raising capital that can be used to finance businesses. They are the tools through which funds are allocated to enterprises.

Funding Vehicles

Funding vehicles are the structures or frameworks that facilitate the pooling and distribution of capital to support businesses. They determine how funds will be managed and deployed.



Exploring various vehicles
to provide “access to finance” to a larger
number of African SMEs



Local Fund Structure: Pilot Project in Malawi

Key Collaborations

- Mzuzu E-Hub: Established incubator in Malawi, fostering local entrepreneurship

Investment Support

- OVO provides initial investment capital into the Revolving Loan Fund
- OVO supports capacity-building initiatives

Ownership & Management

- Local Control: Ensures that ownership and management are in the hands of the community

Benefits

- Local currency loans: Reduces exchange rate risks
- Legal compliance: Managed by local partners to meet regulatory requirements
- Contextual relevance: Interventions tailored to local needs and conditions
- Quick feedback loop: Facilitates rapid adjustments and improvements



Partnership with MFI: Pilot Project in Senegal

Key Collaboration

- Meczop: Established MicroFinance Institute (MFI) in Senegal, empowering farmers

Loan Structure

- OVO provides a loan to MFI
- MFI breaks down the loan into smaller amounts for individual farmers

MFI Responsibilities

- MFI is responsible for selecting borrowers
- Conducts follow-up and monitoring of loans

Loan Conditions

- Joint decision-making; conditions for loans are collaboratively established
- MFI retains ultimate responsibility for borrower selection



Local Investment Partners: Ongoing search in Senegal

Local Leadership

- Partnering with local entities willing to take the lead on investment opportunities

Collaborative Project Sourcing

- OVO collaborates with local organizations to identify and source potential investment projects that align with community needs

Legal Compliance

- Engaging local partners helps navigate regulatory requirements and ensures compliance with Senegalese laws

Co-Investment Model

- OVO will co-invest alongside local organizations, fostering shared responsibility and maximizing impact



Fund-of-Funds Collaboration

Offering Partner

- Segal Family Foundation: Partnering to enhance access to funding

Local Management

- Shona Capital: Established fund manager in Uganda dedicated to providing affordable and flexible financing solutions for SMEs in East Africa, particularly Uganda

Impact Amplification

- Combined Resources: By pooling funds, we can increase our impact and support for local initiatives

Eligibility Conditions

- OVO collaborates with partners to set criteria for loan eligibility
- Minimum investment tickets set at €50.000 ?



Other Potential Opportunities

Private-Public VC Fund

- Investigating the establishment of a venture capital fund that combines private and public resources to enhance investment capacity

Collaboration with Impact Funds

- Partnering with impact funds to fill their investment pipeline, creating mutually beneficial opportunities

Co-Investment with International Organizations

- Exploring partnerships with other international organizations to leverage additional resources and expertise

Crowdfunding Platforms

- Utilizing crowdfunding to raise capital from a larger pool of investors



Exploring different financial instruments
adapted to the needs of African SMEs



Current Offering

Loans

- Assed-based: loans primarily for purchasing assets (which often serve as collateral for the loan)
- Fixed interest rate of **7%**
- Requirement for collateral
- Tailored payback terms based on borrower need.

Evaluation of Current Instrument

- Analyzing the effectiveness of current loan terms in meeting the needs of African SMEs
- Gathering feedback from borrowers to understand challenges and opportunities for improvement



Exploration of Alternative Financial Instruments

- Convertible Notes
- Performance-Based Financing
- Revenue-Based Financing
- Talent-Backed Financing
- Royalty-Based Financing
- Loan Guarantees
- Social Bonds for SMEs



Next Steps



Next Steps

- Evaluate Current Offerings / Model
- Explore Alternatives
- Engage Potential Partners
- Develop Strategy
- Pilot Programmes
- Monitor and Evaluate



Key Questions to Address

Regarding Funding Vehicles

- What types of funding vehicles could be established to support SMEs?
- Who are potential partners for creating these funding vehicles, and what roles will they play?
- What are the legal and regulatory requirements for establishing and operating these funding vehicles?
- How can we ensure sustainable funding for these vehicles over the long term?
- What frameworks can we implement to manage and allocate funds effectively across different vehicles?
- How can OVO develop a revenue model to cover its operational costs while supporting these funding vehicles?



Key Questions to Address

Regarding Financing Instruments

- What are the specific needs of SMEs in different sectors?
- Which financing instruments would be most effective in addressing these needs?
- What successful models exist for each type of financing instrument that we can learn from?
- How can we customize financial products to better serve local SMEs?
- How can OVO generate sufficient revenue from financing instruments to cover operational costs?



“The best way to find yourself
is to lose yourself in the
service of others.”

Mahatma Gandhi