

Balloon Ventures

A pioneering model to
grow the African missing
middle

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The Problem

The informal sector dominates

- **2 billion people** work in the informal sector, most in poverty
- **Women and youth** are disproportionately represented
- It is the **fastest growing** area of the economy with the rate increasing as the “youth bulge” takes effect

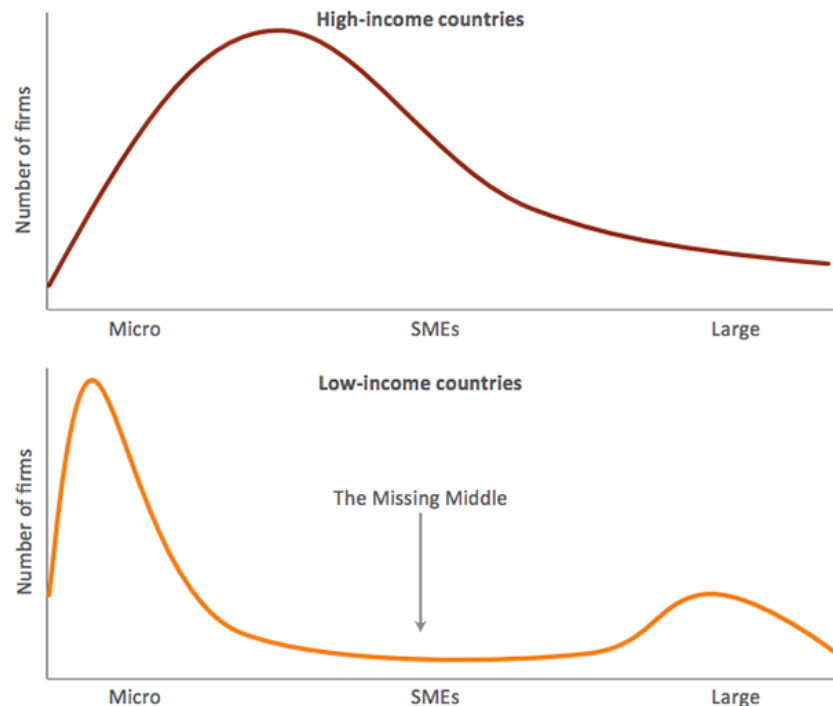
Why is this a problem?

- Most informal jobs are **low paid, insecure** and **unsafe**
- The benefits of economic development are **only unlocked through decent work**
- Informal businesses about **50% as productive** as formal businesses

The Cause

A Missing Middle of SMEs

- The informal sector dominates because of a **'missing middle'** of SMEs (small and medium enterprises)
- SMEs are critical to a well functioning economy, **providing the majority of employment** and driving economic growth
- Micro businesses should grow into SMEs, **but they get stuck**



The Opportunity

We will fix this 'Missing Middle' by supporting the most exceptional small businesses to grow and become SMEs

- **100 million** micro-businesses in sub-Saharan Africa
- 2% of those are run by **exceptional entrepreneurs***
- If 2m businesses become SMEs, each **creating 10 good jobs.**

**That's 20m jobs created
&
A £20 billion market

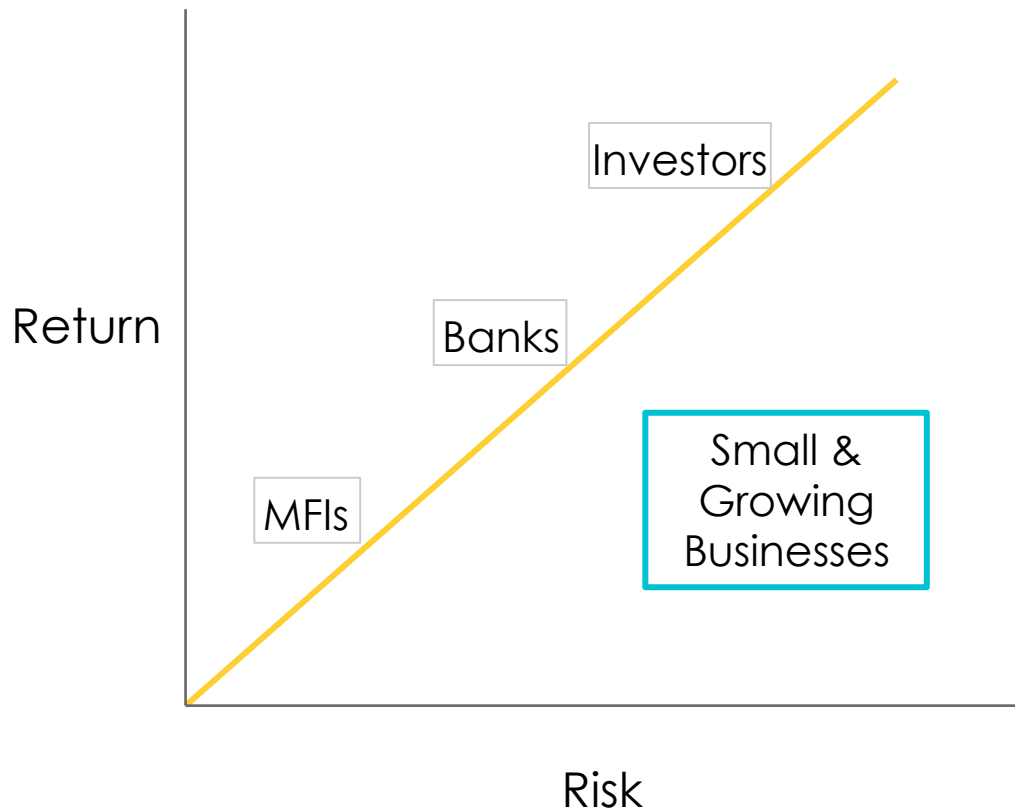
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Our estimation based on 5+ years of experience and data

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Market estimate based on a £10,000 investment yielding a 2x return

Most investors ignore small businesses



- Informal businesses **fail a traditional diligence process** (e.g. no annual accounts, little collateral, unregistered products and services).
- **Practices are informal** increasing risk and lowering growth (e.g. poor financial management, no strategy and plan, ad hoc operations, untrained staff).
- Absolute **returns are modest** compared to a £200,000+ investment with the investment size required typically falling between £10k-£50k.

Our Investment Thesis

Therefore most investors pass. But we see things differently...

Investment Thesis

- **Exceptional informal sector entrepreneurs** do exist
- Due to a missing middle of SMEs, **industry leaders can be created** with relatively small investments
- Focusing on businesses in proven markets minimises product risk and delivers a **high success rate**
- Intensive technical support focusing on operations and execution **reduces risk and increases returns**
- Targeting **poverty reducing sectors** such as small scale manufacturing, education, agriculture and its value chains **creates many jobs**
- **Follow-on investments** leads to scale and increases returns

Our Model: Investment + Partnership + Scale

Capital Investment

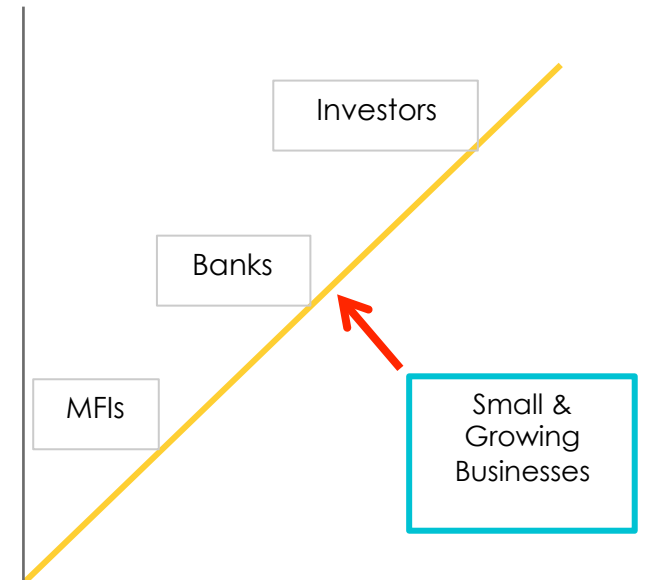
- Initial investment of **£10k-£50k** over 3 years
- Flexible debt to align repayment with cash flow

Partnership

- **400+ hours** of technical support to each portfolio company over 3 years to drive sustainable behaviour change
- Our team of local technical experts **implement best practice** financial management, governance, operations, marketing and strategy

Scaling That Works

- Through an industry focus, we **copy and paste** successful investment theses across multiple businesses
- Our **Playbook** documents the tools, templates and processes needed to replicate investments at low cost
- **Follow-on investments** in ~25% of the portfolio increases profitability



Case Study: Agri Gunny Bags

Description: Manufactures thousands of sacks daily to package and transport agricultural produce such as animal feeds, seeds and flours.

Investment: Balloon invested in working capital to open up the corporate market, taking on customers with larger requirements previously beyond the business's scope.

Growth: Agri Gunny Bags has promoted staff to new roles, increased salaries and recruited additional team members to meet growing production demands and to help with back office improvements in accounting and financial management.

Good Jobs: 8 Good Jobs created for women and young people.

Follow-On Investments: Agri Gunny is now looking to invest in machinery to produce new products that are currently only available in Nairobi. For example, she aims to become the first Kenyan manufacturer of paper bags outside the capital.



Case Study: Casa Uganda

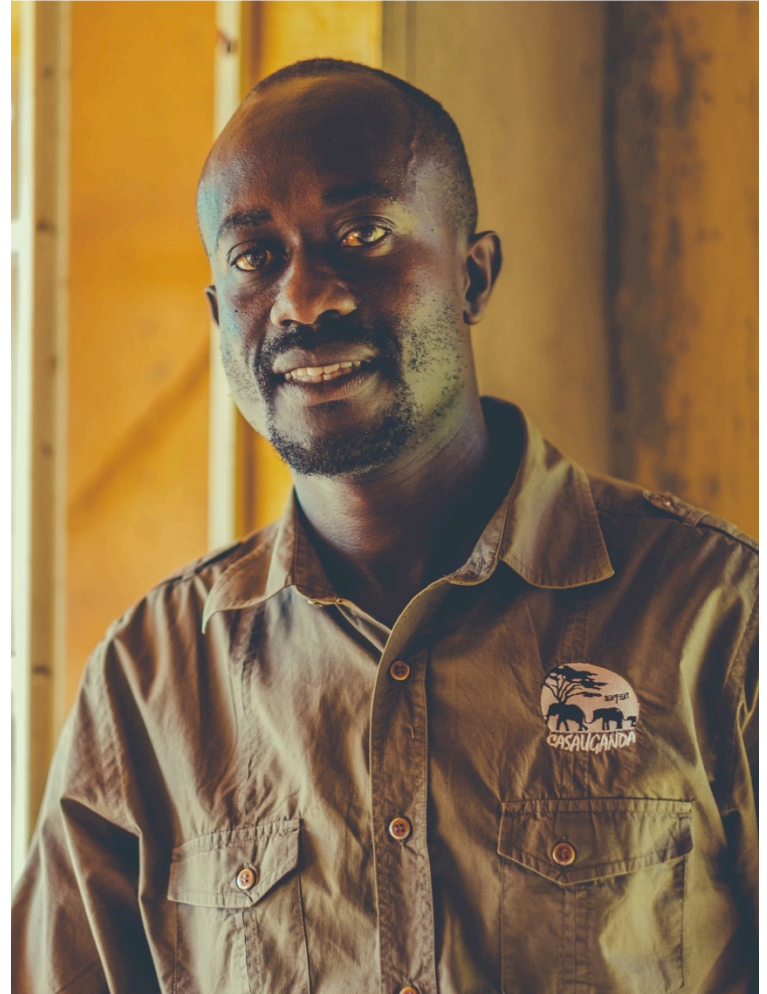
Description: A guesthouse and tour operator in Eastern Uganda.

Investment: Balloon invested in 2019 to support further expansion and transform a previously unused roof space into a thriving restaurant and coffee shop.

Growth: Balloon delivered training to improve customer experience. New financial processes were introduced. A marketing strategy is in place and all employees now have formal contracts with legal protections, job security and a commitment to training and development.

Good Jobs: 20 Good Jobs created.

Follow-On Investments: Casa has big ambitions and is already exploring new horizons, including developing a stunning lodge overlooking Sipi Falls. We're excited to join them on this journey.



Track Record & Next Steps

- We've been piloting and iterating this intervention with support from **Global Innovation Fund, Argidius, Citibank, Citi Foundation, IDEO.ORG, DFID**
- **15 investments** made in businesses in **Kenya and Uganda** in the last 12 months employing a total of 280 people
- **83%** repayment rate (ahead of our 75% target)
- 8 good jobs created per investment **and 600 people sustainably moved out of poverty**
- We are looking for support to scale this model across East Africa **to prove a sustainable, high impact and replicable model for growing small businesses into thriving SMEs that together will create millions of good jobs.**



Working with Balloon

Why should you care about this project?

- **Ending poverty** – a Good Job provides the income and certainty for entire households to plan, invest, and move out of poverty. 58% of new jobs in emerging markets are in small businesses. Growing small businesses the most impactful and sustainable way to defeat poverty.
- **Market building** – creating the markets of tomorrow by driving faster economic growth and growing a new middle class. SMEs are the glue that make markets work.

Why should you work with Balloon?

- **Significant track record** – 8 years developing high impact solutions to unleash entrepreneurial talent in East Africa.
- **New model** - Our approach uses the rules of the market to defeat poverty in a sustainable way that leverages local entrepreneurial skills and talents. We aim to disrupt the conventional wisdom of investing and unlock a \$20bn+ new market and millions of good jobs.

What's in it for you?

- **Exciting and innovative project** – creating something new with prestige and visibility
- **Knowledge/information** – foothold in some of the fastest growing economies in the world with access to deep local market intelligence
- Potential for **financial returns AND impact**

Investment opportunities

Charity

- Fund local teams to find, support and grow exceptional small businesses. With £750,000 we could support the setup and operation of a branch for 5 years creating 1,800 good jobs and moving 9,000 people out of poverty.
- Fund a not for profit revolving loan pot. £360,000 investment creates a revolving fund that will be repaid and recycled in perpetuity.

Impact Investing

- Investments in larger businesses delivering social and financial return. We are currently raising a £2,000,000 fund that can deliver returns of 5% per year while impacting the lives of 18,000 people.

Appendix

Bio (UK Leadership Team)

Joshua Bicknell (CEO)

Joshua Co-Founded Balloon Ventures in 2012 and has led its growth from startup to a £2m+ per annum social enterprise with 40 staff. During this time Balloon has worked with over 3000 entrepreneurs, provided 1 million hours of business growth support, and invested £750,000 in emerging market businesses across 7 countries and 3 continents.

Douglas Cochrane (COO)

Doug Co-Founded Balloon Ventures with Joshua. He managed their £4.7m multi-year UKAID project delivered across 11 communities in Ghana, Kenya and Uganda. The project, which combined business consultancy with low interest loans to informal sector entrepreneurs, was rated A or A+ in all DFID Annual Reviews. As a trainer in enterprise, innovation and design thinking, Doug has delivered programmes to staff at Citibank, Fujitsu, BT and Cisco Group.

Amy Hamill (CFO)

Amy is the Group Finance Director at Balloon Ventures responsible for all aspects of financial planning and management. Amy joined Balloon in 2017. Before Balloon, Amy worked for 8 years at PwC progressing to Manager level. At PwC Amy firstly worked in Audit before moving into Forensic Services where she specialised in developing anti-money laundering policies for global investment banks and conducting reviews of internal controls and processes. Amy qualified as an ACA Chartered Accountant in 2013.

Melinda Phillips (Company Secretary)

Melinda retired in 2016 after 16 years as Chief Executive of one of the UK's largest care and housing providers. During this time she managed 17,000 homes and a team of 7,200 staff. Upon her retirement Housing had a turnover of £200m. Melinda now works with Balloon providing both strategic and operational support.

References

- “Balloon’s contract performance on ICS [a £93m UK Government programme] was excellent. **They were the top performing agency across a range of performance metrics** and have shown a consistent ability to deliver high quality programmes at scale.” *Ed Barney, DFID*
- “**Balloon Ventures have been an exceptional partner to work with, consistently delivering high quality work** and their professionalism has enabled the programme to grow from a pilot in 2016, to a now well-established and globally recognised programme with support from senior leaders across the bank.” *Maria Diaz Del Rio, Chief of Staff EMEA, Citi*
- “There are very few organisations successfully working with this group of entrepreneurs and **I welcome Balloon’s efforts to build a sustainable model that can scale.**” *Guido Boysen, CEO GroFin*
- Having visited their project and met their entrepreneurs, **I believe they have an impressive model with a strong, practical focus on early stage businesses.**” *Luisa Ernst, DFID*
- “**Balloon Ventures was one of 6 ideas selected out of a competitive pool of more than 600 submissions globally...** I believe strongly that this project will support the expansion of economic opportunities for youth in East Africa.” *Robert Gradoville, IDEO.ORG*
- “**The intervention aligns with the best practice we have seen from the foundation’s strongest performers, especially around tailoring to business needs.** Balloon Ventures is targeting a relatively underserved constituency with a high quality intervention and sustainable model. If successful, their approach can be easily replicated in other locations.” *Harry Devonshire, Argidius Foundation*

Entrepreneurs Will End Poverty (video)



Typical Investment/Business Model

- Business operating in "**poverty reducing sector**" in second tier town or city
- Employs **6** full time staff
- Average monthly turnover of **£3000**
- Investment of **£12,000** will lead to projected compound annual growth rate of 50% over 36 months
- This creates **10 Good Jobs** (4 new jobs and 6 existing jobs improved) and moves ~50 people out of poverty
- Balloon projects a return of **1.72x over 36 months**
- Business growth unlocks opportunities for **follow-on investment of £100,000+** and increases fund profitability
- Lessons from the investment allows for **rinse and repeat investments** in other non-competing businesses and increase net IRR
- **Regional team of 6** make 12 investments per year. Multiple regional teams delivering the same model achieve scale.