The Aspen Network of Development Entrepreneurs (ANDE) is a global network of more than 200 organizations that propel entrepreneurship in emerging markets. ANDE members provide critical financial, educational, and business support services to small and growing businesses 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 developing countries out of poverty.

Small and Growing Businesses
SGBs are commercially viable businesses with between five and 250 employees that have strong potential for growth. Growth is key to this definition, and it is what differentiates SGBs from the broader term micro, small, and medium enterprises (MSMEs). Unlike the vast majority of entrepreneurs who begin microenterprises, entrepreneurs who start SGBs have the ambition to scale. They create not just income for themselves, but jobs for the local economy, connections to regional and global markets, and often access to critical goods and services for underserved communities. Unlike more established, larger enterprises, SGBs often lack the financial or knowledge resources they need to grow.

SGB Intermediaries
Intermediary organizations can fill this resource gap for SGBs. Intermediaries include organizations that work directly with SGBs, such as investors and capacity development providers, and also include those organizations that support SGBs indirectly, such as development finance institutions, private foundations, and research institutions. Intermediaries support SGBs on their path to scale, and they tend to focus on the four major challenges that present barriers to growth. They support improvements in:

- Access to capital
- Access to talent
- Access to markets
- Improving the enabling environment

Snapshot of the Sector 2013

22 SGB investment vehicles were launched in 2013; median target fund size was $66.5 million.

15 SGB investment vehicles reached a first close in 2013.

Since 2009, the sector has raised $3 billion in committed capital.

190 members operated in more than 150 countries.

64 members spent more than $147 million in capacity development services provided directly to 46,000 SGBs.

16 members invested more than $194 million in 377 deals with SGBs.

28 foundation and other grant-making members invested nearly $187 million in the sector in the form of grants directly to SGBs ($84 million), grants to SGB intermediaries ($93 million), and investments into SGB-focused funds ($10 million).
Reflections from the past five years...

- We have seen tremendous growth in the number of organizations and amount of capital and funds active in the space. As diverse organizations are founded or develop new programs geared towards the SGB sector, philanthropic and return-seeking capital is also flowing to the sector. For example, bilateral aid agencies launched several exciting new initiatives in 2013 that will spur increased focus on SGBs in the international community. We also see the growth in corporate members joining ANDE in 2013 as an indication of increased corporate engagement with the sector as a whole.

- Organizations have increasingly recognized the need for a common language to describe the social and environmental performance of their work with SGBs. In interviews we conducted with ANDE members in 2013, we found that 75 percent of investors and capacity development providers that track social performance do so using the IRIS catalog of metrics.

- SGB intermediaries continue to experiment with business models and approaches to engaging with SGBs. For example, many investors are structured as non-profits and provide significant capacity development support to their investees. Similarly, many capacity development providers’ business models combine philanthropic capital with revenue from other sources, and service providers range from boutique consulting firms to large international development organizations to corporate spin-offs.

- The sector has coalesced around the importance of collaboration. Increased information flow among SGB practitioners has spurred partnership to address the most critical gaps in the ecosystem.

- Many ANDE members have narrowed their focus to a particular industry within the SGB sector, including agriculture, health, energy, and education. In some cases, a critical mass of expertise in a particular industry allows for more nuanced exploration of business models, social and environmental performance, and effective approaches.

...and thoughts for the future

- We need to translate the existing focus on the global SGB sector into an effort to strengthen local entrepreneurial ecosystems. Groups of SGB practitioners can map ecosystems at the level of metropolitan areas to identify weaknesses and permit intermediaries to address those gaps. In time, these local ecosystems will enter a virtuous cycle, as successful entrepreneurs become angel investors themselves.

- Finding and retaining top talent is a key challenge for many SGBs. In addition to its direct impact on the business, it also limits access to finance; potential investors cite lack of skilled management as a key barrier to investing in SGBs. Universities, entrepreneurs, and SGB intermediaries should take a holistic approach to this challenge, both by investing in education systems that train middle managers, and creating clear career paths that incentivize talent to stay in the sector.

- Many women-focused initiatives have emerged to address the unique cultural and structural barriers that women entrepreneurs and business owners face. Yet we believe an active gender lens should become mainstream among all SGB practitioners, not just those programs with an explicit focus on women. In addition to driving increased social impact, such a lens could support investors’ bottom line. Initial data from Emory University suggests that early-stage ventures with women on their founding teams are less likely to have attracted equity investment but are more likely to actually be profitable than ventures without women founders.
SGB Investment Vehicles

The direct investors that work with small and growing businesses provide financing in the form of equity, debt, and other instruments, such as quasi-equity and guarantees, to those businesses that need between $20,000 and $2 million in capital. ANDE identified over 400 investment vehicles that include deal sizes in that range, and has more complete data on 262 vehicles. Of those, 48 percent were launched in the past five years. In 2013, fewer investment vehicles focused on this segment launched compared to previous years, but the target fund size of those investment vehicles is higher (Figure 1). This trend mimics the pattern in emerging market private equity: across the industry, fewer funds launched in 2013, and fewer funds closed, but more capital was raised overall.

Equity investors often report that they struggle to deploy capital to SGBs, citing demand-side constraints, but there are promising signs that this trend may be shifting. Forty-eight percent of those vehicles launched between 2011 and 2013 focused on seed and start-up stage investments, compared to 27 percent of those launched between 2008 and 2010, and 12 percent of those from 2005 to 2007 (Figure 2).

SGB Capacity Development

Access to finance is just one barrier to SGBs’ growth. Many ANDE members provide nonfinancial support to SGBs, working to address the challenges SGBs face in finding mentors, technical advisors, and legal and business consultants, among others. The landscape of these capacity development providers is diverse and complex, since many different kinds of organizations provide nonfinancial support through varying mechanisms and by using varying business models. On average in 2013, ANDE member capacity development providers worked with a portfolio of 30 SGBs and spent roughly $10,000 per SGB to deliver capacity development. Many investors also recognize the need to provide capacity development services alongside financing, and utilize diverse mechanisms to do so (Figure 3).
ANDE at Five

In April 2014, ANDE reached its five-year anniversary. In the past half-decade we have grown from 34 to more than 200 members and reached more than 2,000 individuals through our networking and training events for the small and growing business (SGB) sector. Collectively, our members have supported hundreds of thousands of SGBs in emerging markets. Since 2009, we have seen significant advancements in coordination among the diverse actors in the SGB ecosystem. We are encouraged by the growing momentum and increasingly sophisticated conversations about the most effective ways to support small and growing businesses.

However, our members and the businesses they serve continue to face significant challenges. We know there is still work to be done to strengthen the SGB sector. We will help our members become more effective through training, research, knowledge sharing, and other network services. We will also shepherd more resources to the SGB sector by raising awareness about the opportunity for development impact and financial returns. We will lead members toward collective action, supporting the development of thriving local ecosystems that support SGBs.

In the past five years, ANDE has grown into a credible, well-respected network organization. In the next five, we hope to become known as a major catalyst for development impact in emerging markets.

[Endnotes]