

**Investing in women**

**South East Asia**

Early stage investment models

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## Foreword



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We are pleased to publish this second edition detailing our work for Investing in women (“IW”), an Australian Government initiative managed by Abt Associates and providing a record of our learnings as IW progresses.

Our role is to support IW in encouraging global impact investors and funds to apply a gender lens and invest in women’s small-to-medium enterprises (“SMEs”) in South East Asia. A women’s SME is one that is either led or owned by a women.

Our first edition focused on the case for gender lens investing, suitability of various financing structures for women’s SMEs and the progress of IW’s partner, Small Enterprise Assistance Funds (“SEAF”) in launching the SEAF women’s Opportunity Fund.

This edition aims to provide an overview of the types of early stage investors, the differences between incubators and accelerators and various investment models that are used to invest in SMEs. In our analysis, we consider which approaches may be preferred by women’s SMEs.

The IW investment funding is focused on women’s SMEs, who generally have limited access to capital due to size or gender bias. The provision of access to such funding plays an important role towards economic empowerment and greater equality outcomes.

Future editions will focus on the progress of the work undertaken by IW and IW’s partners and discussion of related topics.

EY’s advisory role as part of IW involves evaluating, recommending and negotiating with potential impact investing partners and providing strategic advice on how IW can most effectively structure the initiative to play an active role in promoting capital flows and build a business case for gender lens investing.

As an organisation, EY has gender parity as a key imperative and we are determined to do our part to help accelerate women’s progress in the workplace.

Our commitment to advancing women throughout our ranks and into leadership positions has contributed to our reputation as one of FORTUNE magazine’s “100 Best Companies to Work For” in the US. In addition, we have been ranked in the top 10 on *Working Mother* magazine’s annual 100 Best Companies for Working Mothers list in the US, making it the eleventh year in a row in the top 10 and our 20th appearance on the list. Given our commitment to gender equality, we are proud of our role in IW.



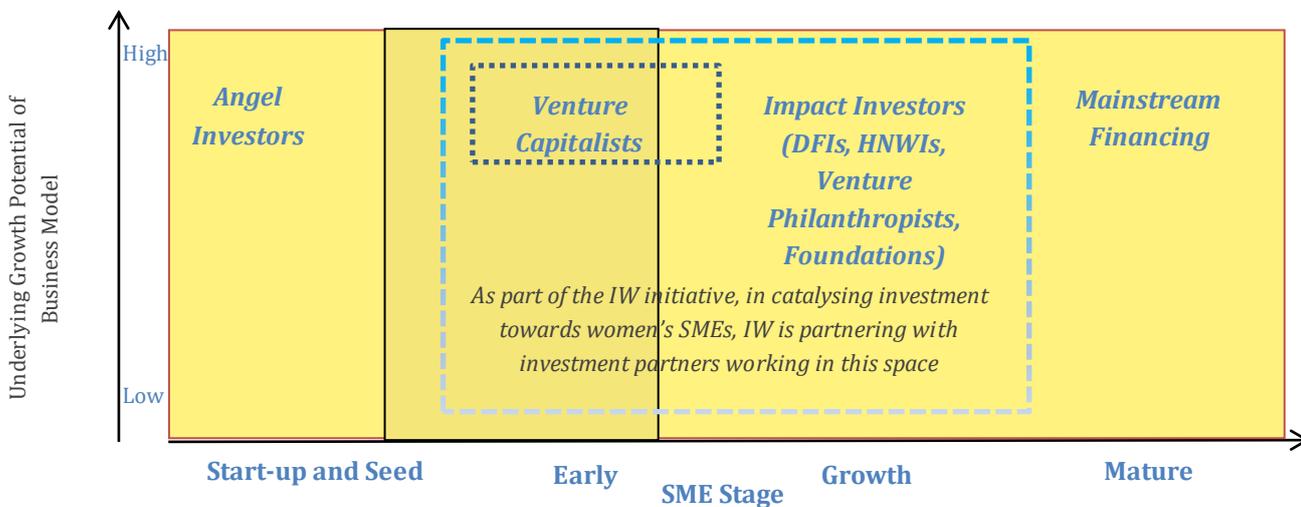
# 1. Early stage business financing gap

## Access to capital is a key inhibitor preventing women’s SMEs to succeed

Despite their importance in contributing to economic growth and job creation, SMEs worldwide are largely underserved by capital markets, particularly by the banking sector. For capital providers, the SME segment can be challenging due to high transaction costs coupled with high risks attributable to lack of financial transparency, less sophisticated management skills, limited collateral, small scale and relatively higher failure rates. The current credit gap for formal SMEs is estimated by IFC to be US\$1.2 trillion.<sup>1</sup>

Women entrepreneurs in particular are more likely to cite access to finance as a major constraint to developing their businesses than men. Indeed the IFC estimates that 70% of women-owned SMEs in the formal sector of developing countries are underserved by financial institutions, creating a financing gap as large as US\$285 billion, of which US\$63 billion exists in the East Asia and the Pacific region (“EAP”).<sup>2</sup>

Mapping of Investors across the SME Market Segment



The chart above provides an overview of the types of SME investors mapped to the different stages of the business life cycle they typically finance. IW focuses on financing early and growth stage SMEs while working with impact investors to achieve this.

Below is a brief description of SME investors:

- ▶ **Angel Investors:** Also known as private or seed investors, refers to affluent individuals who provide capital for business start-ups, typically in exchange for convertible debt or ownership equity. Increasing numbers of angel investors now invest online through equity crowd funding
- ▶ **Venture Capitalists:** Private equity that is provided by firms to small, early-stage, emerging businesses that are deemed to have high growth potential, in exchange for ownership stake in the company

- ▶ **Impact Investors:** Investors who invest in entities in order to generate measurable, beneficial social or environmental impact alongside a financial return

- ▶ **Mainstream Financing:** This refers to debt financing by banks and equity financing from shareholders via the public equity markets

In addition, incubators and accelerators whilst not always direct investors, support early and growth stage enterprises by providing them with business support in the form of business development assistance (such as training, mentoring and access to business networks including, access to potential investors).

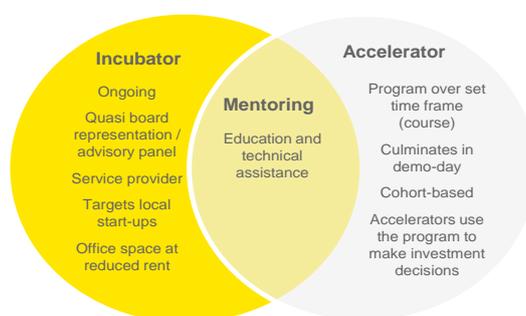
<sup>1</sup> Dutch Good Growth Fund, New Perspectives On Financing Small Cap SME's In Emerging Markets, May 2016, page 9

<sup>2</sup> International Finance Corporation, women-owned SMEs: A Business Opportunity For Financial Institutions - A Market and Credit Gap Assessment and IFC's Portfolio Gender Baseline, 2014

## 2. Early stage investment incubators and accelerators

Incubators and accelerators enhance SMEs ability to access financing by developing the SMEs business acumen as well as connecting them with investors

Despite the increasing popularity of impact investing, there is a commonly observed gap which relates to the business acumen and financial transparency possessed by early stage enterprises against the level required by capital providers. The role of incubators and accelerators aims to bridge this gap by supporting enterprises in the form of business development assistance, mentoring, infrastructure, as well as access to networks of investors, foundations, and corporations. Incubators typically assist companies during the early stage of their life cycle by providing a range of business support resources and services such as physical space, coaching and access to business networks, over a medium to long period of time. Similarly, accelerators are focused on cultivating businesses in their early-stage however, the key distinction is accelerators generally provide fixed and shorter term defined program, usually a cohort-based business model which is highly mentorship-driven and culminates into a “demo day” where the entrepreneurs present their business to potential investors.<sup>3</sup>



Characteristics <sup>4</sup>	Incubators	Accelerators
<b>Clients</b>	Diversified including science-based businesses (biotech, medical devices, nanotechnology, clean energy) and non-technology based businesses	Typically focused on technology based businesses including (web-based, mobile apps, social networking, gaming, cloud-based, software) firms that do not require significant immediate investment or proof-of-concept
<b>Selection process</b>	Competitive selection, mostly from the local community	Competitive selection of firms from wide regions (may also include national and global participants)
<b>Terms of assistance</b>	1 to 5 or more years (33 months on average)	Generally 1 to 3 month boot camps
<b>Services</b>	<ul style="list-style-type: none"> <li>▶ Access to management and other consulting</li> <li>▶ Specialised intellectual property and networks of experienced entrepreneurs</li> <li>▶ Assist businesses mature to self-sustaining or high-growth stage</li> <li>▶ Help entrepreneurs develop required skills, develop a management team, and often, obtain external financing</li> </ul>	<ul style="list-style-type: none"> <li>▶ “Fast-test” validation of ideas</li> <li>▶ Opportunities to create a working business model and find initial customers</li> <li>▶ Linkage of entrepreneurs to business consulting and experienced entrepreneurs primarily in the web/mobile apps space</li> <li>▶ Assist with the preparation of pitches with the goal of obtaining follow-up investments</li> </ul>
<b>Investment</b>	Typically do not have funds to invest directly in the company and more frequently than not, do not take equity	Typically invest ~US\$18k to US\$25k in co-founding teams, taking equity stakes in each investee of ~4% to 8%

<sup>3</sup> Small Business Administration, Office of Advocacy, Innovation Accelerators: Defining Characteristics Among Startup Assistance Organizations, October 2014, page 14

<sup>4</sup> Small Business Administration, Office of Advocacy, Innovation Accelerators: Defining Characteristics Among Startup Assistance Organizations, October 2014, page 10

### 3. Early stage investment models

There are various early stage investment and accelerator models, each with their own strengths and weaknesses

There are currently few (Golden Seeds, Springboard and SheEo) known early stage accelerator models which solely focus on addressing the lack of financing available to women's SMEs. Notably, Village Capital, a globally recognised proven impact investor, operates a peer-selection accelerator model (described in the table below) which has shown to increase access to capital for female entrepreneurs. Under this peer-selection model, companies with female co-founders are 78% more likely to be selected compared to male-only companies. Women entrepreneurs are three times more likely to receive funding through this program than traditional venture capital. As such, the more collaborative "peer review" approach has shown to generate better gender parity compared with other traditional investment models. Below is a brief description of various early stage investing models:

Early Stage Investment Models	
<b>Village Capital</b> <a href="http://vilcap.com/results">http://vilcap.com/results</a> (accelerator)	Founded in 2009, Village Capital trains and invests in social entrepreneurs who are involved in solving problems in two key areas: i) access to opportunity for underserved communities and ii) resource sustainability. The Village Capital model involves selecting 10-12 entrepreneurs to undergo a business development program as well as providing them with opportunities to build relationships with mentors, customers, stakeholders and investors. At the conclusion of each program, the cohort of entrepreneurs in the program determine the entrepreneurs to receive seed capital from Village Capital and co-investors.
<b>Y Combinator</b> <a href="http://www.ycombinator.com/">http://www.ycombinator.com/</a> (accelerator)	Established in 2005, Y Combinator ("YC") provides seed funding for startups and is one of the largest leading accelerator program globally. YC provides advice, seed capital and connections to start-ups (primarily in the web/mobile application space) in exchange for 7% equity. The YC model of venture capital funding involves investing a small amount of money (US\$120K) in a large number of startups twice a year. YC runs 2-3-month funding cycles a year whereby startups move to Silicon Valley for that period of time. The YC partners work closely with each company to get them into the best shape to attract investors.
<b>Traditional Venture Capital Model</b>	The traditional venture capital funding model invests private capital provided by firms or funds to small, early-stage, emerging firms that are deemed to have high growth potential, or have demonstrated high growth (e.g. number of employees, annual revenue). Traditional venture capital firms typically take a governance / management role in the investee companies. Examples of venture capital firms include 3L Capital, Advanced Technology Ventures, Genesis Partners etc.
<b>Golden Seed Venture Capital Model</b> <a href="http://www.goldenseeds.com/">http://www.goldenseeds.com/</a> (accelerator)	Founded in 2005, Golden Seeds is an early-stage investment firm that backs women-led companies across diverse sectors. The firm looks at whether the female entrepreneur (founder, CEO or other C-level role) has influence on the company and is an owner. Golden Seeds conducts accelerator programs with businesses it may then invest in (investments are solely gender lens focused). The companies are actively vetted, coached and advised by Golden Seeds' network and are offered an environment in which the women's SMEs receive capital and connections to grow and successfully exit. Golden Seed aims to achieve market returns for investors whilst creating lasting social impact. In 2013, Scale collaborated with Golden Seeds in the formation of their approach in Australia.
<b>Crowd Funding</b>	Crowd funding is one of the growing potential funding sources used by early stage investments, social ventures and project entrepreneurs to access capital from donations or funding from the public. The financing is typically facilitated via a website where entrepreneurs post a description and goal of their venture and funders make financial contribution via the website, which is then directed to the entrepreneurs (without restrictions of geo political borders). In some instances, entrepreneurs offer incentives to attract investors / funders.

<sup>5</sup> 2017 May 22, <https://www.business.gov.au/info/run/finance-and-accounting/finance/crowdfunding-how-to-fund-your-business-idea>

## 4. Other gender lens accelerator models

Accelerator Model Application for women's SMEs	
<p><b>SheEo</b> (accelerator) <a href="https://sheeo.world/">https://sheeo.world/</a></p>	<p>The SheEo venture model is designed to attract and provide capital to women entrepreneurs who have demonstrated commitment and a degree of success based on the following three criteria: ventures must i) be majority woman owned and woman led ii) have US\$50k in revenue (with export potential) and iii) demonstrate a new model or new solution for a better world.</p> <p>The entrepreneurs come together in a multi-day incubation program where they receive coaching from experts and are provided with tools similar to an accelerator to grow their confidence, self-awareness and develop and fund their ventures (similar to an accelerator).</p> <p>Funds are provided to entrepreneurs at 0% interest loans to be repaid to SheEO within five years. The cohort of entrepreneurs decide how much money each venture receives.</p> <p>Capital is provided by investors (called "Activators") who contribute US\$1K each. The Activators capital contribution, once repaid by the women's SMEs continue to be reinvested in SheEO with no financial return to the Activators.</p>
<p><b>Springboard</b> (accelerator) <a href="https://springboard.org.au/">https://springboard.org.au/</a></p>	<p>Established in the UK in 1989, Springboard is a leading global personal and professional development program focused on empowering women to take steps to create a better future at work and in life. Springboard operates in 33+ countries world-wide and has a successful track record of empowering women over the past 25+ years. In Australia alone (the second country outside the UK to implement the program) 240 organisations and 35,000 women have experienced the Springboard program which is based on a 3 month personal and career development program focused on the following objectives: i) fostering the personal and career development of women ii) increasing women's confidence and assertiveness iii) helping women identify values, skills and strengths; iv) providing practical models for goal setting v) planning and problem solving and vi) developing networking and relationship building skills.</p> <p>The value of Springboard Enterprises has been validated by a strong track record that includes \$8 billion in capital raised with 170 exits and 15 IPOs. Building on this success, in 2016, Springboard Growth Capital was established to bring growth stage investments to technology and life sciences companies emerging from the Springboard Enterprises ecosystem.</p>
<p>We note that this is not an exhaustive list and many other examples exist. For example, In order to address the participation rate of women entrepreneurs in most incubator and accelerator programs, in 2014, Google's non-profit organisation (focused on encouraging entrepreneurship), announced a program called #40Forward which was designed to increase the representation of women in incubator and accelerator programs by 25% by giving US\$1m to 40 organisations focused on enabling entrepreneurship around the world.</p>	

## 5. Traditional investment vs accelerator models for women's SMEs

Of the four key early stage investment / accelerator models, the Golden Seed and Village Capital Model are considered to be the most effective at facilitating investment capital to women's SMEs

Key Considerations	Golden Seed Model	Village Capital Model	YC	Traditional Venture Capital Funding
<b>Strengths</b>  <i>Example: evidence of gender lens investing / Effective in directing investment capital towards Women's SMEs</i>	<ul style="list-style-type: none"> <li>✓ Addresses the significant financing gap in access to capital for women-led / owned SMEs / early stage investments</li> <li>✓ Applies gender lens investing</li> <li>✓ In addition to capital, provides active coaching and network to grow and effect a successful exit for women's SMEs</li> <li>✓ 100% of investment goes to women</li> <li>✓ Runs accelerator programs</li> </ul>	<ul style="list-style-type: none"> <li>✓ High survival rate: E.g. Village Capital has made 80 investments, with 91% survival rate</li> <li>✓ 43% of Village Capital's portfolio companies have female founders or co-founders</li> <li>✓ Leverage: Village Capital's portfolio companies have raised more than US\$200 million of additional capital and generated over US\$49 million in revenue</li> <li>✓ Created over 9,800 jobs</li> </ul>	<ul style="list-style-type: none"> <li>✓ In addition to providing seed capital, provides advice, coaching and works closely with selected entrepreneurs to enable them to be "investment ready"</li> <li>✓ Reaches a larger number of entrepreneurs with smaller financial investments</li> </ul>	<ul style="list-style-type: none"> <li>✓ Proven model for providing capital access to start-ups /early stage investments</li> </ul>
<b>Limitations in Investing in women's SMEs</b>	<ul style="list-style-type: none"> <li>✗ N/A</li> </ul>	<ul style="list-style-type: none"> <li>✗ Village capital itself lacks specific focus on gender lens investing</li> </ul>	<ul style="list-style-type: none"> <li>✗ Sector focus on web/mobile application based businesses</li> <li>✗ Investment model does not specifically incorporate gender lens investing</li> <li>✗ Financial investments are limited to US\$120k</li> </ul>	<ul style="list-style-type: none"> <li>✗ Women-led companies receive only 3% of venture funding</li> <li>✗ Limited number of women in senior positions / investment committees coupled with investors' preference towards men vs. women's entrepreneur pitches, unconscious bias remains a key challenge for this model</li> <li>✗ Lacks required focus on gender lens investing</li> </ul>
<b>Model Effectiveness in Investing in women's SMEs</b>	✓✓✓	✓✓✓	✗	✗

### About EY

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