WORKING PAPER

Growth and Opportunity:
The Landscape of Organizations that Support Small and Growing Businesses in the Developing World

September 2013

Aspen Network of Development Entrepreneurs

Citi Foundation

Aspen Network of Development Entrepreneurs

The Aspen Network of Development Entrepreneurs (ANDE) is a global network of organizations that propel entrepreneurship in emerging markets. ANDE members provide critical financial, educational, and business support services to small and growing businesses (SGBs) based on the conviction that SGBs will create jobs, stimulate long-term economic growth, and produce environmental and social benefits. Ultimately, we believe that SGBS can help lift countries out of poverty. ANDE is part of the Aspen Institute, an educational and policy studies organization.

Members of ANDE include both for and nonprofit investment funds, capacity development providers, research and academic institutions, development finance institutions and corporations from around the world. Launched with 34 members in 2009, ANDE now comprises over 180 members who collectively operate in more than 150 countries.

For more information visit www.aspeninstitute.org/ande or email ande.info@aspeninst.org.

Funded with generous support from the Citi Foundation

Contents

About This Working Paper

Much has been written about the importance of high-impact entrepreneurs and the small and growing businesses (SGBs) they lead, from their role as engines of prosperity to the various challenges they face. Much less is understood about the challenges that confront the intermediaries (e.g., investors, accelerators, donors, capacity-development providers, researchers, consultants, etc.) that are trying to support these SGBs. (Hereafter, we refer to this group as the SGB Sector). This paper intends to begin filling that gap, which is important because the number and variety of investors and capacity development providers and development organizations, i.e., SGB intermediaries, has grown considerably over the last several years.

The Aspen Network of Development Entrepreneurs (ANDE) commissioned a consulting firm to complete this study as part of its own strategic planning process. The study maps the landscape of the SGB sector, and in so doing, determines both the challenges facing SGB intermediaries and how ANDE and other organizations should support the field in addressing these challenges.

In developing this paper, we conducted almost sixty interviews with thought leaders and active practitioners from a variety of organizations: investors, capacity development providers, corporations, researchers, network leaders, development finance institutions. In addition, we canvassed the growing body of literature in the field and leveraged our own experience in the sector.

Though our findings may be most interesting for the members of the Aspen Network of Development Entrepreneurs and others committed to small and growing businesses, we believe the state of this sector bears relevance for active intermediaries, corporations and financial institutions looking to engage with SGBs, as well as the broader development community interested in market-based approaches to enhancing global prosperity.

Throughout the paper, and in a dedicated section at the end, we identify a number of prime areas that represent opportunities for the sector. While these are important opportunities, our list is not exhaustive. Indeed, this sector is still quite young — opportunity abounds for those interested in supporting SGBs in the challenging context of developing world markets. The same is true for those who support the supporters, such as ANDE. We look forward to exploring and addressing these opportunities with readers of this paper, and in taking on others as the rapidly growing SGB support sector continues to expand.

Executive Summary

Over the next decade some 600 million new jobs will be needed to reverse the effects of the global financial crisis and avoid a further increase in unemployment.[1] Small and growing businesses (SGBs) are a critical growth engine capable of creating many of these jobs Not only do SGBs create a large number of jobs—200 on average—but those jobs tend to be higher paying. [2] One study showed that companies with 10–50 employees offer wage premiums of 10-30% over micro-enterprises with less than 10 employees, while the premium increases to 20-50% if the business has more than 50 employees.[3] In short, creating new jobs is a critical component to improving livelihoods in the developing world, and SGBs are an important tool for driving this job creation, as well as producing other positive social and environmental returns for their communities by producing goods and services (health, education, sanitation, etc.) for the world's poorest.

However, SGBs face tremendous challenges. The specific barriers are well documented: access to capital, to markets, and to talent, as well as a more supportive enabling environment (e.g., regulations, infrastructure, culture, etc.).[4] While the relative importance and precise nature of these challenges vary from country to country, our experience, and that of others we interviewed for this work, confirms these as consistent challenges.

A variety of organizations are dedicated to helping SGBs overcome these challenges. These organizations, which are commonly referred to as intermediaries, include those that supply capital or capacity development services directly to SGBs (e.g., investors, accelerators, management training programs, advisors, etc.), and those that indirectly support SGBs (e.g., development agencies, foundations, research institutions).

Intermediaries have a particularly important role to play in the field, especially in light of unprecedented levels of impact investing capital. While these funds hold the potential to create substantial development impact, investors find themselves scrambling to secure deal flow to absorb this capital. It would be a shame to miss the opportunity presented by the impact investing movement because investors cannot find deals and reluctantly deploy their capital in other directions. Intermediaries are the entities best placed to help increase deal flow, in terms of both the number and scalability of enterprises.

So, it is important that we understand the challenges and opportunities facing not only the SGBs, but the entire SGB sector (intermediaries supporting the growth of SGBs). The former are well documented, the latter less so. Their challenges include a disconnect between the kind of investment capital available to SGBs and the kind they require to grow; relatively little (grant) funding for critical capacity development providers and others supporting SGB growth; difficulty engaging the donor, government, business, and banking communities; locating and holding onto talent; and building local SGB sectors attuned to their unique market conditions that achieve transformative collective impact.

Some of these challenges can be addressed by individual intermediaries, while others require collective effort and a means of collaborating and connecting. The Aspen Network of Development Entrepreneurs (ANDE) was originally launched in 2009 with 34 members to bring support providers together in order to help them network and to provide a forum whereby they could collectively achieve more than they could independently. ANDE gave shape to the sector and brought a sense of community to a set of practitioners with common, market-based approaches to building prosperity where it is needed most.

Since the launch of ANDE, the number of intermediaries supporting SGBs in one way or another has increased significantly — ANDE itself has grown to more than 180 members. With that growth, the geographical, functional, and cultural diversity of intermediaries has also increased. The SGB sector has grown larger and stronger with this diversity.

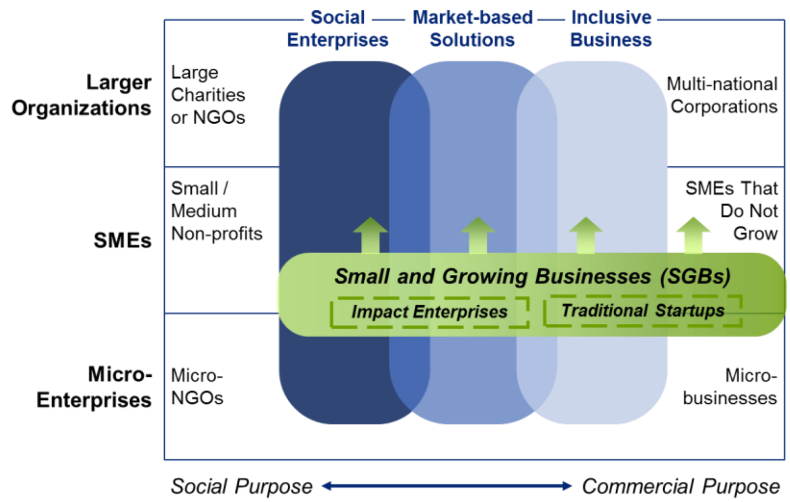
As the sector matures, we see a number of important, cross-cutting challenges that it must deal with in order to grow and become more effective at supporting SGBs. These include:

1. Demonstrating the effectiveness of SGBs and building the developmental, business, and lending cases for supporting their growth
2. Attracting more funding into the sector
3. Increasing cooperation and impact at a local level

Meeting these challenges is an important task. SGBs are critical not only for creating jobs and improving livelihoods, but also for delivering goods and services—in areas such as health, food, sanitation, and education—to the world's poorest. Nowhere, however, do SGBs succeed in abundance without robust support from intermediaries. Entrepreneurial hot spots are rife with financial providers, research institutions, incubators and accelerators, networking associations, supportive businesses, and so forth. Spreading this type of ecosystem to emerging markets, adapting the support environment to the specific challenges seen in these markets, and increasing the number and capacity of intermediaries that create these ecosystems is of significant importance to enhancing prosperity. It is time the development world recognizes this, and resources it accordingly.

Defining Terms

There are a number of terms and concepts which overlap or are adjacent to “small and growing businesses”. This paper will use the following definitions. It is important to note that the term SGB intersects with a number of other common terms in the field.



- **Impact Enterprises:** Enterprises that intentionally seek growth to sustain financial viability, realize increasing social impact, and influence the broader system in which they operate. (Source: The Rockefeller Foundation)
- **Inclusive Business/Inclusive Business Models:** Inclusive business is a private sector approach to providing goods, services, and livelihoods on a commercially viable basis to people at the base of the pyramid by incorporating them in the value chain of the core business as suppliers, distributors, retailers, and/or customers. (Source: IFC Inclusive Business Models Group)
- **Market Based Solutions/Business Models:** Initiatives that use the market economy to engage low-income people as customers or business associates (suppliers, agents, and distributors), supplying them with improved incomes. (Source: Monitor Inclusive Markets, “Progress and Promises: Market Based Solutions to Poverty in Africa”, 2011).
- **Micro, Small and Medium Enterprises (MSMEs):** Definitions of what constitutes micro, small, or medium-sized enterprise varies by country and organization. The IFC uses the following definition:
  - Micro: Less than 10 employees and revenue less than $100,000
  - Small: Less than 50 employees and revenue less than $3 million
  - Medium: Less than 300 employees and revenue less than $15 million
- **Small and Growing Businesses (SGBs):** Commercially viable businesses, with between 5 and 250 employees, that have strong potential for growth and thus for creating social and economic benefits in the community and the economy. (Source: Aspen Network of Development Entrepreneurs)
- **Social Enterprises:** Businesses whose primary purpose is the common good, which use methods and disciplines of business and the power of the marketplace to advance their social, environmental, and human justice agendas. (Source: Social Enterprise Alliance)

Introduction

Importance of Small and Growing Businesses (SGBs)

Over the next decade the International Labor Organization (ILO) estimates that some 600 million new jobs will be needed to reverse the effects of the global financial crisis and avoid a further increase in unemployment.[5] Small and growing businesses (SGBs) have the potential to be an engine of growth and help to spur the creation of these new jobs. Small businesses that become large have the potential to create more than 200 jobs each.[6] A single, family run motorcycle repair shop in Mumbai, a small handicraft shop in Rio de Janeiro, or a mobile phone dealer in rural Kenya provide some employment and livelihoods, but similar sized start-ups that grow to be large companies will have a much broader economic impact. Not only do SGBs create a large number of jobs, but the jobs tend to be higher paying. One study showed that companies with 10–50 employees offer wage premiums of 10%–30% over micro-enterprises with less than 10 employees, while the premium increases to 20%–50% if the business has more than 50 employees.[7] In short, creating new jobs is a critical component to improving livelihoods in the developing world, and SGBs are an important tool for driving this job creation.

SGBs are defined as commercially viable businesses, with between 5 and 250 employees, that have strong potential for growth and thus for creating social and economic benefits in the community and the economy.[8] SGBs are different from the broader group of micro, small, and medium size enterprises (MSMEs) because these are businesses that are aspiring to, and are often on, the path to scale. Unlike many medium sized businesses they may also lack the financial or knowledge resources required for growth. Supporting SGBs offers emerging markets a path to sustainable growth that is driven by local firms generating economic activity rather than handouts from the global community. Moreover, many SGBs produce positive social and environmental returns for their communities in addition to economic impact by focusing on specific local development needs. By creating supplier or customer relationships with those at the base of the pyramid, SGBs often produce goods and services in fields such as health, education, or sanitation that help the world's very poorest.

Growth of the SGB Sector

SGBs are often supported by intermediaries that can help them to grow. These intermediaries include those that work directly with SGBs (investors, training organizations, accelerators and incubators, etc.), as well as those that provide support indirectly (bilateral and multilateral aid agencies, financial institutions, foundations, research institutions). In late 2008, a group of these actors came together to form an organization that would serve as a networker and convener for intermediaries that support SGBs. This organization, which in 2009 became known as the Aspen Network of Development Entrepreneurs (ANDE), would not only bring these organizations together, and provide opportunities for networking and collaboration, but would also work to make each individual organization more effective at supporting SGBs. Moreover, ANDE would provide a voice to the support sector as a whole to solve problems that no individual member could address on their own.

> "The SGB space is like a toddler learning to walk; while the rest of the world has its arms folded asking why it is not yet going to college."
>
> **— Investor**

When ANDE was conceived, it identified 4 key obstacles to the growth of SGBs: access to capital, access to markets, access to talent, and the enabling environment.[9] Those challenges persist today, and the number of intermediaries that are providing support services to SGBs in one form or another has grown tremendously. However, the field remains quite nascent in its development. There is plenty of white space on the map for actors to innovate, learn, and spread best practices.

In response to the global financial crisis, subsequent economic downturn, and spike in unemployment around the world, the development, academic, and business communities have taken a deeper interest in entrepreneurship, SGBs, and the broader world of SMEs. Concepts such as social enterprise, inclusive business, impact investing and market based solutions to poverty have attracted increased attention. Global leaders of business and government have highlighted these concepts at global conventions such as the World Economic Forum[10] and Global Entrepreneurship Week.[11]

These examples illustrate the recent upsurge in the interest of SGBs and an increase in the number of organizations focused on supporting SGBS in the developing world — the SGB Sector. This growth is due to the convergence of four broad trends:

1. Increased interest in both traditional and social entrepreneurship.

The Global Entrepreneurship Monitor (GEM), a global study administered by a consortium of universities, has shown an increase in "Total Early-Stage Entrepreneurial Activity" (TEA) across all economies in recent years.[12] There is also an increasing interest in social entrepreneurship. One study estimated that the number of courses at top business schools including a focus on social value doubled between 2003 and 2009.[13] The number of Harvard Business School students enrolling in social entrepreneurship courses and focusing on a social entrepreneurship track increased by 50% and 80% respectively between 2006 and 2011.[14]

As attitudes about entrepreneurship and social entrepreneurship shift in both developing and developed countries, people are increasingly looking to start new businesses, including social enterprises, as a way to make a living and, often, also to drive positive social outcomes in developing countries. Many of these aspiring entrepreneurs, including for example the diaspora of various developing countries influenced by global business school culture or more open postures towards risk, will look for opportunities to create businesses that will grow into large companies.

2. Increased belief that financial returns can come from impact investing.

Impact investing has become a meaningful global practice, as evidenced by the formation of the Global Impact Investing Network (GIIN) in 2009, and the estimate that some $9 billion worth of impact investments will be made in 2013. Of these investments, around 65% of investors are seeking financial returns at market rate.[15]

Whether these expectations are realistic is another question, but it does mean that funding of this type will become more plentiful for SGBs in the developing world. Twice as many SGB-focused funds were founded from 2008 to 2012 as were founded from 2003 to 2007. In addition, the average size of each fund has grown from $45 million to about $53 million.[16]

3. Private sector companies, including banks, looking to the "bottom of the pyramid" for growth and secure supply chains.

Global and regional corporations are increasingly looking to emerging markets not only for lower-cost supply chains, but for growth and positive impact. Many more companies are seeking "fortune at the bottom of the pyramid", engaging those populations out of a sense of corporate social responsibility, or both. Others are starting to think about "shared value creation" — the notion that corporations have a vested interest and obligation to create social as well as economic value within the markets they serve. Banks are also seizing the opportunity. McKinsey & Company argues that banks choosing to fill that role by focusing investment efforts on MSMEs can grow their revenues in emerging markets by as much as 20% annually.[17] Others, especially global food and agriculture players appreciate the benefits of integrating small businesses, many of them SGBs, into their supply chains or acquiring them outright. A 2011 survey of food, beverage, and agricultural products businesses in sub-Saharan Africa found that 10% of the businesses within the sample had already engaged at least one supply chain sourced from smallholder farmers, while a further 30% had run pilot programs to assess the viability of building farmers or other small entrepreneurs into their value chains.[18] Although smallholder farmers and entrepreneurs are not the same as SGBs, the opportunity to become integrated into global supply chains will offer some of them the chance to grow into larger businesses.

4. Increased interest in using market based solutions to solve social problems.

Development finance institutions (DFIs), bilateral and multi-lateral aid agencies, NGOs, and governments are increasingly looking to "inclusive business" and "market-based solutions" to drive solutions to social problems. Since 2007, the International Finance Corporation (IFC), the UK's Department for International Development (DFID), the United States Agency for International Development (USAID), the Inter-American Development Bank, and Japan International Cooperation Agency (JICA), and others have all begun initiatives focusing on these areas. Donor grant support for SMEs is estimated to be between $0.5 and $1.5 billion, though this number is dwarfed when compared to loan support. (The IFC alone retained a total portfolio of outstanding loans to SMEs worth over $180 billion in 2012.)[19] Many of these players are interested in engaging market-based solutions to poverty and other social problems that SGBs can help solve, especially in light of shrinking budgets for international aid. Nearly all of them are interested in supporting entrepreneurship in the developing world. This increased attention ought to result in more favorable environments, more direct financial support, and more attention on SGBs from the global development community.

Shifting Mindsets

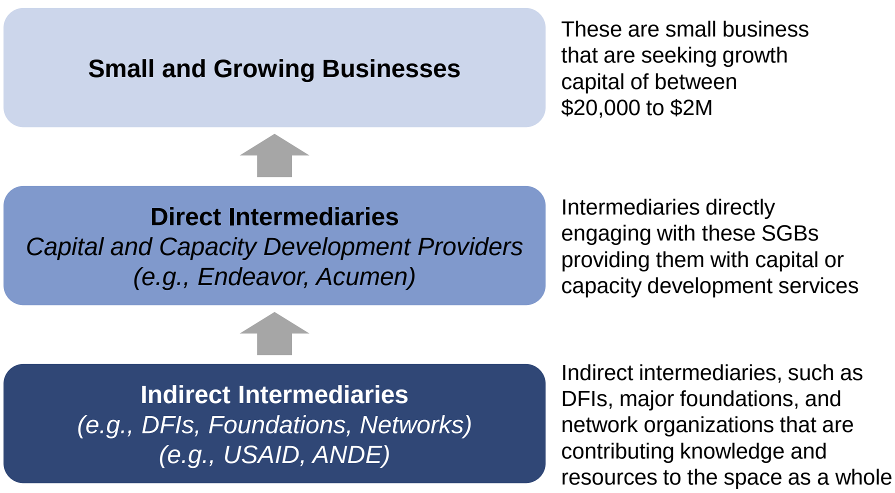
These trends reflect a mindset shift among important constituencies. Development practitioners think more deeply and more often about the possibilities of market-based solutions to poverty and how to engage private sector players in realizing financial and social good. Major corporations and hopeful entrepreneurs target results beyond profit and factor social impact in their efforts, especially as they are influenced by the culture and course offerings at leading business schools around the world. As a result, we expect the SGB sector to experience further growth.

Understanding the SGB Sector

To unlock this growth, the SGB sector will need to resolve a number of challenges. But, before we identify those and their related opportunities, we need a clear way of explaining what we mean by the SGB sector.

We think about the SGB sector as three different types of actors:

Figure 1: SGB Landscape



Small and Growing Businesses (SGBs)

Given the Aspen Network of Development Entrepreneurs' focus on small and growing businesses (SGBs), these entities serve as the starting point for our assessment. As defined above, these are small businesses with the ambition to scale and in so doing, create jobs, improve the local economy, and promote equity by providing goods and services that benefit all sectors of society.[20] The intermediaries included in the two categories that follow are categorized based on their degree of connection to SGBs.

Direct Intermediaries

Direct intermediaries are those practitioners working directly with SGBs. This group includes investors, capacity development providers, larger companies (including multinational corporations), and banks.

- **Investors and other financial institutions** work to provide SGBs with access to capital through a wide variety of vehicles including loans, private equity, venture capital, and angel investments. ANDE has identified over 280 different funds whose investments target SGBs, and the market is witnessing an acceleration of the launch of those types of funds.[21]
- **Capacity development providers** help SGBs by providing access to knowledge on business management, skills training, and other types of technical assistance required to support a growing business. Others examples of technical assistance include accounting, legal, and marketing support. Many of these capacity development providers work through educational institutions or operate incubators or accelerators. Accelerators are high-touch

programs that provide mentorship from experts, access to potential investors, a network of partners and customers, and business skills development programs. They appear to be working. In a study conducted by Village Capital and ANDE, 31% of accelerator graduates sampled achieve profitability, another 46% survive but have not yet reached profitability, and only 10% of the graduates sampled are no longer in operation.[22]

- **Larger enterprises and MNCs** may provide SGBs with various types of CSR-oriented investment or capacity-building, invest in or buy from these businesses as a way of extending their social license to operate, or incorporate SGBs into their value chains generating mutually shared value both for SGBs and the core business operations of their larger partners.

Box 1. SGB and Intermediary Partnership Profile

Small and growing businesses can have dramatic impact in improving the lives of the poor - both by providing jobs and by providing services and goods that improve their lives in affordable and sustainable ways. However, these SGBs need the support of intermediaries in order to realize their potential. The example below illustrates how this happens.

Case Example: WEConnecting International, Fidenza Disegno, S.A., and Walmart (Peru)

Peru is one of the fastest growing economies in the world, and entrepreneurs are playing a big role: 19 out of 100 people participate in early stage business activities, and 40% are women owned. When surveyed, women in Peru identified lack of training as the greatest barrier to business success. One of these entrepreneurs, Milagros Johanson, owns the jewelry company Fidenza Disegno, S.A. She registered her business with WEConnect International, a capacity development provider that provides training and assistance to women business owners as they strive to expand their businesses on a global scale and integrate with global supply chains. WEConnect International certified Fidenza Disegno as women owned, and facilitated a relationship with Full Circle Exchange, a non-profit social enterprise that connects producers in emerging markets with consumers and retailers in the western world. Fidenza Disegno was able to leverage this relationship to create a lasting relationship with the world's largest retailer, Walmart. Today, Fidenza Disegno employs more than 250 women in Peru and is poised for further growth.
(Source: Aspen Network of Development Entrepreneurs)

Indirect Intermediaries

Beyond intermediaries directly engaging with SGBs is a class of intermediaries composed of DFIs, foundations, and research organizations that contribute knowledge and resources to the field, but do not engage SGBs directly. They also include networks which provide support services and collaboration opportunities to other intermediaries.

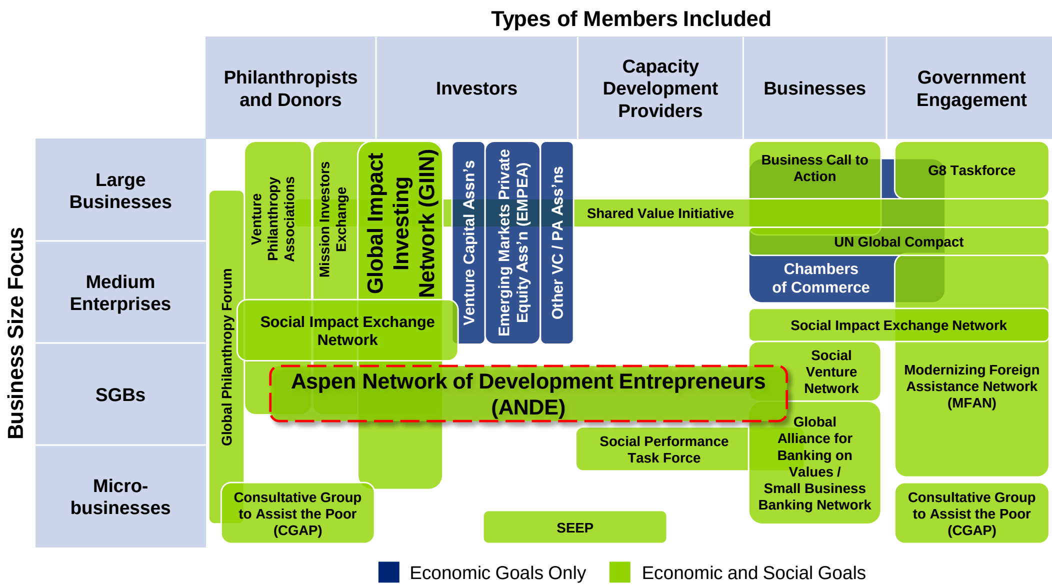
- **DFIs and foundations** are actively providing capital to investors and capacity development providers. These groups include bilateral aid agencies such as USAID and DFID, multilateral agencies such as the IFC, and foundations like the Lemelson Foundation, Rockefeller Foundation, and Citi Foundation. These funders often provide support capital that enable investors such as Root Capital and Vox Capital to directly invest in SGBs, as well as allow capacity development providers such as accelerators or providers of training programs to scale up the services they provide to SGBs.
- **Research institutions and consultancies** are generating thought leadership pieces that evaluate and test new models for SGBs and identify best practices. These include academic

institutions such as the William K. Davidson Institute at the University of Michigan and various consultancies and think tanks that are helping to support the field through targeted research.

- **Networks of intermediaries** operating in and around the SGB sector are the final component of the current landscape. These networks are made up of other the types of intermediaries—both direct and indirect—described above. Some networks are organized around the different stages of a given business' growth, while others are focused on a particular type of member.
  - *Business Size of Focus.* For example, networks such as SEEP and CGAP focus primarily on micro-enterprises, while the FSG Shared Value Initiative is primarily focused on working to redefine the role of large corporations in society and helps other organizations such as philanthropies, NGOs, investors, and government organizations to engage with large corporations. The Aspen Network of Development Entrepreneurs is the only network that focuses exclusively on the SGB space.
  - *Types of members Included***.** Other networks, however, are structured to focus on specific types of intermediaries. Networks including the European Venture Philanthropy Association and Mission Investors Exchange are designed to bring philanthropists and donors together. Networks such as the Global Impact Investing Network (GIIN) and TONIIC are structured to serve the needs of impact investors specifically.

Most of these networks only partially interact with the SGBs. For example, only some members of the Global Impact Investing Network (GIIN) invest in SGBs, many others are focused on impact investing opportunities in the developing world or in other sector — the GIIN also only includes investors. Others, like FSG's Shared Value Initiative, focus on larger corporations with global operations. ANDE, as illustrated in the map below, is the only organization that caters to multiple types of intermediary organizations — critically spanning both investors and capacity development providers — to focus on support to small and growing businesses in the developing world.

Figure 2: Overview of Global Associations and Networks Focused on Building Businesses and Social Impact in the Developing World



> “Belonging to the network allows us to rub shoulders with partners with who we otherwise would not have interacted.”
>
> **— Investor**

These networks enable greater total impact than would be achieved by various intermediaries operating in regional, functional, or industry isolation, as is all too common. SGBs benefit when these intermediaries collaborate.

Consider the experience of Honey Care Africa, a Kenyan SGB that serves as an aggregator for rural smallholder farmers by selling them beehives and then collecting the honey to sell on the market. Up until 2010 Honey Care Africa was mostly reliant upon donor funding, but in 2011 the management team worked with Open Capital Advisers to develop a new strategy and business model which incorporated professional hive technicians to support their smallholder suppliers, which vastly increased production levels. As they increased production, Honey Care also needed to improve their supply chain. They adopted TaroWorks, a mobile data management tool developed by Grameen Foundation, which allowed Honey Care to estimate the supply and demand for its honey. Open Capital Advisors also conducted a market survey which showed that they were pricing honey at half the price consumers were willing to pay. By raising their prices they were able to improve their profit margins. With this improved business model, Honey Care was then able to attract high-risk, patient capital from the Lundin Foundation, Root Capital, and Grameen Foundation. While each of these organizations (Open Capital, Grameen Foundation, Root Capital, and Lundin Foundation) is providing tremendous value to SGBs on its own, Honey Care’s success would have been much less likely without collaboration among the various SGB intermediaries.

The Aspen Network of Development Entrepreneurs is playing a unique and important role bringing together entities focused on SGB support from different perspectives and helping increase their effectiveness: in 2012, ANDE reported 171 members operating in over 150 countries, with 32 member-managed funds investing about $229 million, 40 capacity development providers providing $95 million in development services to over 13,000 SGBs, and 14 foundation members who collectively disbursed $129 million into the SGB ecosystem.

Challenges Facing the Sector

Challenges to the Growth of SGBs

SGBs themselves continue to face many of the same challenges that they did when ANDE was formed four years ago:

- Access to capital
- Access to talent
- Access to markets
- Enabling environment and markets

The World Bank Enterprise Survey largely agrees with those broad challenges and lists "access to finance," "electricity," "practices of the informal sector," "tax rates," "political instability," "an inadequately trained workforce," and "corruption" as the top obstacles facing firms in the developing world.

In both the 2009 and 2012 surveys, access to finance topped the list as the largest obstacle to growth, coming in as the most frequently cited obstacle by both small (5–19 employees) and medium sized (20–99 employees) businesses in the survey.[23] Additionally, a number of practitioners interviewed for this study suggested that a lack of skilled managers to lead SGBs may explain — at least in part — why impact investors have had such a difficult time placing capital in enterprises. This suggests that the access to finance problem is actually linked to the human capital shortage.

Even in isolation, a shortage of required talent impedes the growth of SGBs. The International Finance Corporation (IFC) has documented that an inadequately trained workforce persists in many regions; a vital issue that affects small firms even more than large ones due to their less prominent recruiting profile.

> "Middle management of these SGBs is a real gap. Africa will need over 1 million capable managers over the next several years."
>
> **— Capacity Development Provider**

For SGBs, this manifests itself in two ways. Small and growing businesses need both entrepreneurial talent to get businesses up and going and the general management talent to run businesses once they are off the ground. Increasing the number of high-growth entrepreneurs in these markets continues to be difficult due to cultural mindsets about risk and failure and generally poor training on the topic. A recent survey showed that 78% of African entrepreneurs do not believe that African schools devote enough time to teaching the entrepreneurial and creative skills necessary to start a business.[24] Students agree — as part of the same survey, only a small fraction of students in South Africa, Nigeria, Kenya, and Ghana believe that they are developing the skills necessary to manage a new firm. [25]

Developing general management to support entrepreneurial leaders may be an even bigger challenge. A Capacity Development Provider in sub-Saharan Africa noted that that region will collectively need to develop over 1 million middle managers over the next several years to ensure that the sector continues to grow.[26] As the pool of capital available to finance SGBs grows, building managerial capacity may very well emerge as the next large challenge on the road to a vibrant SGB sector.

The relative importance of these barriers also varies from geographic region to region. ANDE membership surveys, which bucket these barriers into 4 broad categories: Access to Finance, Access to Talent, Access to Markets, and Enabling Environment, show that the relative intensity of these challenges fluctuates depending on the region. For example, in Mexico, security risks present a unique added challenge and discourage successful entrepreneurs from sharing their stories and serving as role models to aspiring entrepreneurs.[27] In India capital requirements enforced by the government make it extraordinarily difficult for banks to lend to SMEs, yet the Reserve Bank of India also designates MSMEs as a priority sector, recognizing the growth potential of these firms — one of many puzzling regulations facing SGBs in these markets. [28]

From confusing government policies to talent shortages to a lack of the right type of finance, SGBs face a range of relatively well-document challenges. SGB intermediaries, who are poised to help SGBs overcome these challenges and thus form a crucial part of any ecosystem, also face challenges to their growth and effectiveness. Their challenges are less well-understood.

Challenges to Intermediaries

The key challenges facing intermediaries that support SGBs include:

- Aligning the investment capital that has been raised with viable SGBs
- Securing funding for capacity development providers to help grow the supply of SGBs
- Measuring and communicating impact to funders and potential corporate partners, including banks
- Retaining top talent
- Adapting to varied local challenges, including regulatory environments

Each of these challenges will be explored below.

Aligning available investment capital with the needs of SGBs.

SGBs often struggle to access capital — but from the investors' perspective, there is a shortage of SGBs in which to invest. J.P. Morgan and the GIIN identified "lack of appropriate capital across the risk/return spectrum" and "shortage of high quality investment opportunities with track record" in their most recent survey as the two most critical challenges to the growth of the impact investing market today.[29] Within the SGB sector, this phenomenon is, in part, due to a gap between the riskiness of SGBs and investors' return

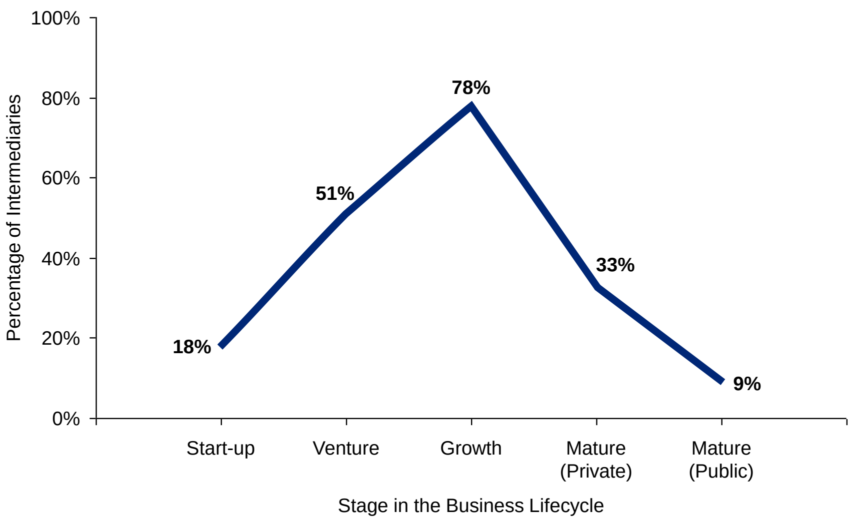
> "There is a misalignment between what investors want and where SGBs are at… there is plenty of money available."
>
> **— Investor**

> "The capital is there! The challenge is that the investors…are far too risk averse because they don't know what risk means in this market."
>
> **— Capacity Development Provider**

expectations and risk tolerance.[30] Our own 2012 study on the topic, "From Blueprint to Scale", pointed out a "pioneer gap" for businesses that had not yet developed their business to the point of scale and needed funding to discover and validate their model. [31]

The chart below illustrates the lack of investment for smaller, less mature firms:

Figure 3: Impact Investors Preferred Investment Stage



Source: J.P. Morgan and the GIIN, "Perspectives on Progress," 2013
Note: N=93; Responses include both debt and equity investment instruments; respondents chose all that apply

In a nutshell, SGBs want access to finance, but those that can provide it see the other challenges that SGBs face (talent, access to markets) and are unable to accept the risks involved. These intermediaries which provide financial support, need the support of other intermediaries (accelerators, incubators), to "close the pioneer gap" and make investing in SGBs less risky by increasing the supply of viable SGBs[32]

Lack of financial and knowledge resources for capacity development providers to help grow the supply of SGBs.

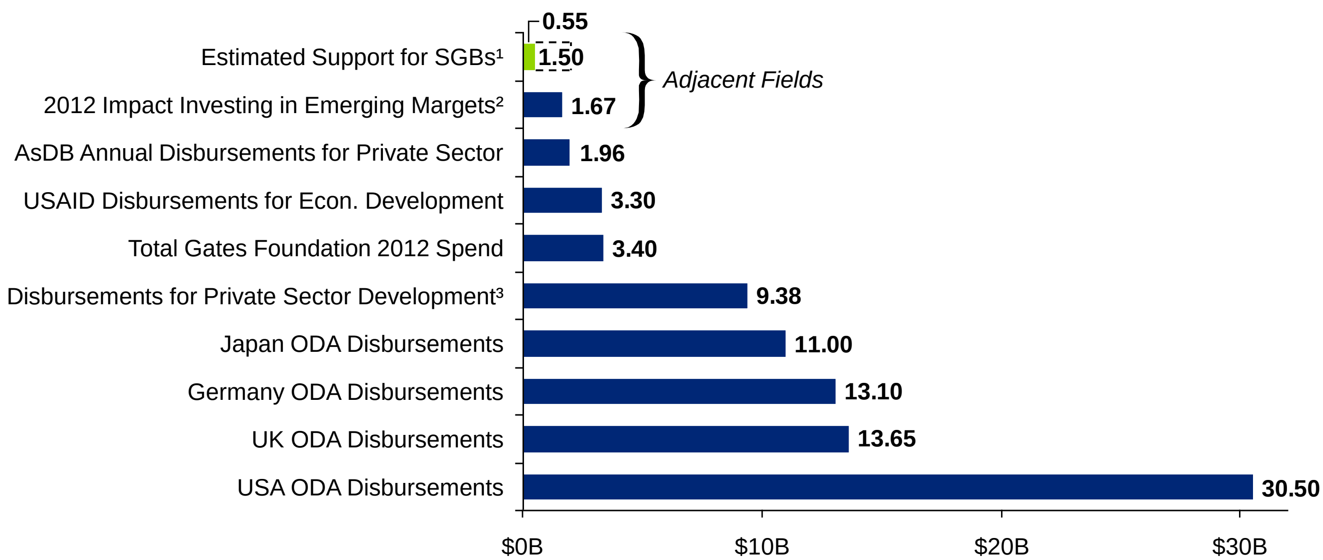
The intermediaries which are helping SGBs to address the "access to talent" and "access to market" challenges often struggle themselves to raise the necessary resources in order to adequately support SGBs. One recent study of accelerators found that over 53% of their funding came from philanthropic capital.[33] These intermediaries raise some funds by charging the entrepreneurs for the services they provide or collecting some of the returns on investment capital for deals closed or SGBs that successfully scale up, and since their performance tends to be higher when they rely less on donor funding, there is an expressed intent to get more funding through these channels as they are more successful. However, many of these intermediaries will remain dependent upon donor funding for a while as they figure out how to solve other challenges.

> "What do intermediaries need? Funding."
>
> **— Capacity Development Provider**

While critical grant support from donors, including DFIs, aid agencies, governments, and leading foundations, has increased in recent years, it still remains relatively small. Precise figures on actual donor support for the SGB sector are not available, but is in the range of $US 0.5–$1.5

billion annually (it is unclear how much of this goes directly to SGBs and entrepreneurs and how much through intermediaries).[34] This represents a fraction of critical grant funding that could possibly achieve more sustainable impact if directed towards initiatives that support entrepreneurship and SGBs, help to close the "pioneer gap" between the risk averse investors and potentially highly impactful but risky SGB, or develop entrepreneurial ecosystem in developing countries. Consider the following chart, which compares 2012 annual grant funding focused on the SGB sector ($US 0.5–$1.5 billion) to other grant (and, in one case, investment) amounts directed overseas.

Figure 4: Placing Donor Support for the SGB Sector in Context (2012 Overseas Funding)[35]



Source: Monitor Deloitte Analysis and prior research, Gates Foundation 2012 statistics, OECD Database, J.P. Morgan, DFI Annual Reports

Even a small redirection of these funds towards the SGB sector could go a long way toward catalyzing the sector and enabling SGBs to create an outsized impact on emerging economies.

Demonstrating impact to donors and potential corporate partners.

In order to attract more funding, intermediaries will need to more effectively demonstrate impact. The type of proof needed will vary by the type of audience. Donors such as foundations, governments, DFIs and other aid agencies will likely be interested in the development case for SGBs – that they are indeed engines of job creation and an effective means of increasing prosperity.

> "There's some corporate, government… and bank activity starting to mobilize around SGBs, but it's still so nascent because there's so little research and demonstration that illustrates the business case."
>
> **— Multi-national corporation**

An even larger potential pool of capital lies in the private sector, but requires that intermediaries are better able to demonstrate the business case (SGBs can profitably be engaged as suppliers and/or consumers) to private companies and the lending case (SGBs represent a profitable set of lending customers) to the banking sector.

Intermediaries have thus far struggled both in measuring the impact of SGBs and in communicating that information to donors and potential corporate partners. For example, one third of accelerators collect no social impact data on the businesses they support, and another 25% do not collect financial or social impact data from graduate enterprises.[36] This type of data will be especially important in convincing external partners to become more involved in the sector.

ANDE is currently conducting a series of research initiatives to help push forward this effort to measure and communicate the impact of SGBs. In 2012, it published a literature review which surveyed existing studies and identified important data gaps. These studies show that SGBs have a positive impact on improving prosperity, and that intermediaries play an important role in helping these SGBs succeed, but conclusive evidence on their impact on poverty is still outstanding, pending the completion of further research.[37]

> "The corporate world only listens… if you come with a proposal that creates value for them. There's a need to propose solutions that are interesting to business people… then the corporations will come on their own."
>
> **— Capacity Development Provider**

Retaining top talent.

As discussed earlier, retaining talent is one of the biggest challenges facing SGBs themselves. Intermediaries face a similar challenge, though on a lesser scale. For example, capable investment managers who may begin their careers managing funds with an SGB or related focus will often quickly move on to managing larger pools of more conventional private equity funds — creating a "brain drain" of sorts within the impact investing industry.[38] As the industry loses talented fund managers, larger investors are demanding investment opportunities with proven successes. In many cases, professionals working within intermediary organizations are short-term staff from developed markets who don't remain on the ground long enough to build the expertise needed to really understand the dynamics of the local market.[39] Furthermore, some capacity development providers such as accelerators and incubators have very tight budgets and simply cannot afford to hire senior staff people with experience running businesses that can most effectively train entrepreneurs and managers of SGBs.

> "Middle management is a huge challenge for both SGBs and intermediaries."
>
> **— Capacity Development Provider**

> "If a local fund manager is successful, he/she will quickly move to managing larger funds and private equity."
>
> **— Investor**

Some steps have been taken to address the mismatch of talent and investor demand. For example, the UK's DFID, along with the Omidyar Network, the Rockefeller Foundation, and USAID, pledged over $16 million to develop the impact investing industry in sub-Saharan Africa and to provide technical training and investor education for emerging market fund managers.[40] This program recognizes the imperative to develop talent among intermediaries as a critical step to nurturing productive SGB ecosystems that drive growth.

Additional efforts are required to raise local leaders that enable continued growth of SGBs. For example, intermediaries in specific regions could collectively work with local universities and other institutions on improved demand-driven training and curriculum improvements. Efforts to surface and support talented entrepreneurs should also continue — successful founding stories can help shift cultural mindsets around risk, a major barrier to further entrepreneurship activity in any culture. In addition, the sector needs future middle managers for both local SGBs and intermediaries. Both face a critical gap of middle managers with the people management skills and business acumen to drive operations on a daily basis.

Adapting to varied local challenges, including regulatory environments.

Just as the barriers that the SGBs face vary from region to region and country to country, so too do the challenges that intermediaries face. This is particularly true when it comes to dealing with the enabling environment, including infrastructure, the entrepreneurial “mindset” or culture of a particular geography, or the regulatory environment. The range of these challenges is wide. In some countries, taxes diminish intermediaries’ ability to sustainably support SGBs. In others the regulations required to set up an organization are too stringent. For example, one interviewee pointed out that it was easier to run an intermediary organization out of London that provides assistance to SGBs in a South American country than it was to set up the organization in that South American country. In India, foreign debt is restricted in many industries, a roadblock that helps to explain the relative dearth of Indian investors.[41] On the other hand, some governments have adopted unique policies to actively support the SGB sector. In Ghana, for example, the government has allocated over $22 million to a venture capital trust fund that is designed to provide intermediaries with the capital they need to directly finance SGBs.[42] Policies like this can help reduce the space between global intermediaries and the local SGBs they seek to serve and contribute to an understanding of local markets.

> “We keep hearing that there is lots of capital out there looking for funds, but it never translates into capital flowing into local funds here in our country.”
>
> **— Local investor in sub-Saharan Africa**

In many ways, the challenges listed above must be addressed at the local level. That is where the SGBs operate, that is where the particular challenges to accessing finance, talents, and markets exist, and that is where the enabling environment directly impacts SGBs. For example, there is not just a capital misalignment between the type of capital that investors have and the type of capital that SGBs need, but a misalignment between what local investors and practitioners need and what global investors are willing to give. Addressing the shortage of talent in order to grow the supply of viable SGBs must also happen at the local level. Demonstrating impact to attract funding from potential donors and corporate partners must be done at the local level. Increasing support from the banking sector must happen with local and national banks, as large global banks will likely have too many restrictions on how they can place their capital in order to engage SGBs effectively. In sum, the SGB support sector needs to improve its ability to collaborate and support SGBs, locally.

Key Opportunities for Growth

These challenges bring a number of key opportunities to grow the SGB sector and increase its effectiveness. In our view, the most significant of these are developing the case for investing in SGBs; attracting more financial resources into the field; and increasing cooperation and concomitant impact in local settings (building more robust SGB support infrastructure in developing countries).

1. Demonstrate the effectiveness of SGBs and build the developmental, business, and lending cases for supporting their growth

The SBG sector needs to gather and better communicate evidence for its effectiveness. This includes much more than longitudinal studies demonstrating conclusive impact on poverty, though that's important too. The evidence for the impact of SGBs and the important role in SGB intermediaries play in supporting their growth needs to be gathered and shared in other ways according to the audience targeted. Specifically, we see three audiences that the SGB sector should engage:

- **Global donor governments, development finance institutions (DFIs), and philanthropic foundations:** There is an important developmental and social case for SGBs to be made to global donors. In an era of austerity, where can global donors achieve the greatest impact through their funding and other types of support? In our view, market-based approaches to development — including those that support the growth of small and growing businesses — promise meaningful impact, utilize business models that are relatively much more sustainable than traditional aid, and build resilient skills in those who engage in SGBs. To our knowledge, no one has conclusively proved a higher relative return on a dollar of aid that supports the growth of local, small, and growing businesses — either in the abstract or in particular sectors like education, energy, or sanitation. That aside, these approaches to development are still relatively new for traditional donors and — despite apparent successes — often only attract small fractions of their overall funding. The SGB sector needs to marshal the evidence for its impact and advocate for the SGB sector as a critical means of driving economic development, job creation, prosperity, and/or broader social impact.
- **The business case for engaging with SGBs should be made with private sector companies.** The sector needs marshal tangible evidence that SGBs deliver value to companies — not just as a corporate social responsibility initiative — but as drivers of value for their core businesses either upstream or downstream in local value chains. Successful pilot ventures, explanation of new business models that integrate with MNC supply chains, and other tools may support the case.

- **The banking case for lending to SGBs should be made to regional, national, and local banks.** While Basel III and other capital requirements may restrict big multinational banks from engaging directly with the SGB sector in developing countries, a case for SGBs can be made among local banks to unlock credit that SGBs critically need to scale their businesses.

These cases will center on evidence collected from local economies where SGBs have made a significant difference in terms of growth, job creation, profit generation, and/or social impact. So, while this opportunity exists for the SGB sector globally, it will be captured by specific regions that are able to demonstrate the effectiveness of SGB support in that region through early evidence of SGB success and are able, in turn, to attract further resources for growth.

2. Attract more resources to the field

As the evidence is gathered, the field as a whole should seek to attract additional resources (time, money, and attention). This takes "building the case" to the next level by actually convincing decision makers in governments, DFIs, aid agencies, major corporations, and banks that the sector is worth engaging, and that these various groups can improve their ability to meet their own goals (whether those goals be creating more jobs or improving their bottom line).

Put differently, the SGB sector could achieve greater impact on the world through concerted efforts to engage the right decision-makers and making the case more directly and proactively. This sort of engagement has enabled growth of impact investing. The time is ripe for a corollary effort to attract resources to the SGB sector and its various intermediaries, which can play an important role increasing deal flow for investors anxious to see more, better investable opportunities in emerging markets and improved conditions for entrepreneurial success.

3. Increase cooperation and impact at a local level

A third opportunity for the SGB field lies in fostering more cooperation and impact at a local level among SGB intermediaries. Local markets face divergent challenges, requiring actors to identify and prioritize the barriers they face in each local context. Intermediaries should be advocating with local decision makers and influencers after identifying the changes necessary in the enabling environment.

A wide range of efforts could be undertaken to advance success and cooperation, locally. Simply bringing together the various players to understand opportunities for collaboration would help. A clear map of local SGB landscapes, such as the "GIIMAP" being developed for the SGB sector in Mexico, would provide a comprehensive understanding of all the players and "moving pieces" that collectively make up the sector. Local intermediaries would derive great benefit from linkages to global funders and investors. They perennially struggle to find funding, but are often well-positioned to achieve long-term sustainable change that benefits local SGBs.

More fundamentally, different regions require different ingredients to produce a thriving SGB sector. There is no one path to a prosperous SGB sector. Different regions have different conditions and fundamental characteristics that will enable SGBs in different industries. (Silicon Valley is not the only model.[43]) In some places, intermediaries have come together to identify the path to prosperity for that region based on local fundamentals. In others intermediary players operate in independent orbit, missing out on the synergistic benefits of cooperating with a common, clear plan for systemic change. This too, needs addressing. Where is the next location where a band of entrepreneurs and their supporters successfully transform a local economy in the developing world?

Call to Action

What comes first? Is it the successful entrepreneur or the environment—the investors, advisors, teachers, related service providers, and others—that enable his or her success?

The entrepreneur captures our imagination. And he or she deserves the credit for seeing opportunity where others saw difficulty, taking the risk, and putting in the long hours. But, he or she rarely works alone. They benefit greatly from enterprising investors, advisors, and other supporters that lay the groundwork for their success or back their dreams with funding, expertise, or market access. The developing world needs both: the SGB and those who support SGBs, the intermediaries.

Those who support small and growing businesses or enable high-impact entrepreneurship in the developing world have a significant opportunity ahead. Impact investors are scrambling to secure deals. Less developed countries fear significant and rising levels of unemployment, especially among youth. Global corporations are on the hunt for trustworthy partners (and top-line growth) in the developing world. SGBs have never been in greater demand.

Yet the SGB sector — especially its intermediaries — has been too quiet and too careful about promising more than it can deliver. This sector needs to speak up and with a stronger, collective voice. It needs to organize the evidence for its impact, make the case to donors and partners, and attract new resources. As intermediaries support the growth of local SGBs and create the conditions for their success, they will create evidence — local proof — that SGBs can deliver on their promise. The world needs this virtuous cycle. Who will make it happen?

Endnote

[1] International Labor Organization, Global Employment Trends 2012: Preventing a Deeper Jobs Crisis, (Geneva: ILO, 2012).
[2] Jelena Djordjevic, Why Becoming Large Matters: How Scalable, High-Growth Entrepreneurs Can Help Solve the Jobs Crisis, (Endeavor Insight, New York, 2012).
[3] IFC, IFC Jobs Study: Assessing Private Sector Contributions to Job Creation and Poverty Reduction, (2013), http://www1.ifc.org/wps/wcm/connect/1c91a5804e6f1b89aceeacfce4951bf6/IFC_FULL+JOB+REPORT_REV2_JYC.pdf?MOD=AJPERES.
[4] World Bank Enterprise Survey, latest available data; "Regulatory Governance in Developing Countries," Investment Climate Advisory Services, World Bank Group (2010); Milken Institute, "Stimulating Investment in Emerging Markets SMEs" (2009)
[5] International Labor Organization, Global Employment Trends 2012: Preventing a Deeper Jobs Crisis, (Geneva: ILO, 2012).
[6] Jelena Djordjevic, Why Becoming Large Matters: How Scalable, High-Growth Entrepreneurs Can Help Solve the Jobs Crisis, (Endeavor Insight, New York, 2012).
[7] IFC, IFC Jobs Study: Assessing Private Sector Contributions to Job Creation and Poverty Reduction, (2013), http://www1.ifc.org/wps/wcm/connect/1c91a5804e6f1b89aceeacfce4951bf6/IFC_FULL+JOB+REPORT_REV2_JYC.pdf?MOD=AJPERES.
[8] Aspen Network of Development Entrepreneurs (ANDE) website: http://www.aspeninstitute.org/policy-work/aspen-network-development-entrepreneurs/ande-home/small-growing-businesses-sgbs
[9] ANDE: A Call to Action, 2009
[10] http://www.weforum.org/news/africas-leading-social-entrepreneurs-be-awarded-world-economic-forum-africa
[11] http://www.gew.org.uk/tags/social_enterprise
[12] Global Entrepreneurship Monitor (GEM) Global Reports 2011 and 2012. http://www.gemconsortium.org/docs/cat/1/global-reports
[13] The Bridgespan Group, "The Drive for Social Value", http://www.bridgespan.org/getattachment/d815e3f0-b5cc-41f5-91d6-0d258adbb839/The-MBA-Drive-for-Social-Value.aspx
[14] Harvard Business School Social Enterprise Initiative
[15] JP Morgan and The GIIN, "Perspectives on Progress: The Impact Investor Survey", 2013
[16] ANDE Impact Report, 2012
[17] McKinsey & Co., "Micro-, Small, and Medium-sized Enterprises in Emerging Markets: How Banks Can Grasp a $350 Billion Opportunity", 2012
[18] Monitor Inclusive Markets, "Promise and Progress: Market Based Solutions to Poverty in Africa", 2011
[19] IFC Issue Brief, Small and Medium Enterprises, Sept. 2012
[20] ANDE 2012 Impact Report
[21] ANDE Impact Report, 2012
[22] ANDE and Village Capital, "Bridging the Pioneer Gap: The Role of Accelerators in Launching High-Impact Enterprises," 2013
[23] World Bank Enterprise Surveys, 2009 and 2012
[24] Omidyar Network and Monitor Group, "Accelerating Entrepreneurship in Africa," 2013
[25] Omidyar Network and Monitor Group, "Accelerating Entrepreneurship in Africa," 2013
[26] Monitor Deloitte Interviews with ANDE Members
[27] Interviews with ANDE members in Mexico
[28] Reserve Bank of India
[29] JP Morgan and The GIIN, "Insight into the Impact Investment Market", 2011

[30] Monitor Deloitte Interviews with ANDE members
[31] Monitor Inclusive Markets, “From Blueprint to Scale: The Case for Philanthropy in Impact Investing”, 2012
[32] ANDE and Village Capital, “Bridging the Pioneer Gap: The Role of Accelerators in Launching High Impact Enterprises”, 2013
[33] ANDE and Village Capital, “Bridging the Pioneer Gap: The Role of Accelerators in Launching High Impact Enterprises”, 2013
[34] Donor support going to “Impact Enterprises” was estimated in a 2012 Monitor study on behalf of the Rockefeller Foundation to be ~$0.5 billion. This figure represents the lower end of our estimate as “Impact Enterprises” are essentially SGBs with a social impact focus. CGAP estimated that total Official Development Assistance (ODA), going to SMEs (of which SGBs are a subset) to be above $1 billion in 2009. Further Monitor Deloitte analysis suggests that public and private donor support for SMEs is closer to $1.5 billion
[35] Monitor Deloitte Analysis and prior research, Gates Foundation 2012 statistics, OECD Database, J.P. Morgan, DFI Annual Reports
Notes: †~44% of the $3.8B planned for impact investment in 2012 is assumed to be for emerging markets, consistent with the sample’s current distribution between emerging and developed markets as reported;*Majority of Gates Foundation money does not go to the SGB field;**includes ODA from US, Germany, France, Japan, Canada, Sweden, African Development Bank, Asian Development Bank, IADB, and IFC annual disbursement for SMEs and funding for impact enterprises; all figures shown here represent annual disbursements and do not reflect the total portfolio of some DFIs (e.g., IFC) with significantly larger figures dedicated to SMEs and private sector development
[36] ANDE and Village Capital, “Bridging the Pioneer Gap: The Role of Accelerators in Launching High Impact Enterprises”, 2013
[37] ANDE, “Small and Growing Businesses: Investing in the Missing Middle for Poverty Alleviation, A Literature Review”, 2012
[38] Monitor Deloitte Interviews with ANDE members
[39] Monitor Deloitte Interviews with ANDE members
[40] http://www.rockefellerfoundation.org/newsroom/global-impact-investing-network-receives d
[41] Monitor Deloitte Interviews with ANDE Members
[42] Schwab Foundation for Social Entrepreneurship, “Breaking the Binary: Policy Guide to Scaling Social Innovation”, 2013
[43] See Monitor Group, “Paths to Prosperity: Promoting Entrepreneurship in the 21st Century”, 2009. URL: http://www.compete.monitor.com/App_Themes/MRCCorpSite_v1/DownloadFiles/NED_report_final.pdf