



USAID INVEST

MOBILIZING INVESTMENT FOR DEVELOPMENT

PERFORMANCE INCENTIVES FOR CAPITAL MOBILIZATION

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

ABOUT USAID INVEST



INVEST is a global buy-in mechanism designed to address the challenges that make it difficult for USAID to work with the private sector. INVEST provides tailored approaches to translate development objectives into blended finance interventions that align with the services offered by private-sector firms. This is reflected in procurement, subcontracting, and the project's overall strategy for collaboration, including performance-based incentives.

As of June 2024, INVEST provided services to 39 MBIOS through 70 distinct buy-ins. INVEST support has helped mobilize \$1.61 billion in capital for USAID development priorities. INVEST period of performance is 2017-2024.



The purpose of this learning report is to synthesize INVEST's experience in determining performance-based compensation for subcontractors, specifically transaction advisors, engaged in capital raising activities.

Insights are drawn from the analysis of subcontract data, reflections of the INVEST technical team, and subcontractor feedback.

KEY TERMS

- **Firm-fixed-price (FFP)** contracts have a set price that is not adjusted for any reason, including the contractor's performance, with very limited exceptions. The contractor assumes full risk and reward, determining their profit or loss based on the contract's terms. FFP contracts typically include specific deliverables, and payments are based on these deliverables.
- **Capital mobilized** refers to financing obtained in the form of debt, equity, or other forms of financing from a capital provider. Capital is mobilized to advance USAID development priorities.
- **Transaction advisory services** connect capital seekers with capital providers and help negotiate mutually acceptable terms. These services address the high transaction costs and information asymmetries that typically hinder investment in the markets where USAID operates.
- **Transaction close** refers to the finalization of an investment negotiation, evidenced by legally binding documentation such as a promissory note, shareholder agreement, or proof of fund transfer from an investor (e.g., bank, private equity fund, impact investor) to the investee.

PAYMENT STRUCTURES INCENTIVIZE CERTAIN BEHAVIORS

The markets in which USAID works are complex. INVEST aims to incentivize behaviors that facilitate the achievement of both financial and development related goals.

INVEST utilizes Firm Fixed Price contracts for subcontracted services, with payments made upon achieving specific deliverables linked to key milestones. The way these milestones are defined, and the compensation allocated to each, significantly influences the results achieved.

Mobilizing capital is a core objective of INVEST's work and is essential for sustainability and scale. While very important, capital mobilization is not the only consideration.

INVEST THEORY OF CHANGE

INVEST aims to maximize the additionality associated with USAID support by creating payment structures that recognize the importance of capital mobilization along with other outcomes.

BLENDDED FINANCE

- Investment opportunity assessments
- Structuring funds and financial instruments,
- Catalytic capital
- Transaction advisory services
- Technical assistance



ADDITIONALITY

- Capital mobilization
- Acceleration
- Sources of finance
- Innovative finance
- Safeguarding mission
- New financial intermediaries
- Demonstration effect



DEVELOPMENT IMPACTS

- Income and livelihoods
- Equity and empowerment
- Access to basic products and services
- Climate and environmental benefits



Additionality is generally defined as an outcome that would not have occurred without donor support. These outcomes can lead to longer-term development impacts that improve conditions for people and the environment.

INVEST STRUCTURES PAYMENT AROUND MILESTONES

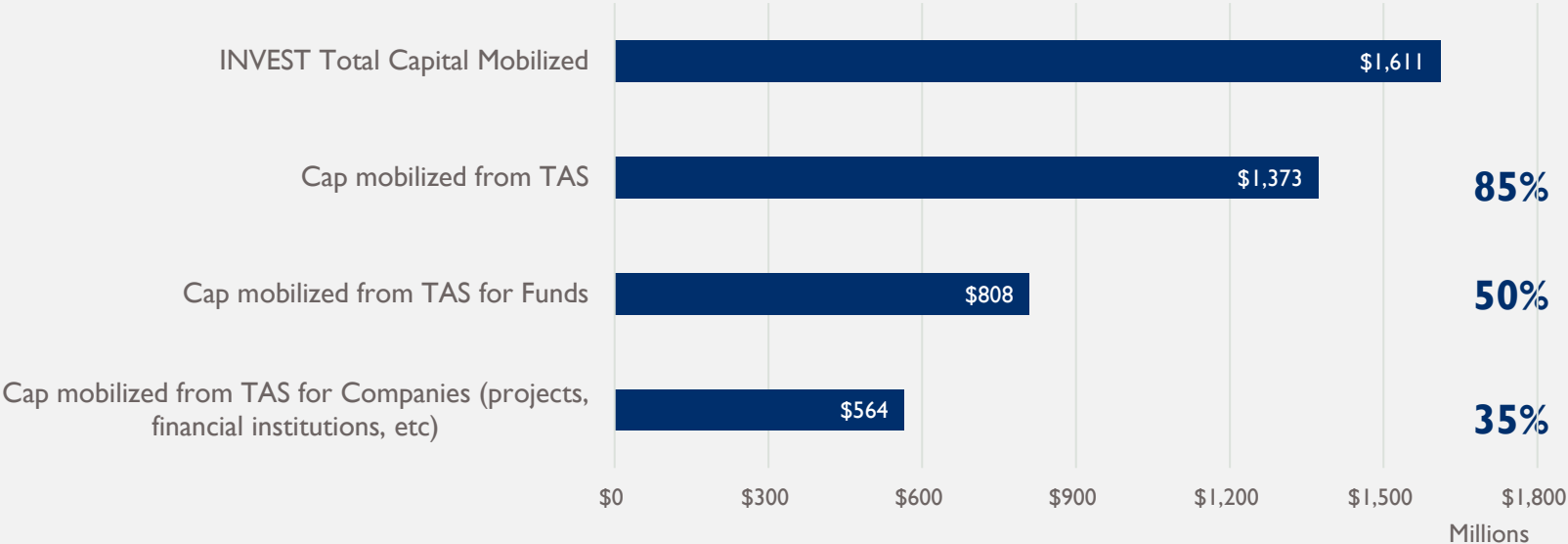
Standard INVEST deliverable categories



While each INVEST subcontract has unique characteristics, those that have explicit capital raise targets typically have deliverables that fall into six categories.

INVEST PORTFOLIO

As of June 2024, 85% of capital mobilized on INVEST is from transaction advisory services across multiple sectors (financial services, renewable energy, agriculture, and others).



INVEST subcontracts transaction advisors to assist with most capital raise activities. INVEST supports transaction advisory services for companies as well as for investment funds and financial vehicles. The support is similar in principle, focused primarily on helping sources of capital connect to those seeking it.

SOURCE OF DATA



**27
SUBCONTRACTS**

Contract values range from:
\$37,653 to \$1,853,182
Median: \$473,345



**ACROSS
14 BUY-INS**

Capital mobilized under contracts ranges from:
\$0 to \$488,916,489
Median: \$5,250,000

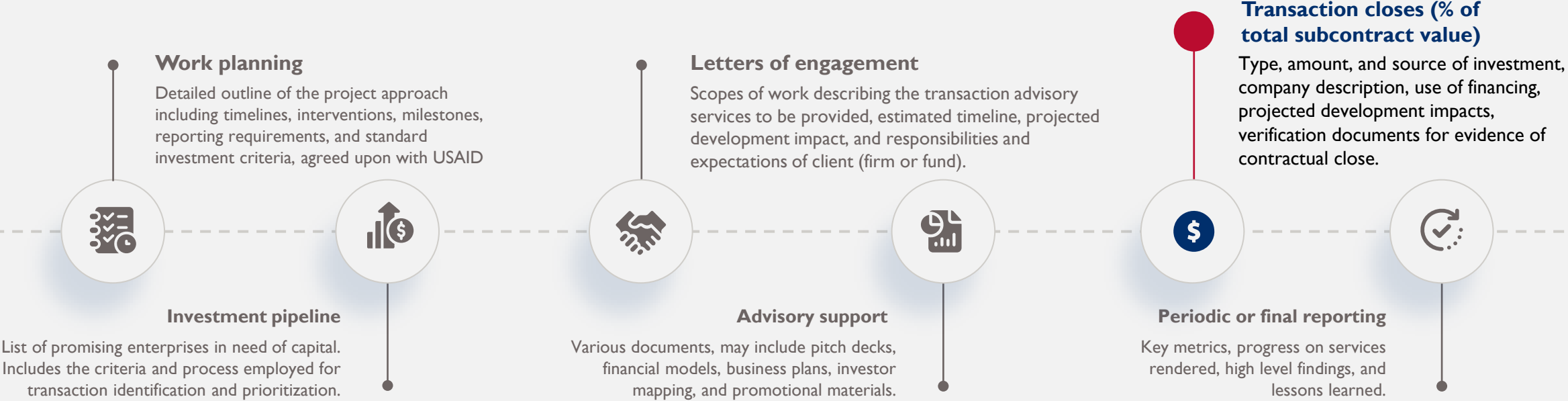


**13 TRANSACTION
ADVISORY
FIRMS**

An analysis of 27 subcontracts across 14 INVEST buy ins, with 13 distinct transaction advisory firms was performed. There was a wide range in subcontract values as well as the value of capital mobilized under these subcontracts.

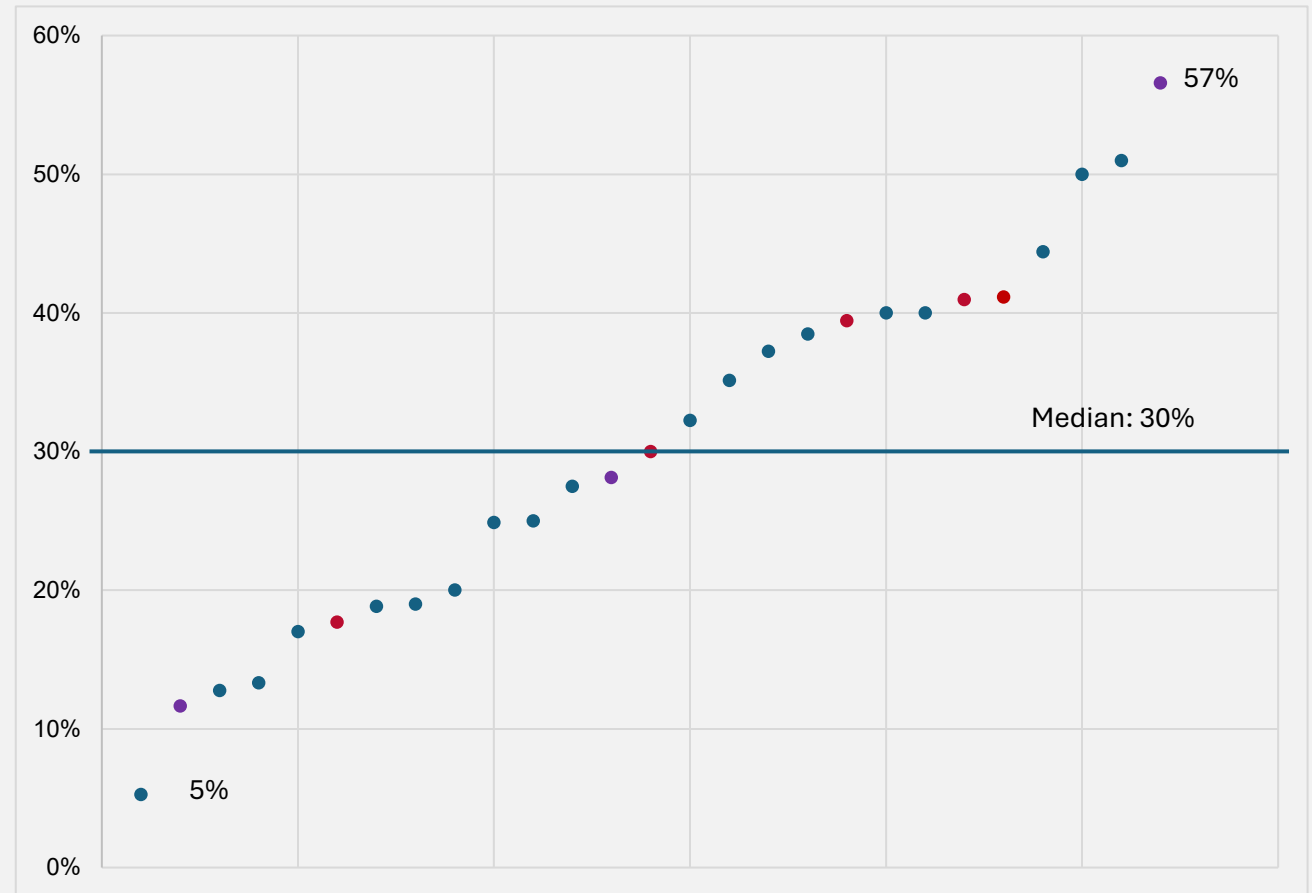
INVEST STRUCTURES PAYMENT AROUND MILESTONES

The analysis focused on the value paid for transaction closes relative to total subcontract value.



To compare across subcontracts, payment associated with transaction closes is expressed as a %. For example, if the total value of the subcontract is \$500,000, and the agreement specifies that \$100,000 will be paid for meeting the transaction close target, the relative value is 20% ($100,000 / \$500,000$). The remaining \$400,000 is paid for deliverables relating to the other milestone categories.

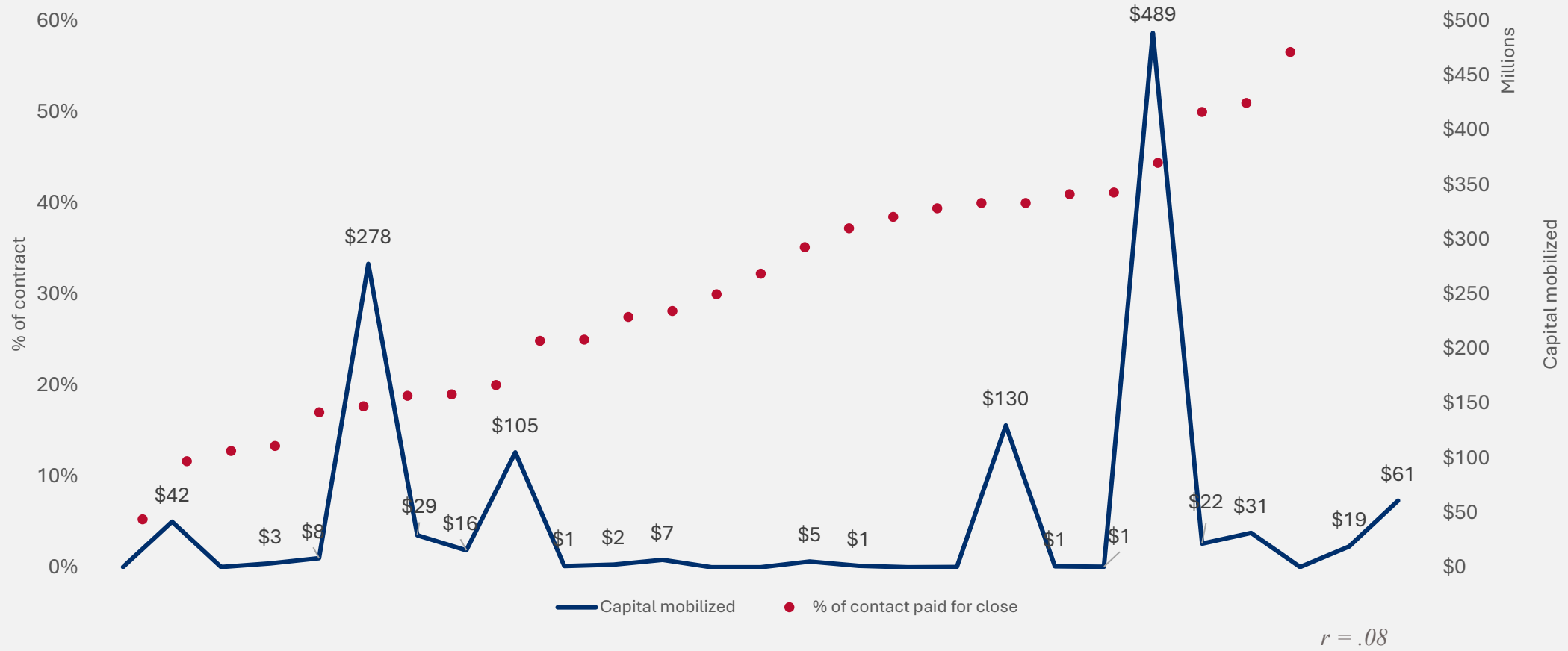
**There is a wide variability
in the percent paid
for closing transactions
relative to total
subcontract value.**



● Company ● Fund ● Both Company and Fund

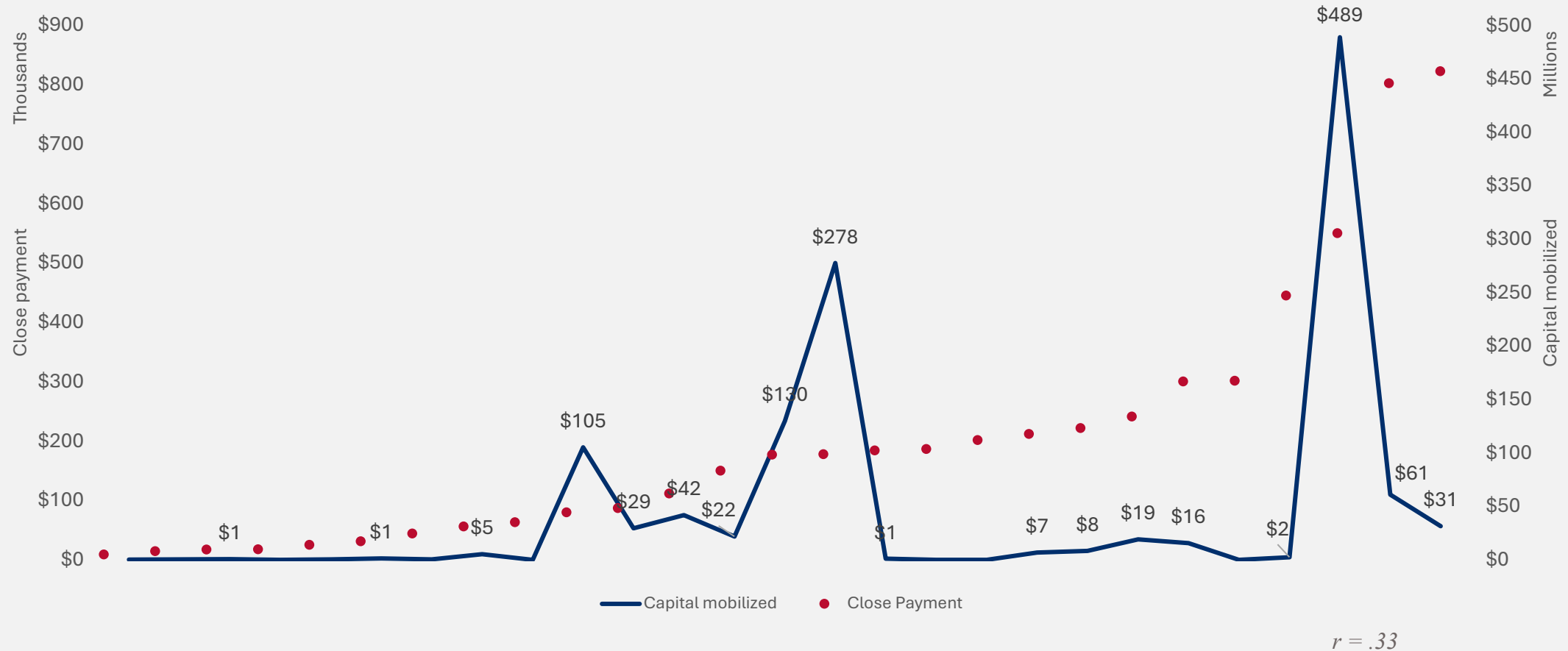
The analysis of 27 subcontracts revealed a wide range, from only 5% of the total value of the subcontract paid for transaction closes up to 57% of the subcontract value paid. This analysis considered subcontracts for capital raises for funds/ financial vehicles as well as for companies.

There is a weak relationship between the percent of the full subcontract value paid for transaction close and the amount of capital raised.



The data demonstrates that INVEST has not necessarily paid relatively higher proportion of contract value for larger capital raises. In other words, large capital raises are not always associated with a higher percent of the subcontract value dedicated to payment for closes.

There is a weak relationship between the amount paid for transaction closes and the value of capital raised.



Looking at the same contracts and comparing the dollar amount paid for transaction closes and the corresponding capital raise, there is still a weak correlation; paying more for transaction closes does not always result in larger capital raises.

EXAMPLE I

USAID Pensions-South Africa Emerging Managers

INVEST supported the inaugural Women Empowerment Mentoring and Incubation Fund Manager Program (WE>MI) for the successful development, growth, and long-term sustainability of women-owned and women-managed fund managers in Southern Africa. Transaction advisory support was provided for ten funds with a capital raise target of \$20 million.

MBIO: USAID/Kenya and East Africa Regional, Southern Africa Regional

- Subcontract length: 17 months
- Subcontract value: \$364,633
- Capital mobilized: \$21,745,045
- % of subcontract paid for capital raise: (41.14%)

Support provided

Skills development through practical workshops and a series of topic specific master classes, capacity building through hands-on operational guidance and mentoring/advocacy; and access to investment facility support: connecting participants with key investment sources in the U.S., Africa and internationally, while providing transaction support, including a partnership with the United Nations' African Women Impact Fund.

Deliverables

1. Concept note
2. Pre-program survey and evaluation report
3. Advisory support packets – marketing materials, pitch decks, evidence of investor presentations
4. Evidence of \$10 million or more investment mobilized with program participants
5. Evidence of additional \$10 million or more investment mobilized with program participants
6. Post-program survey

EXAMPLE 2

Haiti INVEST Platform

Haiti INVEST aimed to increase the number of SMEs that are investment ready and have access to new sources of capital (debt, equity, mezzanine financing). INVEST subcontracted multiple transaction advisors to work across sectors and markets. This example is a subcontract with a local transaction advisor focused on smaller, less experienced enterprises. The target capital raise was \$500,000 for 10-12 companies.

MBIO: USAID/Haiti

- Subcontract length: 40 months
- Subcontract value: \$69,770
- Target capital raise: \$500,000
- Capital mobilized: \$252,238
- % of subcontract paid for capital raise: (12.76%)

Support provided

Transaction advisory services to connect SMEs with the providers of capital. The partner executed these services in four phases: 1) pipeline identification and selection, including the development of a scorecard of selection criteria 2) investor engagement and scope development that describe the intervention strategy, 3) SME support such as market studies, business models, strategic plans, coaching, etc., and 4) Closing transactions

Deliverables

1. Inception report
2. Pipeline of SMEs with selection criteria
3. Letters of engagement
4. Engagement deliverables documents
5. Transaction close reports (\$8,900)
6. Monthly reports (12)

LEARNING

When structuring the compensation agreement, consider the kind of additionality the activity is seeking.

Make informed decisions based on knowledge of the market.

PIPELINE - What is the estimated level of effort to identify businesses with investment potential?

INVESTORS - Is there a high level of perceived risk among private sector investors? Is there a need to engage a new class of investors?

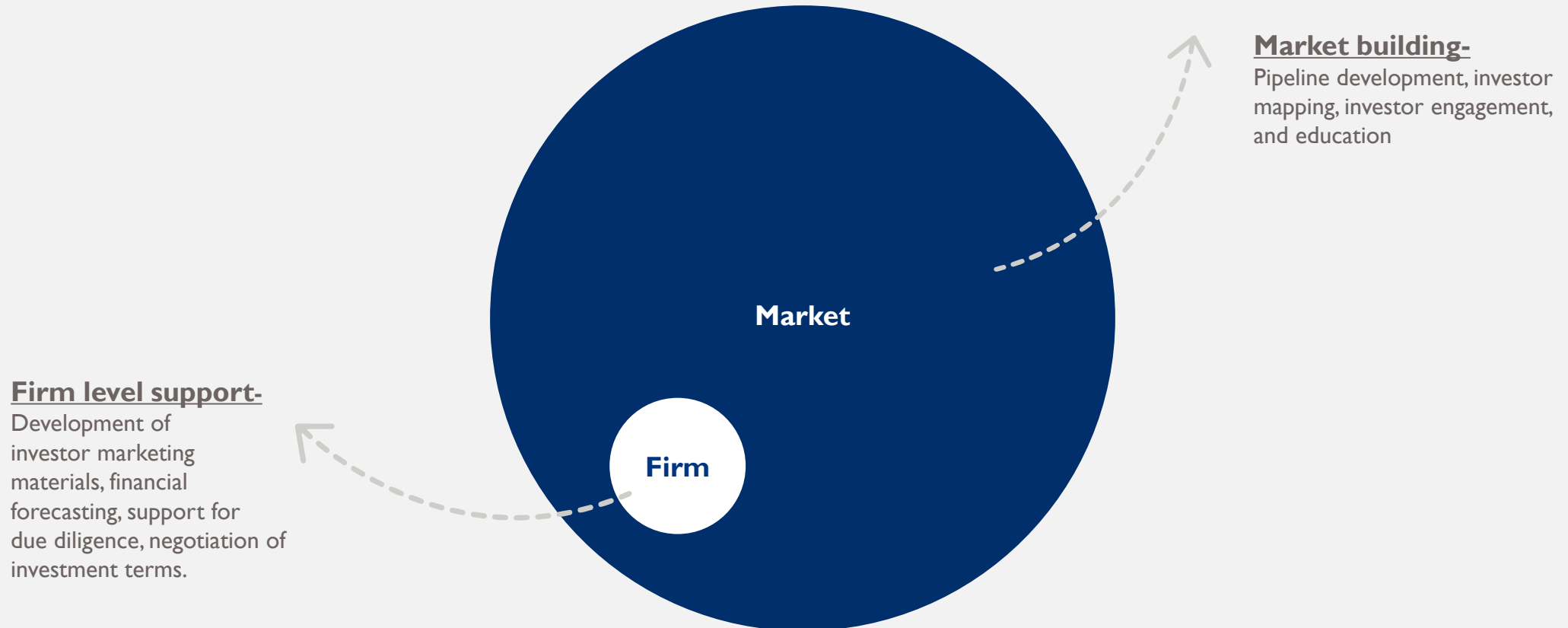
INVESTEES - How much support will the targeted firms likely need to become investment ready? What is their level of experience with accessing capital?

TRANSACTION - What is the level of complexity of the planned transaction(s)? Is this a new or untested model or financial instrument?

By compensating for activities beyond just closed transactions, the subcontracted firms can dedicate the necessary time and effort to operate in more challenging environments, adopt innovative approaches, and support companies that might otherwise struggle to secure financing, such as women-owned businesses or other underserved groups.

LEARNING

Capital raise activities benefit the firm and contribute to market development. Consider the importance of the range of support needed when structuring agreements.



LEARNING

Engaging transaction advisors is an effective strategy to facilitate the development of investment ecosystems, creating the conditions that overtime can sustain these services on a commercial basis.



The intermediation functions performed by transaction advisors are very limited in the markets where USAID works. Yet, they are essential for markets to develop. Donor support can help create favorable market conditions that will facilitate future investment.

LEARNING

The appropriate division of responsibilities between USAID and contracted transaction advisors is critical.

Transaction advisors can more readily assume the risk of performance-based agreements when they are given the ability to make key decisions.

TRANSACTION ADVISOR

- Select investment opportunities
- Define appropriate financing instrument
- Negotiate deal close

USAID

- Set strategy and determine development objectives
- Identify priority markets and beneficiary populations



USAID
FROM THE AMERICAN PEOPLE

**SCAN TO ACCESS
INVEST LEARNING
RESOURCE**

