

USAID INVEST: FIVE YEAR ANNIVERSARY LEARNING SERIES



MOBILIZING INVESTMENT FOR DEVELOPMENT WITH TRANSACTION ADVISORY SERVICES

Learning Brief

JUNE 2023

This learning brief is made possible by the support of the American People through the United States Agency for International Development (USAID). The contents of this brief are the sole responsibility of INVEST and do not necessarily reflect the views of USAID or the United States Government.

CONTENTS

EXECUTIVE SUMMARY	3
OVERCOMING BARRIERS TO INVESTMENT	4
MARKET-LEVEL IMPACTS	6
INVEST'S EXPERIENCE	7
Portfolio of Services	8
Firms, Funds, and Financial Vehicles	10
MANAGING FOR FINANCIAL AND DEVELOPMENT OBJECTIVES	11
Opportunity Identification	11
Reporting Transactions	12
Performance-based Agreements	13
LESSONS LEARNED	15
SUPPLEMENTARY MATERIALS	17
Case Study: USAID Haiti	17
Annex 1: INVEST's Portfolio of Transaction Advisory Services	19
Annex 2: Tools and Templates	22

ABOUT USAID INVEST

USAID INVEST unlocks the power of private capital to drive inclusive growth in countries where USAID works. INVEST is a flexible buy-in mechanism designed to address the challenges that make it difficult for USAID to work alongside the private sector. Buy-in scopes of work are designed to address the goals of individual USAID Missions, Bureaus, and Independent Offices (MBIOs). To date, the initiative has built a portfolio of 65 buy-ins from 36 USAID MBIO clients, with INVEST activities spanning 82 countries. INVEST support has helped mobilize over \$1 billion in new investment for development.

For more information, visit <https://www.usaid.gov/invest>.

EXECUTIVE SUMMARY

The U.S. Agency for International Development's (USAID) priorities—from climate change to health systems to food security—require significant financial investments, far beyond what is available with donor resources alone. Addressing them requires harnessing private capital for the infinite number of growing businesses that can supply the goods and services needed. However, in the markets in which USAID is present, there are systemic barriers that limit the flow of investment. Efforts to strengthen businesses through technical assistance, or to design financial products to meet their needs, are often insufficient.

Strategies that focus on directing sustainable flows of investment to priority markets are necessary to create the scale of impact in line with the Agency's development goals.

Transaction advisory services can help respond to this need. Transaction advisors are intermediaries that support the process of identifying, designing, and finalizing a transaction. These advisors can help investors find suitable deals by conducting market research, due diligence, and structuring and negotiating investments. On the other side, they can directly support companies or projects raising investment by researching available financing options, preparing them for due diligence by strengthening internal financial systems, and helping to negotiate favorable terms.

Furthermore, successfully unlocking resources for specific transactions, such as facilitating investment into a new off-grid energy supplier, can create a demonstration effect that incentivizes future investments in the broader market. The potential to generate short-term impacts while contributing to the development of local markets make transaction advisory services an especially powerful tool for economic development.

USAID support for transaction advisory services is a relatively new concept emerging from a greater focus on private sector engagement and the Agency's Private Sector Engagement Policy. Transaction advisory services are a key component of USAID INVEST, a global buy-in mechanism established in 2017 designed to employ innovative strategies to mobilize capital. As of March 2023, INVEST has mobilized \$1.02 billion, with 81% of the capital being raised with the aid of transaction advisory services, representing 69 successfully closed transactions. This experience has generated valuable evidence on the effectiveness of these services and has provided insight into what works, as well as opportunities to improve outcomes.

Based on INVEST's experience, this learning brief describes how transaction advisory services can be used to address donor priorities and offers practical guidance on the design and management of programs using transaction advisory services to facilitate private sector investment. The primary audience is USAID and its implementing partners. Other donors, as well as investment-related firms working in developing markets, may also find the guidance relevant.

Learning questions:

- How do transaction advisory services help facilitate investment?
- How can transaction advisory services support USAID development priorities?
- How can USAID ensure both financial and development related objectives are met?
- What lessons have been derived from the USAID INVEST experience?

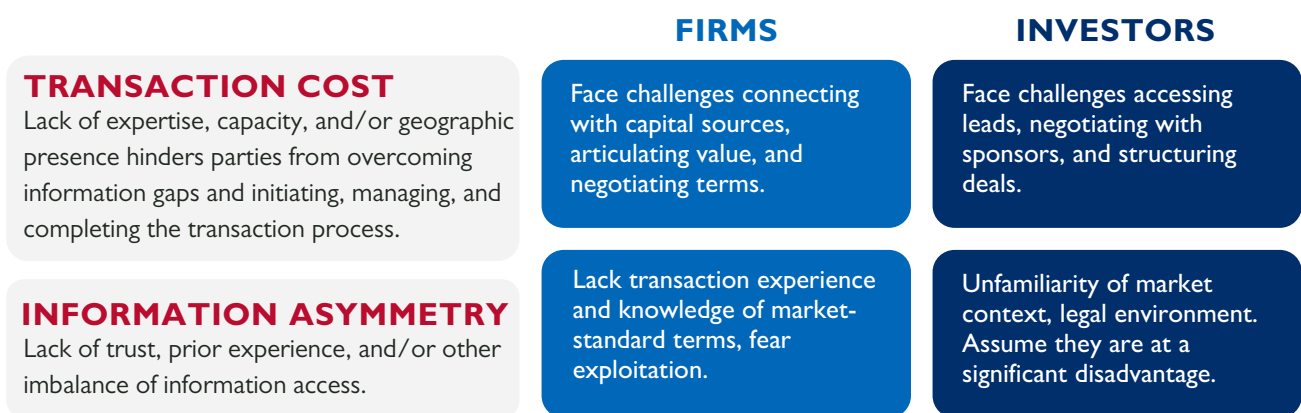
OVERCOMING BARRIERS TO INVESTMENT

USAID'S [Private Sector Engagement \(PSE\) Policy](#) recognizes that private sector resources are required to address the scale and complexity of development challenges effectively and sustainably. Mobilizing private capital has become an increasingly important part of this effort. The [USAID Climate Strategy 2022-2030](#) calls for \$150 billion in private investment to fund renewable energy, natural climate solutions, and climate change adaptation. Private capital mobilization is also a significant priority for global health initiatives, as there was an estimated \$134 billion annual gap in health-related investments before the COVID-19 pandemic. Similar goals are incorporated into programs for nutrition, agriculture, and women’s empowerment, among others.

Transaction advisors can be valuable private sector partners for USAID by helping address these goals.¹ They bring niche expertise in local markets, and many have strong capabilities in identifying investment opportunities with potential for both financial and development impact. Their services respond to some of the most important barriers deterring investment into firms, specifically transaction costs and information asymmetries. Transaction costs are those incurred in the identification, negotiation, and closing of a transaction. These may be direct costs associated with research and due diligence, as well as indirect costs such as the time and effort spent evaluating different options, negotiating terms and conditions, and dealing with unforeseen complications. Information asymmetries, on the other hand, arise from a lack of transparency and limited access to reliable information. These are common characteristics in less developed markets and can create significant challenges for capital providers making it difficult to accurately assess the risk and potential returns of an investment.

These constraints can be addressed by improving coordination and access to information. For example, transaction advisors maintain networks of contacts that can help to lower search costs for investors and for firms. They have access to valuable information on markets, sectors, and companies and can help evaluate risk. Likewise, they can screen potential investments, help negotiate terms, and provide support to business owners that may be inexperienced in accessing external financing. Figure 1 provides a summary of the barriers addressed through transaction advisory services.

Figure 1: Firm-level barriers to investment in emerging markets²



¹ The publication “[Investment Facilitation Revisited](#)” by INVEST partner CrossBoundary and CSIS provides an in-depth look at transaction advisory services in fragile and emerging markets and has informed some of the theoretical frameworks and definitions used in this learning brief.

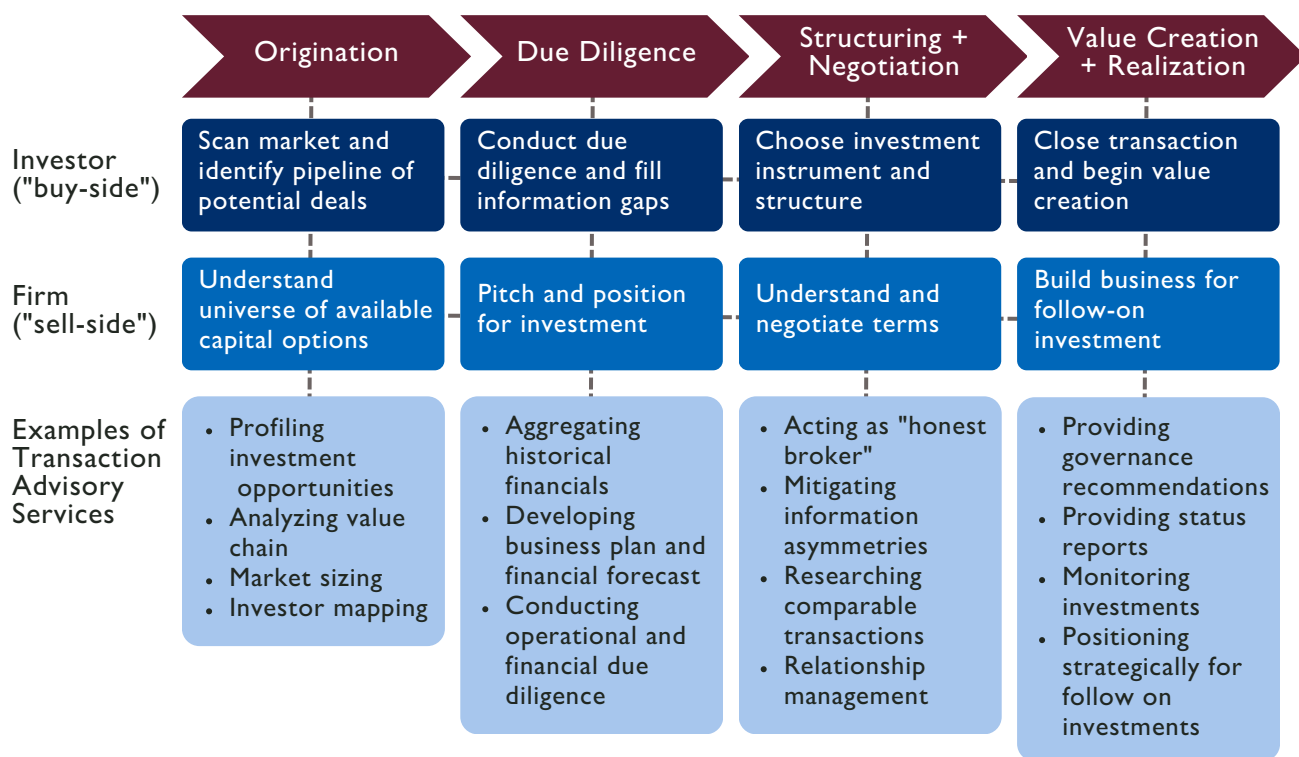
² Derived from [Investment Facilitation Revisited](#), Center for Strategic and International Studies (CSIS) Project on Prosperity and Development and the CrossBoundary Group, 2019.

Transaction advisors design their services to deliver benefits to both firms and investors. For example, business plan support can help build competencies in a management team and communicate essential information to investors that allow them to better understand a company’s risk profile. Services provided by transaction advisors can be “light touch,” prioritizing the identification of a large number of investment-ready deals, or structured to build a pipeline of investment opportunities through more focused support to firms or investors. Different market contexts and donor objectives will greatly influence the scale and scope of services.

The promotion of public-private cooperation through blended finance is an additional benefit³ of transaction advisory services. By incorporating financing from development finance institutions (DFIs), philanthropic organizations, and other entities, transaction advisors can devise co-investment strategies that pool resources with commercial investors. This approach expands the availability of investment capital and enables public sources to maximize the impact of their limited resources. This blending of financial resources is particularly important in sectors like health, nutrition, and water, sanitation, and hygiene (WASH), in which the potential for commercial returns alone may not be substantial enough to rely on private investment.

Figure 2 below illustrates a typical investment process from the perspectives of the investor and the firm, as well as examples of transaction advisory services.⁴

Figure 2: Typical investment process and transaction advisory services⁵



³ See, for example, "[Designing a blended finance solution? You might need an intermediary](#)," Convergence, 2023, for a discussion of the role of intermediaries in blended finance.

⁴ Through most of this document, the term "firm" will be used instead of firm or project, for simplicity. A "project" typically refers to large infrastructure projects in which many cases both public and private actors are involved. A "firm" is understood to be a privately owned entity. While differences exist, both are affected by similar investment constraints.

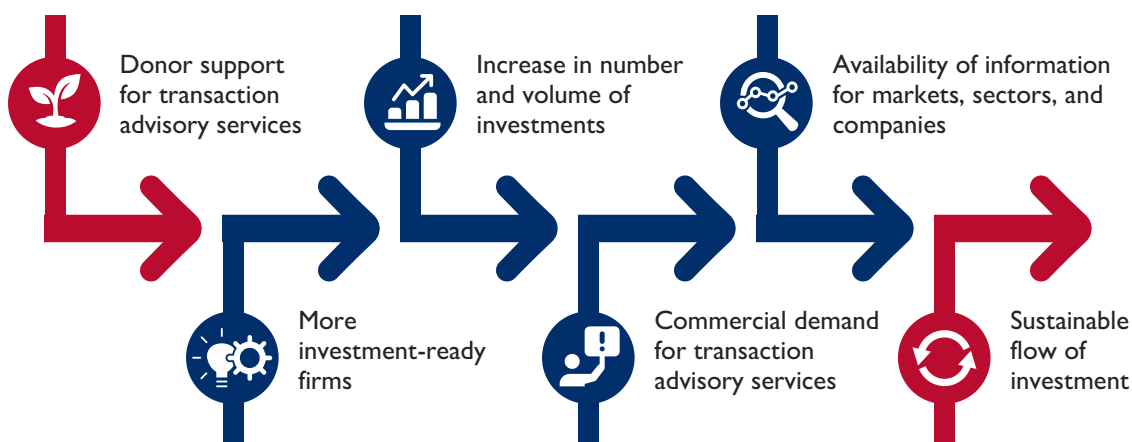
⁵ Derived from [Investment Facilitation Revisited](#), Center for Strategic and International Studies (CSIS) Project on Prosperity and Development and the CrossBoundary Group, 2019.

MARKET-LEVEL IMPACTS

Engaging transaction advisors is an effective strategy for donors to support the development of investment ecosystems. In more advanced markets, the investment process is facilitated by robust systems that exchange information and a diverse pool of skilled professionals motivated to ensure the smooth functioning of the market's "buy" and "sell" functions.

However, in developing or fragile markets, these crucial intermediary functions are largely absent. This absence can be attributed not only to a lack of expertise but also to a lack of commercial incentives. In such cases, transaction advisory services become unsustainable, particularly when investment opportunities are limited or too small in scale. By engaging transaction advisors, donors can play a pivotal role in addressing these imitations and fostering a more sustainable flow of investment into priority markets. Figure 3 illustrates these potential impacts.

Figure 3: Impact of transaction advisory services on investment ecosystem



Transaction advisory services can result in significant additionality by helping to facilitate mutually beneficial transactions that otherwise would have stalled or perhaps never been initiated. Unlike other types of donor support, there is far less risk of market distortion because these services are not bringing capital to enterprises that are not commercially viable. Similarly, donor support for transaction advisory services is not likely to undermine business incentives that are crucial for market development. While firms may not be purchasing the services directly, there is a noteworthy amount of cost sharing. Successful transactions can require significant amounts of time and effort from a firm's management and financial team. In fact, the dedication of company leaders is often the most significant factor in successful transactions.

Most often the first inquiry from investors we contact is about how others have fared and what transaction returns have been. Successful transactions brought about by our services help create a demonstrable precedent which in turn helps create change in the system.

- CrossBoundary, global transaction advisory firm and INVEST partner

INVEST'S EXPERIENCE

USAID INVEST operates with two principal objectives: to mobilize capital for USAID's development priorities and reduce the barriers that have prevented effective engagement with the investment community. Engaging transaction advisors has been a central part of INVEST's strategy. These firms, while serving as intermediaries between investors and businesses, retain a direct relationship with USAID through INVEST. They respond to competitive procurements and craft work plans in response to statements of objectives.

Most companies offering these services have little or no previous experience working with USAID. In fact, 68 percent of the value of INVEST subcontracts have been awarded to new or nontraditional partners, as defined by the Agency's [New Partnerships Initiative](#). These firms do not typically respond to USAID's traditional approach to procurement and are instead incentivized to engage with USAID by the promise of faster contracting and overall lighter administrative burdens. This streamlined approach has allowed INVEST to expand its partner base and gain access to valuable expertise.

As of March 2023, INVEST has provided transaction advisory services to 21 USAID Missions, Bureaus, and Independent Offices (MBOs) through its partnerships with 16 different firms. The provision of these services has facilitated the mobilization of over \$823.9 million in investment through 69 distinct transactions. Furthermore, INVEST has ongoing subcontracts that seek an additional \$822.5 million in capital through September 2024.

Transaction advisors working with INVEST are a mix of international, regional, and local companies of varied sizes. A common trait across all firms is their presence in local markets. Deep market knowledge, including strong networks, has proven to be a major prerequisite for success. These firms have also played a hugely important role in program learning, bringing forth insights and operating processes that have influenced the delivery of INVEST's support.

SMEs and job creation

USAID Tunisia is employing a strategy to address barriers experienced by small and medium-sized enterprises (SMEs). These firms account for 98 percent of firms and 56 percent of private sector jobs in Tunisia and are critical for job creation. Rising levels of connectivity combined with increased access to inexpensive technologies has sparked a wave of entrepreneurship in the Middle East and North Africa region. However, the Tunisian entrepreneurship ecosystem remains nascent and suffers from poor coordination between stakeholders.



Photo: Methania

SMEs often have difficulties attracting the right amount, type and terms of capital, which severely constrains their growth and job creation potential. With support from INVEST partner CrossBoundary, Tunisian SMEs are receiving transaction advisory services to structure investments, take advantage of innovative financial products, and accelerate deal closure. As of March 2023, this has resulted in investments totaling \$13.9 million in eight Tunisian firms, with more transactions in the pipeline.

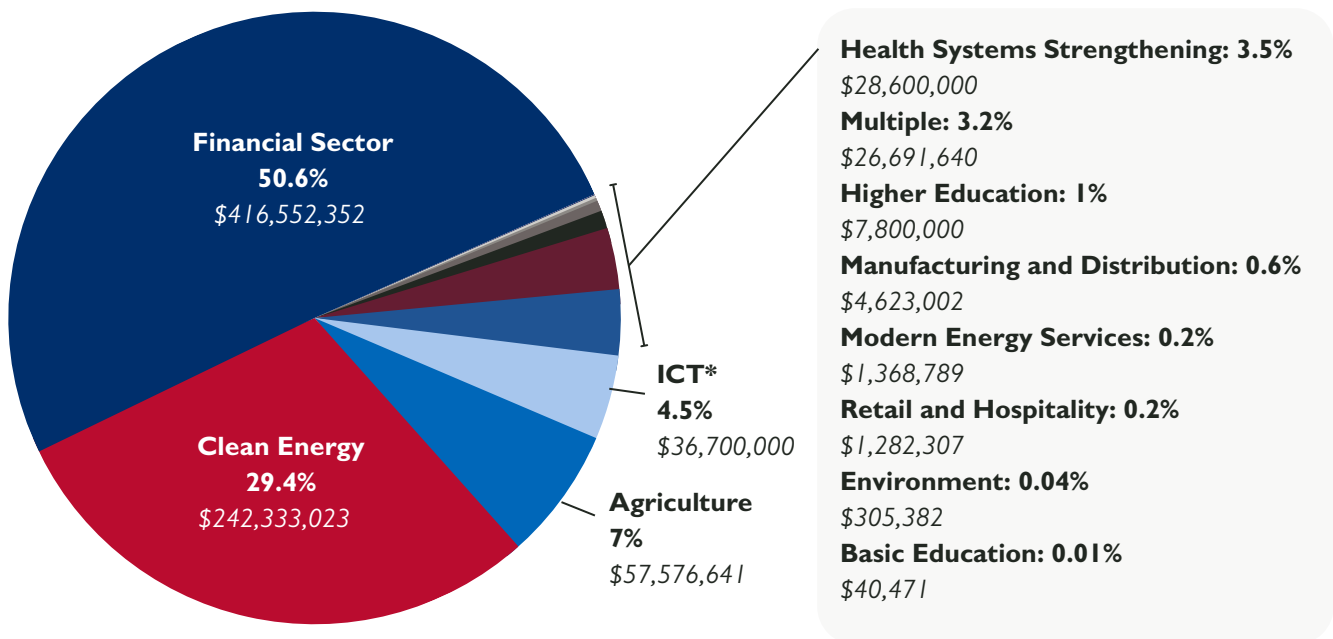
PORTFOLIO OF SERVICES

INVEST’s first major transaction-focused project was with **USAID Power Africa**, beginning in May 2018. Power Africa is a U.S. Government Presidential partnership initiative, coordinated by USAID, which aims to address constraints to project development and investment in sub-Saharan Africa’s energy sector. Working first with Power Africa in Kenya, INVEST utilized transaction advisory services to help off-grid energy businesses mobilize capital, improving access to renewable energy products and services for households. Advisors identified investors, prepared pitch materials, assisted in financial modeling and advised on investment terms for four high potential off-grid renewable energy firms. This support resulted in \$105.25 million in debt and equity transactions from development finance institutions (DFIs), corporates, and impact and venture capital funds.

Following the experience with Power Africa, INVEST began working with **USAID Haiti** to facilitate investment for small and medium-sized enterprises (SMEs) to promote employment, improve access to essential services, and build resiliency in the Haitian economy. INVEST is connecting SMEs with capital providers, both lenders and equity investors, by supporting a network of transaction advisors that serve as a bridge between these two groups. Transaction advisors assist SMEs in becoming investment ready and identify and negotiate appropriate forms of financing. Transaction advisors are encouraged to identify financing opportunities across multiple sectors. As of March 2023, 18 Haitian firms have received investments from both domestic and international sources, totaling \$27.9 million.

Over time, INVEST began additional transaction-focused work in Northern Africa, Eastern Europe, and Latin America; see Annex 1 for full description of INVEST’s portfolio. This support now cuts across 12 subprogram areas,⁶ with most of the investment directed to the financial sector, clean energy, and agriculture. Figure 4 illustrates the sub program areas and the relative value of investment mobilized as of March 2023.

Figure 4: Capital mobilized via transaction advisory by sub-program area

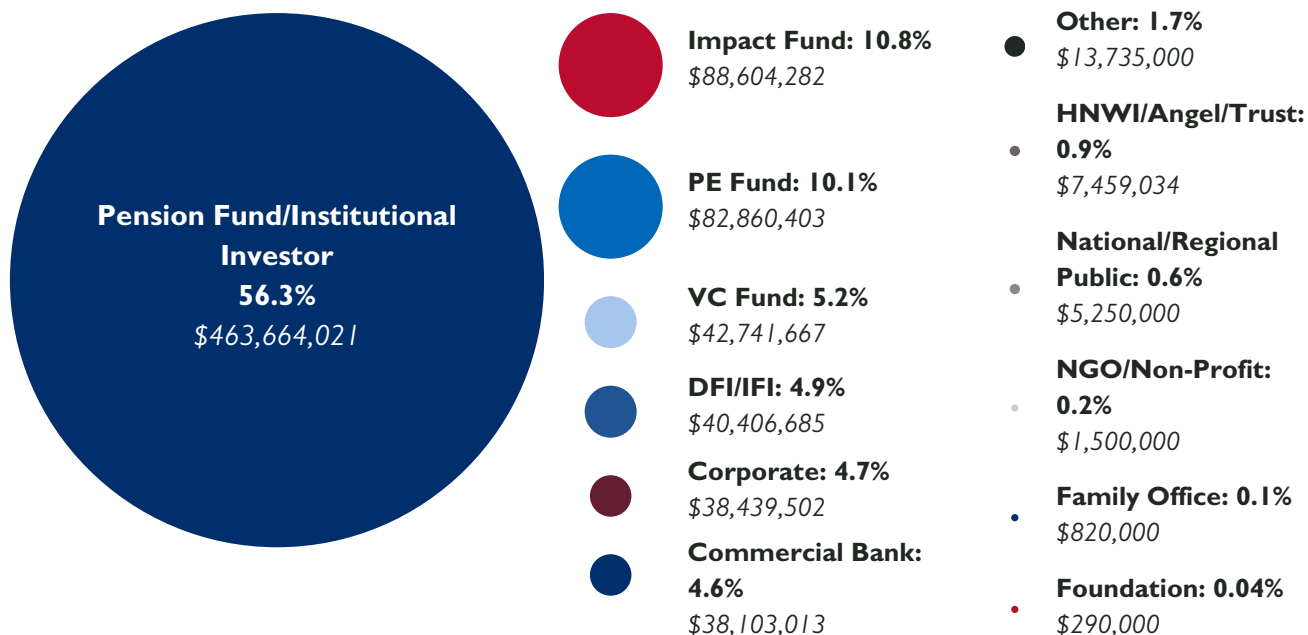


*ICT: Information and Communications Technology

⁶ Program, sub-program, and cross-cutting areas come from the State Department’s [Standard Foreign Assistance Indicators](#) framework.

Transaction advisors have proven adept at attracting a range of investor types offering debt, equity, and multiple kinds of mezzanine financing to match the needs of a myriad of businesses and investment opportunities. Figure 5 illustrates the different sources of financing that have been mobilized. Institutional investors represent the largest share of capital mobilized (56.28%), followed by impact funds (10.75%) and private equity funds (10.06%).

Figure 5: Capital mobilized by investor type



The engagement of institutional investors, in this case primarily pension funds, is especially important to highlight. According to the [OECD](#), a shift of only 3.7% of the \$100 trillion of assets held globally by institutional investors towards sustainable activities in developing countries would be sufficient to fill the SDG financing gap. INVEST’s experience demonstrates this immense capacity.



Pension funds and infrastructure investment

Infrastructure fundamentally affects every human development outcome. The Government of Nigeria faces the difficult task of developing and maintaining critical infrastructure, including the expansion of its renewable energy and water and sanitation in order to support economic growth and social development goals. **USAID Nigeria** is working to accelerate the flow of investment to critical infrastructure by accessing the largest domestic pool of investors: Nigeria’s pension fund community, which currently manages over \$30 billion in assets.

With support from INVEST through partner Chapel Hill Denham, transaction advisory services are helping to build linkages between the country’s pension fund community and viable investment opportunities. Launched in the fall of 2022, the project aims to mobilize over \$200 million with the appropriate terms and conditions needed for infrastructure investment.

FIRMS, FUNDS, AND FINANCIAL VEHICLES

INVEST supports transaction advisory services for firms as well as for investment funds and financial vehicles.⁷ The support is similar in principle, focused primarily on helping sources of capital connect to those seeking it. However, support for funds and financial vehicles can be more multifaceted, especially in the earlier stages of vehicle development when the overall investment strategy may still be evolving.

Furthermore, investor engagement strategies for funds and financial vehicles tend to be more complex, necessitating long-term approaches that may involve educating investors and structuring financial vehicles to cater to their specific needs. This complexity is evident in INVEST's experience with institutional investors, which encompasses exposure visits and investor convenings to raise awareness of new market opportunities, as well as specialized legal and technical support.

As of March 2023, 45.3 percent of capital mobilized using transaction advisory services has been directed to firms, ranging in size from SMEs in agricultural processing to relatively large solar energy projects. The remaining 54.7 percent of capital was raised through funds and financial vehicles that aggregate financing from multiple investors to later deploy to individual companies. The ability to distribute risks and to pool resources at a significant scale makes these vehicles an essential aspect of developing investment ecosystems.



Our support to fund managers validated their thinking, gave them more confidence to approach investors, and helped provide clarity in their strategy. We frontload questions likely to come up with investors and help simplify their fund deck (investor promotional materials), enabling funds to go to market faster. Investors can decide in five minutes if they want to schedule a call or not.

- Open Capital Advisors, global advisory firm and INVEST partner

⁷ Transaction advisory services are not the only means of support for investment funds that have been employed by USAID INVEST. See the [“Mobilizing Investment for Development with Catalytic Funding”](#) learning brief.

MANAGING FOR FINANCIAL AND DEVELOPMENT OBJECTIVES

Program success depends both on reaching financial objectives and making meaningful contributions to development priorities. For example, in Nigeria USAID is promoting the development of infrastructure for renewable energy, agriculture, and WASH by working with transaction advisors targeting \$267 million in investment. Reaching financial close, the final commitment of financing for an investee, is a critical milestone and represents one of the most relevant metrics of financial success. Development objectives, on the other hand, are usually longer-term, and occur once the financing is utilized to expand the availability of goods and services.

However, investment in developing markets does not on its own equate to development impact. There must be a deliberate effort to articulate program objectives, both financial and development, and to design implementation processes to facilitate their achievement. INVEST's experience using transaction advisory services has demonstrated the importance of three areas: opportunity identification, transaction reporting, and performance-based agreements. Each has proven to be consequential to the achievement of both financial and development objectives. Through trial and error, these processes have been refined over the course of multiple years and activities as learning has led to adaptation.

OPPORTUNITY IDENTIFICATION

Developing investment pipelines and profiling opportunities is a critical early-stage process. The parameters under which transaction advisors identify opportunities is an important consideration. Over time, INVEST has learned the importance of a clear distinction of roles between USAID and transaction advisors, ensuring each can contribute their unique and valuable expertise. In practice, this has meant ensuring a strategic role for USAID in setting overall objectives and general investment criteria, while allowing transaction advisors the autonomy to execute this strategy. In INVEST's experience, the cases in which USAID has played a more active role in identifying opportunities and selecting firms for support have led to bureaucratic inefficiencies, delays in implementation, and a lower overall rate of transaction closes. Transaction advisors have better networks to stay up to date on the state of opportunities and are better equipped to screen with accuracy and timeliness.

For example, working with two different transaction advisory firms, [USAID El Salvador](#) prioritized transactions that can facilitate job creation, mitigate drivers of irregular migration, and address key barriers to trade, investment, and access to capital. With a clear set of objectives set forth by USAID and an initial pipeline of potential deals, transaction advisors have full responsibility for building pipelines and presenting individual investment opportunities for rapid approval. As of March 2023, this has led to six successfully closed transactions in financial services and clean energy with a total value of \$20.5 million. This process has proven to be efficient, kept to general project timelines, and supported the overall financial and development objectives defined by USAID El Salvador.

In some cases, transaction advisors operate with more specific criteria translated into scorecards that give relative weight to transactions with certain characteristics. These scorecards have been helpful in integrating prioritized development impacts into decision making once transactions are deemed financially viable. Figure 6 presents some examples of these criteria. In practice, INVEST has not applied a uniform approach. Individual advisory firms often use proprietary scoring tools; in such cases, USAID has been influential in ensuring their application supports program objectives.

Figure 6: Examples of development criteria in scoring tools



Gender inclusion

- Female-owned and managed investor and/or target company
- Significant portion of women in leadership positions (board, senior management) of investee
- Target company plans to enhance gender inclusion or expand workplace equity
- High potential for positive impact or investment in goods/services that have an outsized effect in women's lives



Societal and developmental impact

- Investment offers development impact in one or more of USAID priority sectors
- Investment offers social impact that, beyond sectoral considerations, supports improvements in overall wellbeing and economic inclusion
- Transaction supports job creation and economic opportunity for a target demographic (youth, minorities, or excluded populations)



Pioneering impact

- Transaction engages a new high potential class of investors
- Transaction offers impact on innovation, such as introduction of a new financing model with potential to serve a priority sector or market
- Transaction could be instrumental in unlocking local sources of capital



U.S. nexus

- Investment will impact two-way trade with the United States
- Transaction offers direct U.S. government investment opportunity

REPORTING TRANSACTIONS

INVEST uses two main tools for transaction reporting: letters of engagement and transaction close reports. Both contain essential information associated with financial and development objectives that bring accountability to the process.

Letters of engagement are finalized between the transaction advisors and target investees once the engagement has been approved by USAID but preceding investment. Letters of engagement describe the services of the transaction advisor and the firm's commitments in the pre-investment stage, such as providing access to information relevant to investors. They also set forth investment goals such as the value of projected investment and its composition of debt, equity, or some variation. These goals are tracked in INVEST's monitoring and evaluation systems and used as projections by USAID to monitor program performance.

For example, [USAID Moldova](#) supported transaction advisory services during the COVID-19 crisis for local companies to protect its historic investments in agribusiness, tourism, information technologies, and light industry. Letters of engagement allowed USAID to track progress against goals through monthly reporting while gaining insight into the customized support packages offered to individual firms within their target sectors.

Transaction close reports are used to document investor commitments. In addition to summarizing investor profiles, investment type, and amounts, these reports include information related to anticipated development outcomes and the additionality of USAID's support. For example, **USAID Indonesia** aimed to mobilize investment for double and triple bottom line enterprises. Transaction close reports detailed anticipated development outcomes like increased productivity of farmers and the relationship of the investment to SDG specific goals. They also documented how USAID's support was additional, describing, for example, how firms were able to access new and more favorable sources of financing for the first time, something that was not likely to have occurred without the support from transaction advisors.

Not all engagements will result in a successful close. For a variety of reasons, including changes in market conditions, unsuitability of available financing, or detected weaknesses in a firm's capacity, some potential investees will not be successful in raising capital. This is a necessary and expected part of the process. In such cases, transaction advisors communicate to USAID via INVEST to provide justification, and support is terminated. These cases can also serve as useful performance metrics for the program.

PERFORMANCE-BASED AGREEMENTS

In markets and geographies prioritized by USAID, investment opportunities are frequently too small or few for transaction advisory firms to operate on a fully commercial basis. In more developed markets, their revenue is tied almost exclusively to success fees for closing transactions. They can operate at a scale that allows them to take risks on a large portfolio of potential investments knowing a certain percentage may not close. This level of risk is untenable in less developed markets. To make these engagements feasible, donors must offer a mix of variable payments for success related to transaction closes, along with a more predictable structure of payments for completed milestones that lay the groundwork for success.



Partnering with USAID is about sharing risk. The greater the risk sharing, the more likely innovation will occur.

- MiDA Advisors, global advisory firm and INVEST partner

These types of agreements can be a useful management tool from the perspective of donors. In the case of INVEST, agreements have been structured to incentivize transaction closes while recognizing important milestones in the process. These agreements tend to have six main areas: work plan, investment pipeline, letters of engagement, advisory support packets, transaction close reports, and periodic or final reports (see Figure 7 below). The principal variables are the time allocated based on the necessary level of effort to reach the milestone, and the percentage paid of the overall subcontract for each. Both variables require careful consideration and can impact the achievement of financial and development objectives.

For example, **USAID Haiti** supports a network of transaction advisors charged with identifying viable SMEs in need of investment. Haiti is a challenging environment for business due to its general political and economic insecurity. Likewise, many potential investees are unfamiliar with non-bank financing, so transactions can require significant pre-investment support to assess firm capabilities and define appropriate forms of financing. In response, INVEST has structured agreements to pay a relatively large percentage of the overall subcontract for early-stage milestones such as pipeline development and letters of engagement, and carefully considered the time allocated for these activities. These measures have helped incentivize transaction advisors to engage in this risky market and enable them to continue supporting transactions through to financial close, ensuring that the funding mobilized reaches USAID’s target market.

Experience has shown too much emphasis in subcontracts on financial closes, through either an accelerated timeline or payment structures, can significantly reduce additionality for USAID. These conditions can encourage transaction advisors to target investments they view as safer, potentially resulting in transactions that may have happened without donor involvement. On the other hand, if transaction advisors have foreseeable payments from other types of deliverables, they can take risks on what may be unpredictable but potentially highly impactful investments. A mutual understanding of program priorities between USAID and the transaction advisor is central to negotiating the right balance of incentives.

Figure 7: Standard INVEST deliverable categories

Workplan

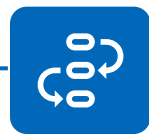
Detailed outline of the project approach including timelines, interventions, milestones, reporting requirements, and standard investment criteria, agreed upon with USAID.

Letters of engagement

Scopes of work describing the transaction advisory services to be provided, estimated timeline, projected development impact, and responsibilities and expectations of client (firm or fund).

Transaction close reports

Type, amount, and source of investment, company description, use of financing, projected development impacts.



Investment pipeline

List of promising enterprises in need of capital. Includes the criteria and process employed for transaction identification and prioritization.

Advisory support packet

Various documents, may include pitch decks, financial models, business plans, investor mapping, and promotional materials.

Periodic or final report

Key metrics, progress on services rendered, high level findings, and lessons learned.

LESSONS LEARNED

INVEST has continued to learn and adapt with experience. Lessons derived from this experience can support the design and management of future USAID programs with the aim of improving both financial and development outcomes.

I. INCENTIVIZE RISK-TAKING

The greatest level of additionality for USAID will come from taking risks in new markets, with new investors and new forms of financing. If the incentive structure for transaction advisors requires them to unreasonably accelerate their efforts or is overly focused on the number and value of transactions as a key performance indicator, opportunities may be overlooked. The **structure of performance-based agreements should be reflective of program priorities** with a strong emphasis on development objectives.

Risk taking means allowing for the possibility of “failure,” knowing some transactions will not close. These experiences are nevertheless valuable, as they are a means to test market assumptions and consider the necessary adaptations needed for future efforts. Even without a successful close, advisory services can help build core competencies of firms and funds. **Encourage learning and reflection** by creating opportunities to capture the perspectives of relevant stakeholders, and structure agreements to allow for partners to meaningfully contribute to these processes. For example, ask partners to respond to learning questions as part of the reporting processes, analyze data on unsuccessful transactions, and facilitate pause and reflect activities. When feasible, modify plans to incorporate lessons during implementation.

It is preferable to **avoid linking payments to the closing of specific, pre-selected transactions**, when possible. “Close rates,” the percentage of transactions that result in successful closes, should be discussed with transaction advisors early in the process and benchmarked according to the market context. Allowing transaction advisors space to try, but also move on from unsuccessful transactions, is essential.

2. LEVERAGE PRIVATE SECTOR EXPERTISE

Transaction advisors can offer a vast array of services. They are typically very familiar with the local market and will have insight into the kind of services that are most needed to accelerate investment. It is important to **leverage this context-specific expertise in the design of programs**. INVEST uses three primary instruments to integrate private sector perspectives: Expressions of Interest (EOI), Requests for Information (RFI) and Statements of Objectives (SOO) to solicit strategies responsive to development objectives.

Keeping solicitations from being too prescriptive, while explaining the range of potential support available from USAID, allows firms to propose the kinds of services they consider have the highest additionality. For transaction advisory services, this may include an emphasis on relationship building and investor education, exploration of new forms of financing, or potential integration of specialized technical support for potential investees. These are examples of needs that may not have been foreseen by USAID.

Ensure complementarity between the roles of USAID and transaction advisors. In practice, this means ensuring a strategic role for USAID in setting overall objectives and general investment criteria, while allowing transaction advisors the autonomy to execute this strategy. While USAID may be able to offer useful insights, it generally

does not possess the depth of market knowledge or the time on its own to adequately identify or select transactions. Transaction advisors provide this expertise, along with the ability to serve as a neutral broker and relationship manager.

3. SET REALISTIC TIME FRAMES AND REMAIN FLEXIBLE

INVEST experience has demonstrated that programs involving transaction advisory support require time to ramp up. Defining investment criteria, building the initial pipeline of investible opportunities, and designing custom support plans for firms may take up to twelve months, depending on the market and scale of the overall activity. Similarly, transaction timelines are unpredictable and can vary from one case to another, as support requirements will differ. The time from initiating an engagement with a firm and a transaction close may take six months in some cases to eighteen or more months in others. Realistic time frames and flexible engagement allowing for **tailored support across a portfolio of transactions** is a means to respond to this inherent uncertainty. This allows transaction advisors to provide intensive support when needed for some transactions and a lighter touch when more appropriate.

Transaction approvals by USAID can be made on a rolling basis or at several points in program implementation. Rolling approvals, as opposed to a single pipeline building period in which a specific set of transactions is approved upfront, is highly encouraged. This allows transaction advisors the flexibility to bring forth new opportunities that may not have been previously identified and respond to inevitable changes in market conditions. In general, pipelines can be adjusted across the lifetime of the project.

4. FACILITATE ECOSYSTEM DEVELOPMENT

Donor engagement of transaction advisors can make significant contributions to the development of investment ecosystems. A large volume of successful transactions can have a demonstration effect, signaling opportunities to investors that might otherwise not consider entering a particular market. USAID can amplify this impact by **facilitating access to information** by ensuring successful deals are highlighted at investment forums and other high profile convenings and by supporting the development of an evidence base of investment transactions in key markets and sectors. Visibility of this nature can also bring issues of importance to the attention of local governments that have a role in policy reform or in reducing other kinds of barriers that limit access to capital.

Moving forward, as donors become more experienced engaging transaction advisors, **support to local organizations can be a more intentional part of program design**. Self-sustaining ecosystems requires a commercial market of service providers that includes locally- led firms. However, the same risk factors that inhibit international companies from working commercially in some markets discourage local actors from developing these lines of service.

USAID can help lower the barriers by structuring agreements that ensure predictable payments associated with key milestones in combination with some percentage paid for closed transactions. Likewise, USAID can help **build the capacity of local firms by facilitating knowledge transfer** from more experienced international firms by encouraging collaboration in the provision of services and sharing analytical deliverables like capital mapping and investment opportunity assessments.

CASE STUDY: USAID HAITI

USAID Haiti launched Haiti INVEST in September 2018 to connect SMEs with capital providers by supporting a network of transaction advisors. Transaction advisors assist SMEs in becoming investment ready and help to identify and negotiate appropriate forms of financing to facilitate the flow of capital.

The Haitian market presents systemic failures that discourage investment. High transaction costs and information asymmetries present obstacles for both investors and entrepreneurs. Transaction advisory services are designed to address these needs; however, intermediaries of this kind are largely absent in Haiti. In response, USAID made a strategic decision to help build a market of transaction advisors by partnering with local, non-traditional firms and providing them with an opportunity to develop a new line of services.

The selection of transaction advisors was done through three rounds of solicitations. A variety of organizations were considered (asset managers, capital providers, business advisors) for their experience with SMEs – not necessarily their transaction advisory services track records. Despite the challenging context, the program has helped direct investment toward many of USAID’s development priorities: increased employment, access to electricity, and goods and services that can help build greater resiliency.

TIMELINE



TRANSACTION ADVISORS



CEDEL: Haitian enterprise that supports the growth of existing and emerging SMEs



GECA: Women-owned Haitian financial services and transaction advisory services firm



Procroissance: Haitian consulting company providing development support services, part of ProFin group



Profin: Haitian investment bank providing a range of financial products and services



SOFIHDES: Consulting branch of Haitian development finance company that offers two main services: financial services and technical assistance



SIKSE: Haitian firm specializing in training, research, improved agricultural technologies, risk and disaster management, and environmental protection



CrossBoundary: International transaction advisor to investors, entrepreneurs and policymakers in underserved markets

RESULTS



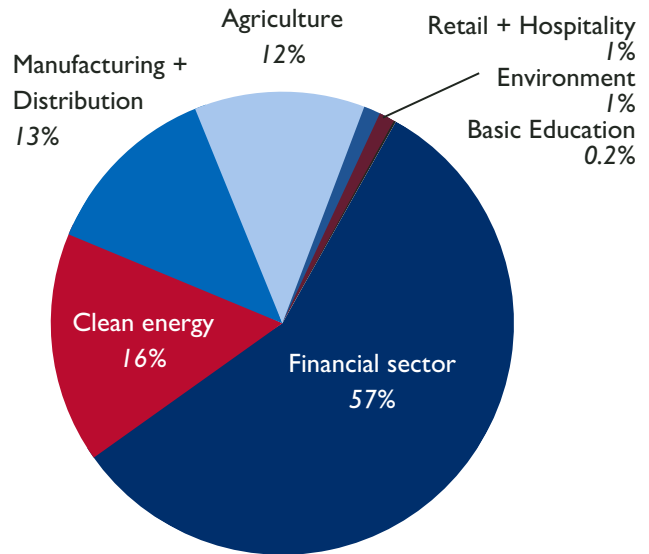
SME Profile

\$500,000	Median investment
10-49 employees	Typical firm size
7.6 months	Average time to transaction close

Investor Types

Local commercial banks	Angel investors
Development finance institutions (DFIs)	High net worth individuals
Impact funds	Private equity funds
	Corporate investors

CAPITAL MOBILIZED BY SUB-PROGRAM AREA



TRANSACTION SPOTLIGHT: ESG GROUP (EKOTEK ENERGY)

ESG Group is a solar product supplier and manufacturing company in Haiti. They offer reliable solar products designed to help people living off the electric grid. Their products reach thousands of consumers throughout the country and offer a cost-efficient and clean energy alternative to candlelight and Kerosene lamps.

With support from USAID Haiti, \$500,000 in debt financing was mobilized from OGEF, an investment fund off-grid electricity in Haiti, co-managed by local development bank Fonds de Développement Industriel and international impact investor Bamboo Capital Partners. The investment offered ESG Group the ability to purchase additional solar energy supplies for households and businesses and expand service offerings to provinces outside of Port-au-Prince.

Gestion, Etudes, Comptabilité, Audit (GECA) served as transaction advisor. GECA offered a range of services to the company, leading to a successful capital raise: defining needs and validating investment opportunity; analysis of the technical and financial feasibility of the investment project; elaboration of the business case document and financial models; and presentation and negotiation with financial institution.

ANNEX I: INVEST'S PORTFOLIO OF TRANSACTION ADVISORY SERVICES

The table below presents a list of USAID MBIOs supported by INVEST with transaction advisory services. Data is as of July 2023. Investee type and investment focus refer to the buy-in activities only.

USAID MBIО	Transaction Advisor	Investee Type	Investment Focus	Subcontract Target Capital Raise	Median Transaction Size
USAID Africa Bureau	MIDA Advisors LLC with CrossBoundary LLC	Fund/Financial Vehicle	Structure new financial instrument (Affordable Housing Bond) to attract long-term financing	\$250,000,000	\$277,663,726 (single transaction)
USAID Colombia	Dalberg with Baker McKenzie, Bamboo Capital Partners, and Inensus	Firm, Fund/Financial Vehicle	Funding for development of solar energy mini-grids to support productivity, incomes, and social stability	\$10,800,000	
USAID Eastern and Southern Caribbean	Deloitte Consulting LLP	Firm	Support climate- and energy-driven acceleration of startups, incubators, and women's economic empowerment	none	
USAID EI Salvador	CrossBoundary LLC	Firm, Fund/Financial Vehicle	Invest in SMEs, create jobs, and mitigate irregular migration	\$10,000,000	\$1,665,000
	Deetken Asset Management Inc	Firm	Investment for renewable energy infrastructure and other priority sectors	\$20,000,000	\$15,125,000
USAID Haiti	Cedel Haiti SA	Firm	Help SMEs become investment-ready and attract appropriate financing	\$1,200,000	\$210,950
	CrossBoundary LLC	Firm	Help SMEs become investment-ready and attract appropriate financing	\$7,200,000	\$1,250,000
	Gestion Etudes Comptabilite Audit	Firm	Help SMEs become investment-ready and attract appropriate financing	\$8,500,000	\$750,000

USAID Haiti	Procroissance SA	Firm	Help SMEs become investment-ready and attract appropriate financing	\$3,000,000	\$392,500
	Profin	Firm	Help SMEs become investment-ready and attract appropriate financing	\$9,200,000	\$1,000,000
	SOFIHDES	Firm	Help SMEs become investment-ready and attract appropriate financing	\$500,000	\$104,835
	SIKSE with InterConsultants S.A.	Firm	Help SMEs become investment-ready and attract appropriate financing	\$1,000,000	\$1,289,768
USAID Indonesia	Impact Investment Exchange Pte Ltd	Firm	Investment in double- or triple-bottom line enterprises focused on gender and impact	\$7,000,000 - 10,000,000	\$1,200,000
USAID Kenya and East Africa, USAID Southern Africa Regional	CrossBoundary LLC	Firm, Fund/Financial Vehicle	Facilitate investment for firms that impact two-way trade with the U.S.	none	\$3,600,000
	Lion's Head Global Partners	Fund/Financial Vehicle	Support investment in solar and mini-grid companies	\$50,000,000	
	MIDA Advisors LLC with CrossBoundary LLC	Firm, Fund/Financial Vehicle	Increase U.S. institutional investment in Africa	none	
	MIDA Advisors LLC with CrossBoundary LLC	Firm	Scale up local investments in infrastructure	\$50,000,000	\$26,691,640
	MIDA Advisors LLC with SAVCA	Fund/Financial Vehicle	Support development, growth, and sustainability of women-owned and -managed fund managers in Southern Africa	\$20,000,000	\$10,872,523
	MIDA Advisors LLC	Fund/Financial Vehicle	Establish emerging markets fund-of-funds vehicle to facilitate institutional investment in Southern Africa	\$200,000,000	

USAID Kenya and East Africa, USAID Southern Africa Regional	Open Capital Advisors	Fund/Financial Vehicle	Develop pipeline of deals with development impact	\$6,500,000	
USAID Moldova	CrossBoundary LLC <i>with CIVITTA</i>	Company	Private investment to help companies impacted by COVID-19 economic crisis	\$20,000,000	\$504,325
USAID Nigeria, USAID Bureau for Africa Office of Sustainable Development, Power Africa	Chapel Hill Denham	Company, Fund/Financial Vehicle	Funding from Nigerian pension funds for WASH and renewable energy infrastructure	\$267,200,000	
Power Africa	Lion's Head Global Partners	Fund/Financial Vehicle	Investment in renewable energy project(s) in Southern Africa to increase energy generation capacity	none	\$29,381,158
Power Africa, USAID Kenya and East Africa	CrossBoundary LLC <i>with Open Capital Advisors</i>	Company	Investment in off-grid energy businesses' enterprise growth	\$12,000,000	\$15,500,000
Prosper Africa	CrossBoundary LLC	Company, Fund/Financial Vehicle	Leverage U.S.-Africa connections amongst capital providers, local enterprises, and intermediaries	none	\$25,000,000
USAID Tunisia	CrossBoundary LLC <i>with Flat6Labs Tunis</i>	Company	Support enterprises impacted by current economic challenges, making them investment-ready and connecting them with investors	\$23,000,000	\$671,500
USAID Uganda	Open Capital Advisors	Company	Investment in new pilots targeting productive uses of energy and unserved populations	\$500,000	\$224,500

ANNEX 2: TOOLS AND TEMPLATES

These resources are examples of tools and templates used by INVEST in the management of transaction advisory services.

EXAMPLES OF DELIVERABLES

This table provides examples of deliverables at different stages of implementation. These deliverables have helped ensure accountability with respect to financial and development objectives and are indicative of INVEST's performance-based approach to working with partners.

⇒ [Illustrative Deliverables for Transaction Advisory Services](#)

SAMPLE REQUEST FOR INFORMATION AND STATEMENTS OF OBJECTIVES

A Request for Information (RFI) allows USAID to obtain information about the interest and capacity of potential partners and other relevant market information. A Statement of Objectives (SOO) is used to solicit strategies from market actors responsive to specific development objectives.

- ⇒ [Request for Information: Mobilizing Private Investment for Development \(USAID Tunisia\)](#)
Seeks intermediaries (business advisory service providers, transaction advisors, financial institution advisory services, etc.) to bring together sources of capital and investment targets, such as SMEs with a track record and experience operating in Tunisia that are looking to grow.
- ⇒ [Statement of Objectives: Transaction Advisory Support to Tunisian SMEs \(USAID Tunisia\)](#)
Responding firms to include selection criteria and pipeline development of highest potential sectors and transactions, including tourism, renewable energy, ICT, light manufacturing, agriculture, health, and financial services.
- ⇒ [Statement of Objectives: El Salvador Investment Facilitation \(USAID El Salvador\)](#)
Responding firms to include discrete activities in transactions/projects that can facilitate job creation; mitigate irregular migration; and address key barriers to trade, investment, and access to capital in key sectors, such as textiles, plastics, packaging, renewable energy, trade infrastructure, ICT, and agro-processing.
- ⇒ [Statement of Objectives: Blended Finance Promotion Activity \(USAID Indonesia\)](#)
Responding firms will work with USAID and private sector partner(s) to establish the criteria to prioritize and pursue transactions, including target sectors and geographies, types and values of blended finance transactions, development impacts, and deal size and timing considerations. Target technical areas include natural resource management, democracy and governance, health, and education.
- ⇒ [Statement of Objectives: Private Investment for Development \(Power Africa/USAID Kenya\)](#)
Respondents will identify a select group of off-grid energy businesses and determine capital or other requirements for enterprise growth. Advisory services will be designed to help position selected solar system and mini-grid companies to receive external funding for investments that improve products for target markets, expand operations in new or existing markets, and increase service delivery.

SAMPLE CLOSE OUT REPORT

Transaction close processes involve the review and collection of documentation to confirm investments. They also serve to solicit information about complementary types of additionality and development impacts.

⇒ [Sample Transaction Close Report](#)