The Case for SGBs

Members of the Aspen Network of Development Entrepreneurs (ANDE) share a common goal: to increase the prosperity of poor people in the developing world. We also share a common belief about how to do it: supporting small and growing businesses (SGBs).

There are compelling reasons to believe that SGBs are critical to poverty alleviation in the developing world. In developed countries, SGBs contribute to over half of gross domestic product (GDP) and 57 percent of total employment.¹ In the United States alone, SGBs have been the backbone of new employment, contributing 60-80 percent of net new employment since the mid-1990s.² In the developing world, however, SGBs only contribute 16 percent to GDP and 18 percent of total employment.³ Despite the hurdles they face, SGBs are producing significant social, environmental, and economic impact in the communities they work in. SGBs supported by the Small Enterprise Assistance Funds, a founding ANDE member, report that 72 percent of newly created jobs go to unskilled or semi-skilled workers who may not have access to other employment opportunities. In addition, SGBs can generate significant social and environmental benefits in the communities they serve and through the products and services they produce. SGBs have unique access to supply products and services to the poorest people in our world.

Challenges SGBs Face

Even in well-developed capital markets, the majority of new companies fail. SGBs typically need outside support in order to scale their impact due to the significant challenges currently hindering the growth of the SGB sector. The challenges faced by entrepreneurs in emerging markets are exponentially greater. At the core, there are three critical ingredients that come together to create and sustain new companies: talented people, great ideas, and capital to invest in transforming ideas into profitable companies. For many businesses in the developing world, there are major hurdles to access these key ingredients.

In most developing countries, SGBs are too large to benefit from microfinance initiatives but too small to attract commercial investment. They are caught in the “missing middle.” Innovative models of financing and capacity development are needed to elevate these institutions to their full potential. In emerging markets, small businesses are the backbone of economic growth and are key to expanding prosperity for the poor.

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¹ “Stimulating Investment in Emerging Market SMEs,” Milken Institute, 2009, pg 7
² Ibid.
The ANDE member base includes organizations that provide direct support to SGBs through the provision of capital and capacity development services. ANDE members also include organizations that support the development of a thriving SGB ecosystem including research, academic and corporate institutions, foundations, and banks. Over the past two years, ANDE has grown to 110 of such organizations that provide critical services to SGBs in developing countries. We help our members improve their productivity, measure their social impact, and obtain new resources to grow programs and services. Further, we work closely with development institutions, philanthropic organizations, and investors to encourage increased support for the SGB sector. Ultimately, ANDE seeks a thriving global economy that supports entrepreneurs and thereby stimulates increased economic, social, and environmental benefits for local communities.

**Growth of the SGB Sector in 2010**

This newly emerging sector is gaining public attention. In 2010, aid agencies, development financial institutions, and investment advisors launched new initiatives to support the sector. The US Department of State, for example, launched the Global Entrepreneurship Program (GEP), an effort to develop strong entrepreneurial platforms primarily in Muslim-majority countries. Development agencies throughout the world, including the International Financial Corporation (IFC) and the Inter-American Development Bank (IDB), expanded efforts to support “inclusive business” that focus primarily on smaller firms. And investment bank JP Morgan released its first research report on the impact investment sector.

While the SGB sector is still quite small, it is growing rapidly. Currently there are 199 funds that have collectively raised an estimated $11 billion to invest in SGBs. In the first half of 2010, 22 new funds launched with a primary focus on SGB investments. As shown in Figure 1, the number of SGB funds has steadily grown since 2005.

Analysis of fundraising targets among fund managers in emerging markets indicates that, despite continued weakness in the global economy, the amount of funds targeting the SGB sector is growing. In fact, the SGB sector is outpacing the growth in overall emerging-market private equity fundraising. In 2009, fund managers were seeking to raise $23 billion for emerging-market private equity funds, of which 6 percent targeted investments in SGBs. By the first half of 2010, that share had increased to 11 percent, suggesting that fund managers are seeing more potential in investing in the SGB sector.

SGB funds are investing throughout the emerging markets, with Africa (43%), Latin America (15%), and Asia (13%), receiving the most attention. Although recent data shows that Africa remains the region attracting the most attention in terms of target funds for the SGB sector, there has been some equalization of funding. In the past two years, the Middle East and Southeast Asia have seen their shares of total investment funds increase, creating a cluster of regions that each attracts approximately 10 percent of the SGB-inclusive funds.
Impact of ANDE Members

ANDE members are leading the global effort to support small-business entrepreneurs. Using a diverse set of business models and engagement strategies, they craft dynamic partnerships with SGBs to help them grow and maximize social and environmental impacts. As the network itself grows, our members are increasingly collaborating to develop new tools and initiatives to support the sector.

Over the past ten years, ANDE members have supported more than 11,100 SGBs through the provision of SGB Capacity Development (SGBCD) services and investment capital in a variety of sectors. The SGBs catalyze this support into benefits for their local communities, employees, and suppliers.

Geographic focus: ANDE members work in 150 developing countries, catalyzing innovative responses to solve our world’s deepest challenges. 30.5 percent of our members are headquartered in Latin America, Africa, and Asia. In 2010, ANDE launched regional chapters in Brazil, Central America/Mexico, East Africa, and South Africa with the objective of bringing the services ANDE provides to a regional and localized level and deepening our global footprint.

Financial Impact: The 33 ANDE members whose primary engagement with small and growing businesses is to invest capital have collectively deployed $900 million through more than 2,500 investments. 47 percent of these members seek target returns between 5 and 20 percent.

SGB Capacity Development: In 2010, ANDE members spent $80 million on capacity development services to SGBs and provided a variety of unquantifiable capacity development services to help develop a robust sector. Our members provide a wide variety of services, with basic business training and business-plan development as the most common offerings.

In the long run, a thriving, local SGB market – including banks, angel investors, investment funds, mentors, educational institutions, and local service providers – is required to bring a region out of poverty. ANDE members
believe that their direct and indirect work with SGBs will help build thriving companies. This, in turn, will stimulate the growth of local finance and service providers that support small businesses, as well as create a constituency to demand improvements in the overall business environment.

ANDE in Action – 2010 in Review

ANDE identifies common challenges and opportunities facing SGBs, and, based on these findings, implements field-building initiatives for those involved in supporting SGBs. Our members are at the nucleus of these activities. We act as a trusted advocate for the SGB sector, educating investors and policymakers about the extraordinary opportunity this sector represents. Since our formal launch in March 2009, ANDE’s membership has grown to 109 members. We have proved that ANDE membership is valuable, with an 86 percent retention rate in 2010 and a reported 92 percent satisfaction rate. Highlights from 2010 include:

Knowledge Creation and Knowledge Sharing
- Monthly sector update calls on more than 30 topics
- ANDE Annual Conference with participants from 70 organizations and 17 countries. Keynotes given by Dr. Rajiv Shah, Administrator of USAID, Elizabeth Littlefield, CEO of the Overseas Private Investment Corporation, and Carl Schramm, CEO of the Kauffman Foundation
- ANDE Pilot Regional Chapters launched in Brazil, Central America/Mexico, East Africa, and South Africa
- Launch of ANDE Member Portal with a searchable directory and public facing member map

Recruitment and Training
- First Investment Manager Training launched in Nairobi, Kenya with 35 participants from 12 countries
- Second Orientation Training for new hires and summer associates held in New York with 50+ attendees
- Additional leadership and financial literacy trainings and curriculum developed by members through the support of our Capacity Development Fund

Impact Assessment
- Developed a strategic partnership with the Impact Investing and Reporting Standards (IRIS) to promulgate the adoption of environmental, social, and financial standards across ANDE members
- Hired an Impact Assessment Manager who codified the IRIS adoption process and launched initial implementations with pilot members
- Second annual Metrics and Evaluation Conference held in June with over 100 attendees

Capacity Building - Capacity Development Fund
- In April 2010, ANDE announced the second round of winners of our Capacity Development Fund and disbursed $460,000 to fund seven grants.

Education and Awareness
- Built partnerships with key bilateral, multilateral and government agencies and created the first strategic partnership between ANDE and the International Finance Corporation
- Commissioned a report “Mapping the Policies of International Development Donors and Investors” to understand how various bilateral and multilateral organizations are working within the SGB space

In just two years, ANDE has become an effective and respected organization. However, we have much work ahead in order to make significant progress in unleashing the prosperity-creating power of SGBs throughout the globe. We look forward to working with you in 2011 and beyond to realize our collective vision.

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4 As of February 4, 2011.
5 Results from the 2009 ANDE Member Survey completed by Dalberg Advisors. n=52
ANDE 2010 and 2011 Executive Committees

Mildred Callear
Executive Vice President and COO
Small Enterprise Assistance Funds (SEAF)

Maria Cavalcanti
Chief Strategy Officer, Avina Foundation

Christine Eibs Singer
Co-Founder and CEO, E+Co

Willy Foote
Founder and CEO, Root Capital

Lisa Hall
President and CEO, Calvert Foundation

Randall Kempner
Executive Director, ANDE

Bob Kennedy
Executive Director, William Davidson Institute, University of Michigan

Stace Lindsay*
Founder and CEO, Fusion Venture Partners

Julia Novy-Hildesley*
Executive Director, The Lemelson Foundation

Graham Macmillan
Program Officer, Citi Foundation

Peter Reiling
Executive Vice President, The Aspen Institute

Andrew Stern
Partner, Dalberg Global Development Advisors

Ricardo Teran
Co-Founder and Managing Partner, Agora Partnerships

Brian Trelstad
Chief Investment Office, Acumen Fund

Chris West*
Director, Shell Foundation

Simon Winter
Senior Vice President-Development
TechnoServe, Inc

*Ended tenure in 2010

ANDE Staff

Jenny Everett, Associate Director

Joanna Herrmann, Program Associate

Randall Kempner, Executive Director

Ahmed Kodouda, Program Coordinator

Lindsey Yeung, Impact Assessment Manager
ANDE Members (as of February 11th, 2011)

Absolute Return for Kids (ARK)
ACCIÓN International
Actis
Acumen Fund
African Agricultural Capital
Africa Report
Agora Partnerships
Alcoa Foundation
Alitheia Capital
Appropriate Infrastructure Development Group
Artemisia Brazil
Mr. Mads Asprem
Aspen Institute
ATMS Foundation/AMSCO
Avantage Ventures
Ayllu Initiative
Bamboo Finance
B Lab
The Bridge Fund
Business Council for Peace
Calvert Foundation
CapitalPlus Exchange
CDC Development Solutions
Center for Creative Leadership
CHF International
Citi Foundation
Dalberg Global Development Advisors
Dasra
E+Co
Ernst & Young
East Meets West Foundation
Ebay Foundation
Emerging Markets Group
Holding Endeavor
Energy Access Foundation
Enterprise Development Centre of Pan-African University
The Bill and Melinda Gates Foundation

Finance Alliance for Sustainable Trade
Financial Services Volunteer Corps
ForeFinance
Forum Empresa
FSG Social Impact Advisors
Fundación AVINA
Fundación Bavaria
Fundación Bolívar Davivienda
Fundación Bolivia Exporta
Fundación IES
FUNDES
General Mills
Global Business School Network
Goldman Sachs
Grameen Foundation
Grassroots Business Fund
Gray Ghost Ventures
GreaterCapital
GrupoEcos
Halloran Philanthropies
Heart Capital
ICCO
IGNIA Partners LLC
ImagineNations Group
InReturn Capital
International Finance Corporation
Invesor
Kauffman Foundation
Lang Entrepreneurship Center, Columbia Business School
The Lemelson Foundation
Lundin for Africa
Marmanie
McKinsey
Media Development Loan Fund
Merry Corps
Monitor Institute
MPOWER Ventures
Ms. Ranji Nagaswami and Mr. Bo Hopkins

Naya Jeevan
New Ventures Mexico
New Ventures – World Resources Institute
NeXii
Omidyar Network
OTF Group
Oxfam
Pershing Square Foundation
The Prince’s Youth Business International
PymeCapital
Rianta Capital, Artha Initiative
The Rockefeller Foundation
Root Capital
Root Change
RTI International
SA Capital Limited
Salesforce.com Foundation
Santa Clara Global Social Benefit Incubator
Serengeti Advisers
Shared Interest
Shell Foundation
ShoreBank International Ltd.
Skoll Foundation
Small Enterprise Assistance Funds (SEAF)
SNV Netherlands Development Organisation
Standard Bank London
Stephen Claire Associates
Swisscontact
TechnoServe Inc.
The William Davidson Institute at the University of Michigan (WDI)
TriLinc Global
Universidad de Los Andes
VillageReach
Villgro Innovations Foundation
Vox Capital

These foundations have provided additional grant funding to ANDE. Goldman Sachs provided this additional funding through the Goldman Sachs 10,000 Women Initiative. In addition, Google.org was a founding funder of ANDE.

These organizations led the launch of pilot chapters in Brazil, Central America, East Africa and South Africa in 2010