



Citizen-Centered Approaches
to State and Market



Economic Tools Mapping

SMALL ENTERPRISE ASSISTANCE FUNDS (SEAF)

Market Building Initiative: A Program with the Aspen Institute

Institute for State Effectiveness

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Overview

Small Enterprise Assistance Funds (SEAF) is an investment management group focusing on small and medium- sized enterprises (SMEs) in emerging and transition markets that are underserved by traditional market sources of capital. SEAF provides these enterprises with growth capital and business assistance to not only help build profitable and sustainable businesses, but also achieve a positive developmental impact in local communities. The organization has 140 employees from over 20 countries around the world. While the headquarters are based in Washington, DC, SEAF takes a strong field-based approach and operates across 21 offices in emerging and frontier markets where investment decisions primarily occur.

SEAF has chosen to invest in SMEs¹ because direct investments in SMEs empirically support the achievement of prosperity and political and economic stability. SMEs traditionally constitute the largest portion of the employment base, hire the greatest number of new employees, and provide a substantial part of a country's goods and services. That being said, they are typically underserved in developing economies. Historically, SEAF's initial focus was on Central and Eastern Europe but the organization has more recently concentrated the majority of investment vehicles on Asia and Latin America.² Global funds are also in early phases.

Structure

SEAF uses 2 investment tools in their small enterprise assistance, risk capital and business assistance:

Risk Capital

Funding made available for startups and SMEs with high growth potential is divided in equity, mezzanine and term credit. When using equity funding, the organization takes a partial ownership position in portfolio companies through investing in either common or preferred stock. Over half of investments are in the agribusiness or manufacturing sectors.³ SEAF typically takes a minority position with significant governance and information rights (but may also choose to take majority positions for certain opportunities), and the amount invested is normally between \$500,000 and \$3,000,000.⁴ Mezzanine investments are generally subordinated loans that combine current interest payments with a participation in revenue, earnings growth or enterprise value. The investment amount is normally between \$200,000 and \$3,000,000 exceeding a 5 years term with flexible amortization. The equity-type participation encompasses revenue participation, variable or payments in-kind interest, conversion options and

¹ SEAF defines SMEs as a company with 20 to 250 employees and which have annual revenue of between \$200,000 and \$15 million; these ranges, however, differ greatly for different investment vehicles, industry sectors and countries.

² SEAF, Who We Are, http://seaf.com/index.php?option=com_content&view=article&id=38&Itemid=68&lang=en

³ SEAF, Investment Profile, http://seaf.com/index.php?option=com_content&view=article&id=158&Itemid=177&lang=en

⁴ SEAF, Risk Capital, http://seaf.com/index.php?option=com_content&view=article&id=152&Itemid=166&lang=en

warrants.⁵ As its third investment tool, SEAF also provides lines of credit, working capital loans, and trade financing for certain companies. They have a medium to long term duration with flexible amortization. The investment amount is normally between \$200,000 and \$3,000,000.⁶

Business Assistance

In addition to investment activities, SEAF offers entrepreneurs business assistance solutions in: Corporate Governance, Financial Control, Operations Assistance, Inventory and Accounts Receivable Management, Marketing and Strategy, Global Networking as well as Additional Financing. The business assistance solutions are customized and rely on the market knowledge and experience of in-house investment teams as well as external industry experts. Under the umbrella of Business Assistance, SEAF also operates the Center for Entrepreneurship and Executive Development (CEED), an entrepreneurship program, which offers peer-to-peer learning environments in eight countries across Central and Eastern Europe. Over 500 training sessions have been held since 2004.⁷ CEED is also building a network where entrepreneurs can learn from each other, partner with others and drive their businesses forward.⁸

Rules

There are no cookie cutter guidelines for mandates, legal structures, on how investment decisions have to be made or how risk is determined. These components are country-specific and are defined by the country teams most closely familiar with commercial endeavors on the ground. Structures of investment vehicles are very much dependent on the regulations and laws in the country and the aim of the fund. However, all investment decisions follow a rigorous due diligence process and adequately account for a level of palatable risk.

With regard to reporting, investors in SEAF funds receive a quarterly report with the status of their investment. In addition, the portfolio companies have to report on a semi annual basis to SEAF. In order to ensure continuous oversight of fund risk and returns, valuation of fund investments is conducted on a regular basis. SEAF manages exit procedures and refinancing mechanisms to ensure appropriate exposure of the fund.

SEAF is open to a variety of businesses within the SME sector; it does not, however, invest in companies working in the areas of hard liquor, tobacco, or weapons. IFC and other international guidelines play a role in shaping their investment decisions through financing requirements or best practice dissemination particularly in the areas of environment, human rights, social impact, and economic development.⁹

⁵ Ibid.

⁶ Ibid.

⁷ SEAF Business Assistance,

http://seaf.com/index.php?option=com_content&view=article&id=153&Itemid=167&lang=en

⁸ Ibid.

⁹ Outlook: SEAF plans to engage more in global funds that can invest in different countries rather than country specific ones, as this would help spreading risk and facilitates financing in changing global macroeconomic conditions.

Financing

Larger institutional investors (i.e. IFC, OPIC, FinnFund, Union Bank of India, EBRD, and MCC) tend to be the primary contributors to the investment vehicles, with individuals and private companies also contributing in some cases. SEAF invests through a variety of investment vehicles, including investment funds, facilities, and finance companies. Committed capital ranges from \$5 million to \$161 million with most funds falling somewhere in the \$10-40 million range.¹⁰ The complete finance vehicle listings, amounts of committed capital, and list of each investor can be found in table form in Box 2.

Operations and outcomes

SEAF has made 338 risk capital investments through 28 investment vehicles across 22 countries. In total, committed capital has amounted to \$609 million since inception while the invested capital amounts to \$378 Million since inception. The Economic rate of return is about 83% and the financial rate of return is 23%.¹¹ Impact is measured beyond these markers, however, and includes human capital investments, wages, and community impact. The multiplier effect is another important consideration as, on average, each dollar invested by SEAF generates an additional \$13 in the local economy.¹² The companies within SEAF portfolios have seen revenue growth on a year to year basis as well as employment growth that is staggeringly high in comparison to national figures in the countries of operation.

¹⁰SEAF Investment Vehicles, http://seaf.com/index.php?option=com_content&view=article&id=44&Itemid=168&lang=en

¹¹ SEAF, How We Measure Impact, http://seaf.com/index.php?option=com_content&view=article&id=160&Itemid=179&lang=en

¹² Ibid.

Box 1- Operations: Krug Publishing and Artima Supermarket Chain

Krug Publishing Company- Skopje, Macedonia

(Investment Vehicle SEAF Macedonia, Investment type: Equity)

In 1992, only one year after Macedonia's independence a group of journalists founded Krug as the country's first and only independent publishing house. In 1996 Krug launched Dnevnik, a daily newspaper with an initial daily circulation of 5,000 copies. SEAF invested in Krug in 1999, which strengthened Krug's distribution capacity and facilitated the purchase of equipment that improved the profitability of the business. SEAF also consulted the company in developing its business strategy and the launch of an evening newspaper along with its morning newspaper. As a direct result of these decisions, Dnevnik established itself as the leading privately owned daily newspaper in Macedonia, with a current daily distribution exceeding 70,000 newspapers. In 2004, SEAF and Krug sold the company to the German print media company WAZ and made a considerable profit. It not only largely increased its work force and experienced financial success, but also largely improved the independence and professionalism of the print media industry in Macedonia.

Artima, Supermarket Chain- Timisoara, Romania

(Investment Vehicle: SEAF Trans-Balkan Romania Fund, Type of Investment: Equity, Mezzanine)

SEAF invested in Artima Retail Investment Company S.A. when the company was just over a year old, had opened only three supermarkets, and was in urgent need for new capital for expansion, which it could not access through traditional funding sources. As a result of SEAF's investments, Artima developed into a chain of 14 medium-sized supermarkets in 13 cities in Romania. The company concept was to develop a chain of high quality supermarkets, with focus on quality as well as diversity of products and services, in second-tier cities at a time when major international groups were concentrating on investments in Bucharest. This concept made Artima stores unique in the environments in which they operated. Artima's growth was spectacular and had many positive impacts on its environment. Employment rose from 251 at the time of investment in 2002 to 1,097 in 2004. In addition, Artima invested directly in the infrastructure (creation of playgrounds, construction and improvement of roads and street lights etc) of the local communities where its supermarkets were established. SEAF assisted in the sale of Artima in 2005, which helped SEAF's investors gain over double of their initial investment in less than three years. Today Artima is part of the French supermarket group Carrefour.

Source: SEAF Featured Portfolio Companies,

http://seaf.com/index.php?option=com_content&view=article&id=155&Itemid=174

Box 2- Investment Vehicles Listing

Investment Vehicle	Committed Capital	Investors
Afghan Growth Finance	\$25 Million	SEAF; Overseas Private Investment Corporation (OPIC)
Baltics Small Equity Fund	\$11 Million	European Bank for Reconstruction and Development (EBRD); Baltic-American Enterprise Fund (BalaeF)
CARESBAC Bulgaria	\$12 Million	SEAF through United States Agency for International Development (USAID) grant funds, EBRD
Central Asia Small Enterprise Fund	\$11 Million	SEAF; Kazakh National Innovation Fund (NIF); Swiss Investment Fund for Emerging Markets (SIFEM); International Finance Corporation (IFC)
Emerging Europe Capital Partners I	\$17 Million	SEAF through USAID grant funds, Polish Cooperation Fund, EBRD, Foundation for the Development of Agriculture
Fondo Transandino Colombia	\$17 Million	SIFEM via TransAndean Fund (TAF); Belgian Investment Office (BIO) via TAF; USAID via SEAF via TAF; Proteccion; Colfondos; Porvenir; Seguros Bolivar; Compania Suramericana de Seguros; SEAF Colombia
Fondo Transandino Peru	\$15 Million	SIFEM via TransAndean Fund (TAF); Belgian Investment Office (BIO) via TAF; USAID via SEAF via TAF; AFP Integra; AFP Prima
Georgia Regional Development Fund	\$30 Million	Millennium Challenge Corporation (MCC) through Millennium Challenge Georgia Fund (MCG)
Latam Growth Fund	\$17 Million	Belgian Investment Office (BIO); SIFEM; Finnish Fund for Industrial Cooperation (Finnfund)
Latam Peru Fund	\$40 Million	Latam Growth Fund; ACCESS SEAF SAFI; AFP Integra; AFP Horizonte; Corporación Financiera de Desarrollo S.A. (Cofide)
SEAF Bangladesh Ventures	\$12 Million	International Finance Corporation (IFC)
SEAF Blue Waters Growth Fund	\$25 Million	Netherlands Development Finance Company (FMO); SIFEM; Norwegian Investment Fund for Developing Countries (Norfund); Finnfund
SEAF Central and Eastern Europe Growth Fund	\$21 Million	SEAF Management LLC; Deutsche Investitions - und Entwicklungsgesellschaft mbH (DEG); Calvert World Values International Equity Fund; Merifin Capital; SIFEM; IFC; Finnfund; Evangelische Kirche In Hesse und Nassau (EKHN)
SEAF Croatia	\$10 Million	SEAF via USAID; SIFEM; Black Sea Trade & Development Bank (BSTDB); IFC; Finnfund; Norfund
SEAF Global SME Facility	\$5 Million	Calvert Group through the Calvert Large Cap Growth Fund
SEAF India Agribusiness International Fund	\$33 Million	Life Insurance Corporation of India, Omidyar Network Fund, Inc., Saron Asset Management, Small Industries Development Bank of India, Syndicate Bank, Unigrain, Union Bank of India, SEAF
SEAF India International Growth Fund	\$161 Million	Kotak Mahindra Bank; Small Industries Development Bank of India (SIDBI); Calvert Group Ltd; USAID; DEG; Pound Capital; Various Private Companies and Individual Investors in India
SEAF Macedonia	\$10 Million	SEAF; EBRD; DEG; IFC
SEAF Sichuan SME Investment Fund	\$23 Million	SEAF; New York Life International; Swedfund International
SEAF SME Debt Facility	\$30 Million	AB; IFC; Norfund; DEG
SEAF South Balkan Fund	EUR 13 Million	OPIC
SEAF Trans-Balkan Bulgaria Fund	\$7 Million	SIFEM; Netherlands Development Finance Company (FMO); Finnfund
SEAF Trans-Balkan Romania Fund	\$9 Million	SEAF via USAID; SIFEM; Black Sea Trade & Development Bank (BSTDB); IFC; Finnfund; Norfund

Source: http://seaf.com/index.php?option=com_content&view=article&id=44&Itemid=168&lang=en

Box 3- SEAF Companies

Company Revenue Growth vs. GDP on a Year-to-Year Basis									
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average SEAF Company Revenue Growth	0.24	0.38	0.12	0.24	0.17	0.2	0.2	0.16	0.11
Average GDP Growth*	0.08	0.09	0.09	0.12	0.13	0.15	0.17	0.15	0.06
Spread	0.16	0.29	0.03	0.12	0.04	0.05	0.03	0.01	0.05

*for countries in which SEAF invests, weighted by number of companies in each country.

Company Employment Growth vs. National Employment Growth on a Year -by-Year Basis									
Average Employment Growth	2001	2002	2003	2004	2005	2006	2007	2008	2009
SEAF companies	55%	41%	25%	23%	24%	20%	18%	12%	9%
Countries where SEAF invests*	-2%	-4%	0%	0%	1%	3%	2%	2%	-1%

*Weighted by number of companies in each country.

Source: SEAF 2011 Development Impact Report, p. 50

Box 4- Other Enterprise Funds and Impact Investment Platforms

- **Acumen**- Acumen is a venture fund that uses “patient capital” to invest in financially sustainable and scalable organizations that innovatively deliver affordable critical goods and services to low-income consumers in India, Pakistan, Kenya, Rwanda, Tanzania, Uganda, the U.S. and U.K. Their investments in 26 enterprises constitute \$34 million within five priority portfolios: Water, Health, Housing, Energy, and Agriculture.
- **Africa Enterprise Challenge Fund** - An initiative funded by AusAid, DANIDA, DFID, IFAD, and NMFA; AECF is a \$120 million private sector fund that aims to encourage qualified private sector companies to compete for investment support for their new and innovative business ideas. The fund aims to encourage greater participation by Africa’s poor in markets, both as consumers, and as workers and producers. Accepting proposals from all African countries, the fund provides grants and non-recourse loans (with fund matching requirements) on a competitive basis to fund profitable business ideas with developmental impact.
- **Grassroots Business Fund**- Growing out IFC’s Grassroots Business Initiative, GBF makes equity, quasi-equity, and debt investments paired with technical assistance in developing country enterprises. These allow for spreading of businesses’ risks and returns with GBF, while providing capital suitable for long-term investment in wealth-creating businesses that service low-income consumers. GBF’s average investment size is currently between \$800,000 and \$1,500,000, with an average investment horizon of 6-8 years.
- **IGNIA**- IGNIA is an impact investing venture capital firm based in Monterrey, Mexico that supports the founding and expansion of high growth, scalable social enterprises whose commercial success will foster the development of new industries. IGNIA has made 9 investments, totaling net disbursements and commitments of \$34 million in the areas of housing, healthcare, telecommunications, agriculture, financial services, and water.
- **Root Capital**- Root Capital provides capital, delivers financial training, and strengthens market connections for small and growing businesses in Africa and Latin America. They have provided \$330 million in credit to 349 SMEs and maintain a 99% repayment rate from borrowers and a 100% repayment rate to investors. They also use future sales contracts from companies like Starbuck and Whole Foods as a form of collateral for businesses in which they invest.

See: <http://www.acumenfund.org>, <http://www.aecfafrica.org/>, <http://www.gbfund.org/>, <http://www.ignia.com.mx> , <http://www.rootcapital.org>

Further Resources

- Finance Fortune Article, “In developing economies, equity beats microfinance”- <http://finance.fortune.cnn.com/2011/04/20/in-developing-economies-equity-beats-microfinance/#more-14202>
- SEAF Development Impact- http://seaf.com/index.php?option=com_content&view=article&id=160&Itemid=179&lang=en

- SEAF Featured Portfolio Companies-
http://seaf.com/index.php?option=com_content&view=article&id=155&Itemid=174
- CEED-
http://seaf.com/index.php?option=com_content&view=article&id=154&Itemid=169&lang=en