



STATE OF THE SMALL & GROWING BUSINESS SECTOR

2018 REPORT

To access more data and findings,
see the digital version of the 2018
State of the Sector Report at

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Letter from the Executive Director

Dear ANDE friends and colleagues,

As ANDE enters our second decade of supporting the Small and Growing Business (SGB) sector, our members' inspiring work continues to deepen our conviction that SGBs drive positive economic, social, and environmental outcomes in emerging markets. With our expanding membership, we are continually reminded that we are not alone in believing that entrepreneurs play a key role in solving the world's greatest development challenges.

2018 brought some important changes in our network, starting with its scope. ANDE has now grown to more than 290 members. Perhaps more importantly, over the past several years we have also seen a shift in the geographic base of the membership. Today, more than 40 percent of our members are headquartered in emerging markets. We are proud to be a truly global organization that now has very strong local roots spread throughout emerging markets, and especially our eight regional chapter areas.

Another important progression among ANDE members has been their embrace of the United Nations Sustainable Development Goals (SDGs or "global goals"). Eighty-seven percent of our members now align their work with one or more of the goals, with SDG 8, "Decent Work and Economic Growth," being the most common. ANDE member adoption reflects a larger trend among international development organizations to focus their work on the SDGs. The focus on the global goals represents an important opportunity for the sector to align efforts, yet also presents a challenge to better demonstrate the important role SGBs can play in advancing the goals. ANDE is playing a role here by providing data and stories via our whysgbs.org website.

This past year was also notable for the development of new insights on gender lens approaches to entrepreneurship support. Through a wide variety of initiatives, we gained a more nuanced understanding of gender barriers in the sector and strategies for addressing those barriers. In addition to an increase in gender-inclusive investment vehicles, we also saw gender-based strategies expanding beyond the investment world into acceleration, impact measurement, and sector research. While gender inclusion continues to gain prominence as an issue, there remains more work to be done, and ANDE looks forward to continuing to help expand opportunities for gender-inclusive SGBs.

Even as we launch an updated strategy in 2019, ANDE's founding mission endures. We remain dedicated to strengthening the global SGB sector by facilitating collaboration, generating and disseminating knowledge, and driving more financial resources to sector players. We are excited about our increased ability to advocate for sector goals, catalyze collective impact projects, and to take on new, and larger initiatives in support of the sector.

This report is a testament to the work that ANDE members have accomplished and also a reminder that the sector's work is not finished. If you are not yet an ANDE member, we invite you to learn more about the sector and to join us in our quest to improve lives through entrepreneurship.

Sincerely,



RANDALL KEMPNER
Executive Director

THE SGB SECTOR IN 2018: AN OVERVIEW

ACCORDING TO ANDE'S IMPACT SURVEY, IN 2018:

ANDE GREW TO **294**
MEMBERS IN OVER 160 COUNTRIES,
A 35 PERCENT INCREASE SINCE 2013.



68 MEMBERS SUPPORTED OVER 45,000 ENTREPRENEURS WITH
US \$197 MILLION IN CAPACITY DEVELOPMENT SERVICES.

45 MEMBERS
DISBURSED
OVER US\$
1.2 BILLION IN RETURN-
SEEKING INVESTMENT
INTO SGBS.



18 MEMBERS DEPLOYED OVER US \$45
MILLION IN PHILANTHROPIC CAPITAL
TO SGBS AND INTERMEDIARIES.



NOTABLE DEVELOPMENTS IN THE BROADER SGB LANDSCAPE:

- The past 10 years have seen a growing focus on South Asia and Southeast Asia among SGB investment vehicles.
- US \$7.4 billion¹ in donor agency support went to SME development in 2017, with at least US \$33.8 billion supporting the sector over the past decade.²
- There are at least 283 accelerators operating in Latin America, Africa, and South and Southeast Asia.³



1 Fueling Entrepreneurship in Emerging Markets: How 20 Major Funders are Supporting Small and Growing Businesses, ANDE/Devex
2 OECD CRS database
3 Global Accelerator Learning Initiative

THE IMPORTANCE OF SGBS

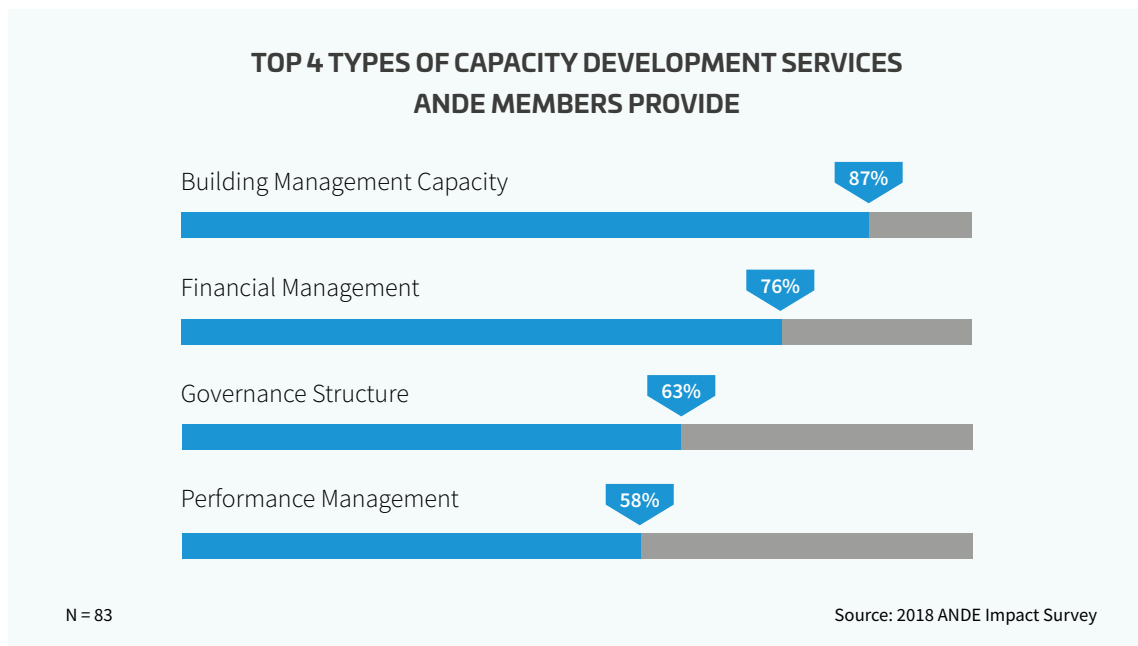
Small and Growing Businesses (SGBs) are defined by ANDE as commercially viable businesses with five to 250 employees that have significant potential, and ambition, for growth. Typically, SGBs seek growth capital from \$20,000 to \$2 million.

What's distinct about SGBs based on ANDE's definition is their ambition for growth. This sets SGBs apart from livelihood-sustaining small businesses, which start small and are designed to stay that way; SGBs are actively looking for ways to expand and grow. They also differ in terms of their key challenges; unlike many medium-sized companies, SGBs often lack access to the financial and knowledge resources required for growth. For more information about the sub-segments of SGBs, see the Collaborative for Frontier Finance's 2018 report "The Missing Middles".



Capacity Development

Management skills are a key issue area for ANDE members, with 87 percent of capacity development providers focusing on building SGB management capacity.



Capacity development remains a critical component of the SGB sector, with capacity and talent constraints often cited as a gap in entrepreneurial ecosystems.⁴ Forty-two percent of ANDE members identify as capacity development providers, with the majority of these providers focused on building management capacity, financial management, governance structures, and performance management. Investment and capacity development are often paired, with 60 percent of investors also providing non-financial services directly to SGBs and 50 percent of capacity development providers also contributing some form of financial support.

As in previous years, the most common services provided by members are: classroom training, consulting services, peer networking, and one-on-one mentorship. However, the overall proportion of members offering classroom training and one-on-one mentorship increased from 2017 to 2018 (from 42 to 49 percent, and from 40 to 48 percent, respectively) while the proportion of members offering online training decreased from 23 to 17 percent. It is worth noting that, as in previous years, almost no members offer classroom training alone, with 98 percent of those that provide this type of support bundling it with other services.

Network support has shown particular promise as a means of building capacity for SGBs, with a recent study finding that business networks can drive median SGB revenue growth of over 20 percent.⁵ This aligns with previous research that has consistently found peer networking and engagement to be an effective driver of growth, as reflected in a 2018 review of the literature on what works in supporting SGBs.⁶

5 Learning Brief: Networks Work – Peer-to-peer networks help Small and Growing Businesses grow revenues and create jobs, The Argidius Foundation

6 A Research Agenda for the Small and Growing Business Sector: Summarizing the Current Evidence and Research Needs, ANDE and the International Growth Centre at the London School of Economics

CASE STUDY

What We've Learned from the ANDE ARGIDIUS TALENT CHALLENGE

Finding talented managers is a critical challenge for entrepreneurs everywhere, but it is especially difficult in emerging markets. To help overcome this hurdle, ANDE partnered with the Argidius Foundation in 2016 to launch a talent challenge supporting pilot programs that address this critical gap. Five ANDE members were each awarded 200,000 euros over three years to pilot solutions focused on talent acquisition, development, and retention.

With the challenge nearing completion, grantees have made strides for the sector by testing models to more effectively train mid-level managers, connect talented professionals with hiring companies, provide diagnostic tools and resources for SGBs to manage talent development, and other approaches to bridge the talent gap. Through the process of testing these models, grantees have reported back some core lessons learned:

EVERYONE SAYS, “PEOPLE ARE OUR GREATEST ASSET,” BUT NOT EVERYONE ACTS THAT WAY.

01 Many companies don't treat talent and recruiting as the strategic imperative that it is. Valuing “who” is more important than “what” for almost all businesses, particularly SGBs.

CULTURE IS SET AT THE TOP AND DOESN'T ALWAYS TRICKLE DOWN.

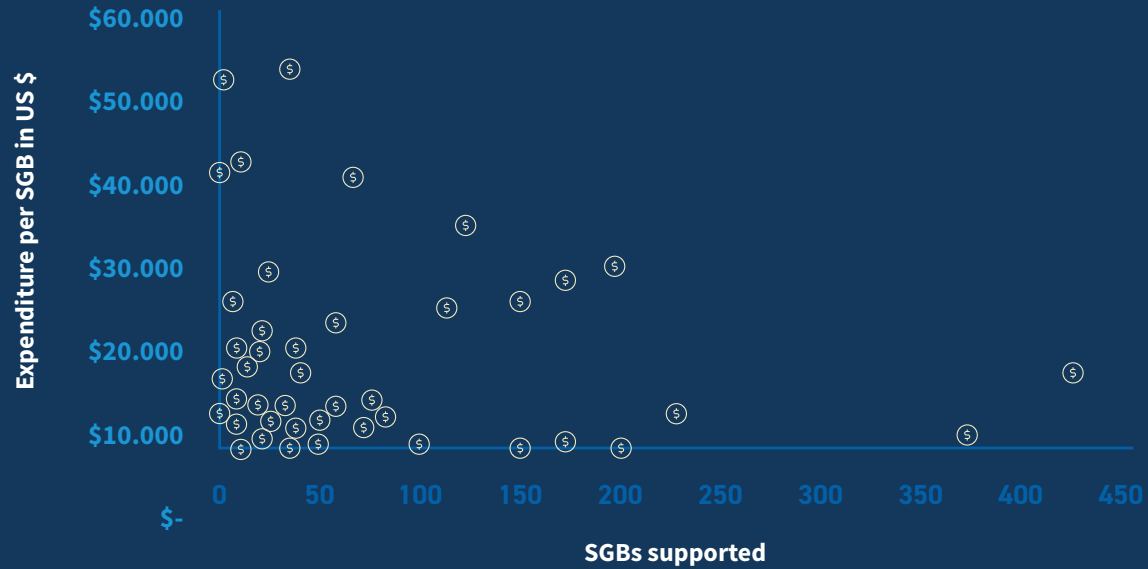
02 SGB leadership needs to invest in formalizing culture (e.g., implementing appraisals, feedback, and mentorship) so what they are saying translates into the behaviors that will drive performance.

EVERYONE NEEDS SOFT SKILLS (EVEN THOUGH SOFT SKILLS ARE HARD).

03 Too many SGBs and intermediaries think their biggest challenges are around technical, functional, or ‘hard’ skills, when research and experience suggest that the less tangible skills—such as people management, communication, and personal effectiveness—often cause the biggest problems.

ANDE is excited to announce that the winner of the challenge is the **Amani Institute**, which implemented a new leadership development initiative to build skills of SGB managers in East Africa.

CAPACITY DEVELOPMENT PROVIDERS SPENT AN AVERAGE OF US \$4,222 PER SGB, WHICH IS HIGHER THAN PREVIOUS YEARS.



N = 44

Source: 2018 ANDE Impact Survey

ANDE members spent on average \$4,222⁷ per business on capacity development services in 2018, representing an increase from the 2017 average of \$3,300. For member organizations supporting 50 SGBs or fewer, the average cost per SGB went down in 2018, from \$19,800 to \$17,760. In contrast, for organizations that serve more than 50 SGBs, the cost per SGB increased from an average of \$2,800 to \$3,515. The consistent trend of higher-cost services for organizations supporting fewer SGBs continues to suggest economies of scale in the provision of support.

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Some responses were removed for outlier reasons. Currency is US dollars.

GALI data finds accelerators are a good investment

In 2018, the Global Accelerator Learning Initiative (GALI), a partnership between ANDE and Emory University, continued to build the evidence base on the landscape and effectiveness of accelerators. Over the course of the year, GALI [published a major report on program design choices](#), a guide to [measuring the value for money of acceleration](#), and regional reports on [Nigeria](#), [India](#), [Mexico](#), and [sub-Saharan Africa](#), while GALI's academic partners [published a book on the findings from the past five years of data collection](#). GALI's research has concluded that in the aggregate, accelerators are a cost-effective way to drive increased revenue and investment in SGBs. Analysis of program performance data of over 40 accelerator programs showed that one year after applying, accelerated ventures reported higher levels of new investment and revenue than their rejected counterparts and that one dollar in program costs leads to an additional \$1.70 in short-term funding for participating entrepreneurs. Programs that emphasize access to peers, guarantee investment, and focus on women and minority applicants were linked to superior venture performance.⁸

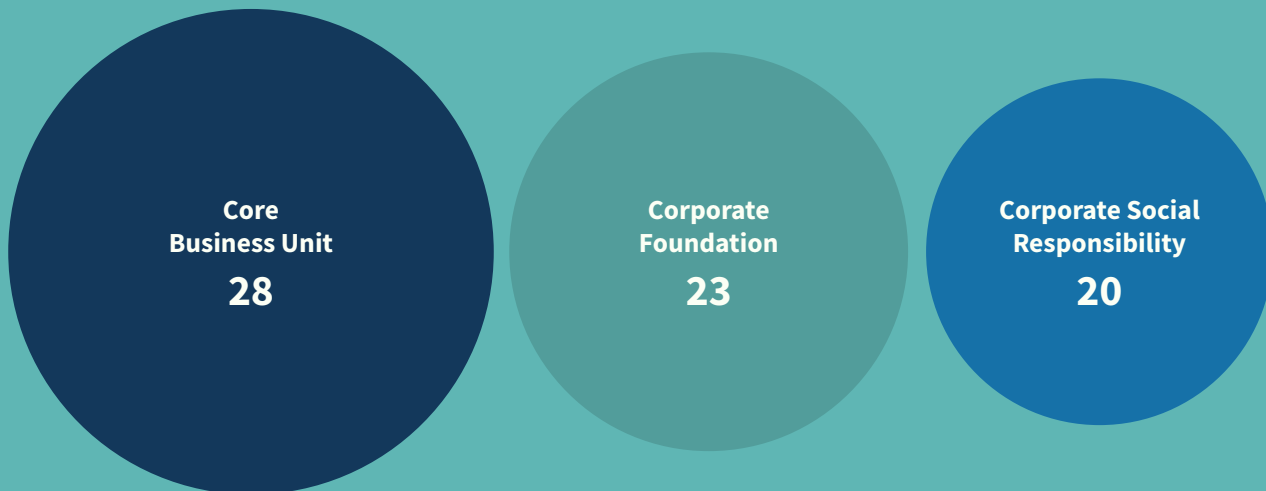
Aside from confirming that accelerators do in fact accelerate, GALI research has also challenged on some long-held beliefs: the presence or absence of several program elements that are anecdotally considered important, such as mentorship and a structured program curriculum, did not (at least in the aggregate) differentiate higher and lower performing programs. The findings also provide a more nuanced understanding of the overall impact of acceleration. For example, the overall positive benefits of accelerators are largely driven by a relatively small proportion of ventures that show extraordinary growth, rather than the benefits being distributed more evenly among participating ventures. And not all entrepreneurs are equally likely to access these benefits: consistent with other research on investment, GALI found that all-female teams report less than one-third of the investment of all-male teams upon application to an accelerator, and these gaps do not seem to be closed by participation in an accelerator. Finally, entrepreneurs in emerging markets benefit more in the form of revenue growth, and less in investment growth.⁹

8 [Accelerating the Flow of Funds into Early-Stage Ventures: An Initial Look at Program Differences and Design Choices](#), Global Accelerator Learning Initiative
9 [Observing Acceleration: Uncovering the Effects of Accelerators on Impact-Oriented Entrepreneurs](#) by Peter Roberts and Saurabh Lall

Corporates and SGBs Creating Shared Value

■ ANDE members are finding dynamic ways to engage corporations in the SGB sector

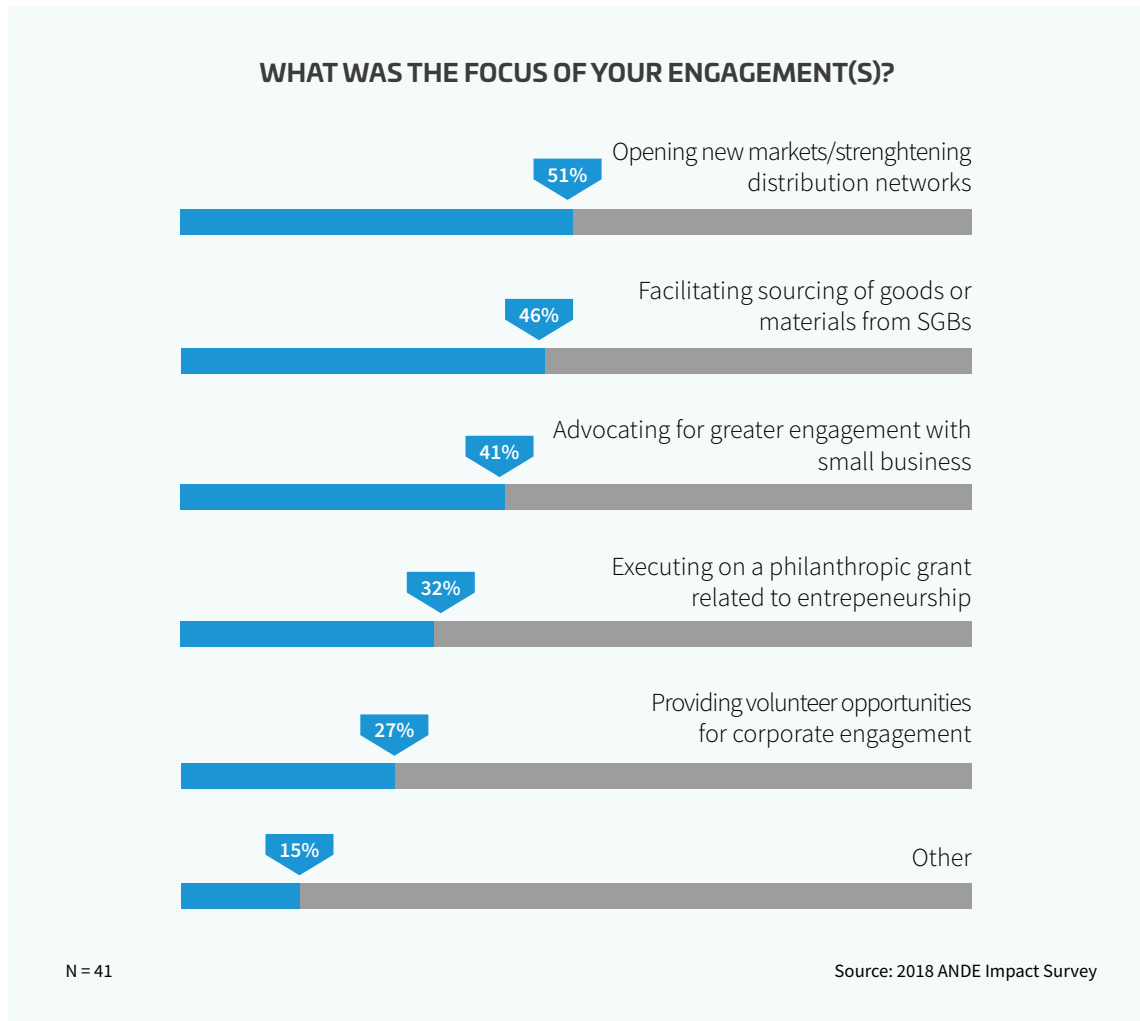
WHICH DIVISION WITHIN A CORPORATION DID YOU ENGAGE WITH IN 2018?



N = 44

Source: 2018 ANDE Impact Survey

The nature of engagement suggests that corporates and SGB intermediaries are identifying opportunities to create 'shared value'¹⁰ rather than partnering through traditional philanthropic support. Corporate engagement with a commercial focus exceeded corporate engagement from a philanthropic lens, as members most commonly engaged with corporates through a core business unit. The top two focus areas for the engagement were "strengthening distribution networks in new markets" and "facilitating the sourcing of goods and materials." Over twice as many members worked with corporates on either distribution or supply chains than did so to execute a philanthropic grant.



ANDE members continue to innovate in their work with corporates. Members have engaged corporates in co-creating corporate accelerator programs and joint ventures, co-investing in SGBs, mobilizing capital for the SGB sector, engaging in new product development, partnering for a new business model, and providing pro-bono legal assistance or trainings for SGBs. The trend towards partnerships between SGBs and corporates is particularly strong in the fintech space. The Groupe Spéciale Mobile Association (GSMA) found that in 2018, “mobile operators support or run over 14 percent of the active tech hubs identified in Africa”¹¹ while in Nigeria, fintech startups are increasingly developing lucrative partnerships with large global payments multinationals.¹²

¹¹ Africa: a look at the 442 active tech hubs of the continent, GSMA
¹² The Biggest Tech and Innovation Trends in Africa for 2018, Quartz Africa

CASE STUDY

The Regional Cocoa Platform IN CENTRAL AMERICA

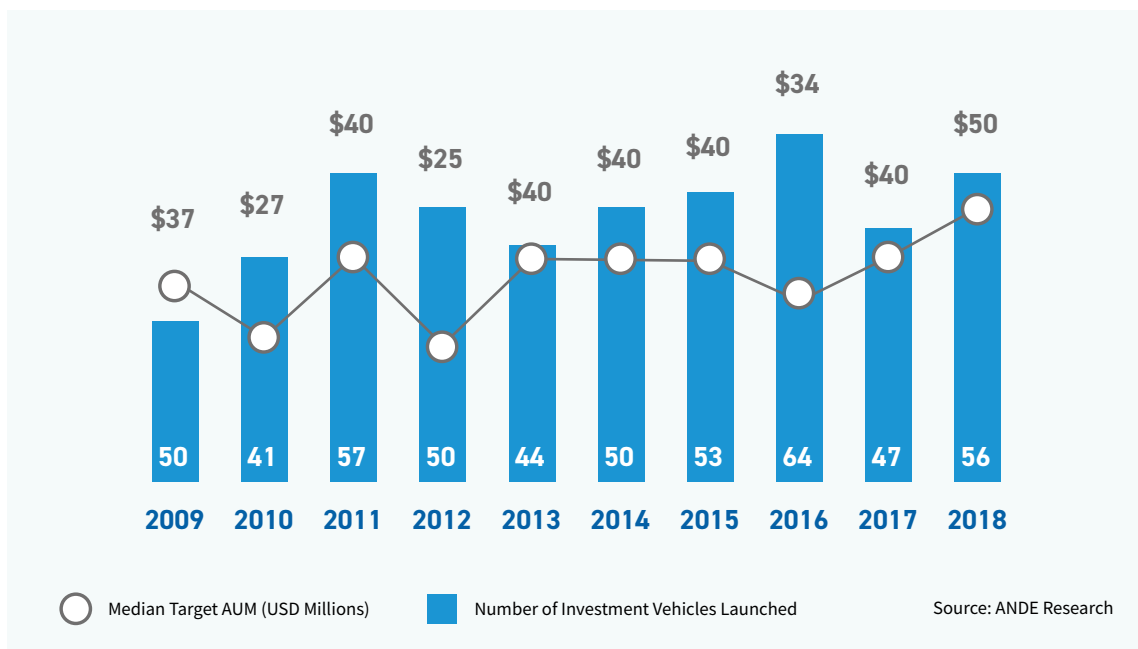
The demand for Central American cocoa has been [on the rise since 2016](#), as consumer demand grew for chocolate made from high quality and sustainably farmed cocoa with more refined flavor. However, a divided sector made up of individual farms without knowledge sharing or cooperation can result in both missed opportunities and diminished market prices. Nelson Lara, president of the Honduran Cacao Farmers' Association APROSACAO, argues that "unification is the key to obtain better prices."

To address this, ANDE members Rikolto and the Swiss Agency for Development and Cooperation have facilitated the creation of a Regional Cocoa Platform in Central America. The initiative partners with several other ANDE members active in the sector and region, such as Heifer International and Lutheran World Relief. The platform brings together government representatives, private companies, farmers, researchers, and NGOs from Nicaragua, Honduras, Guatemala, and El Salvador to create a vision and strategy for the sector in the region, with the ultimate goal of a more competitive and resilient Central American cocoa sector and a more favorable policy environment. In terms of direct benefits to cocoa farmers, the platform will lead to increased knowledge and income for up to 5,000 cocoa farmers across the region. Indirectly, all cocoa cooperatives in Central America should benefit from changes in the policy environment.



SGB Investing: Global

In 2018, at least 56 new SGB-inclusive¹³ investment vehicles launched, with a median target AUM of US \$50 million.

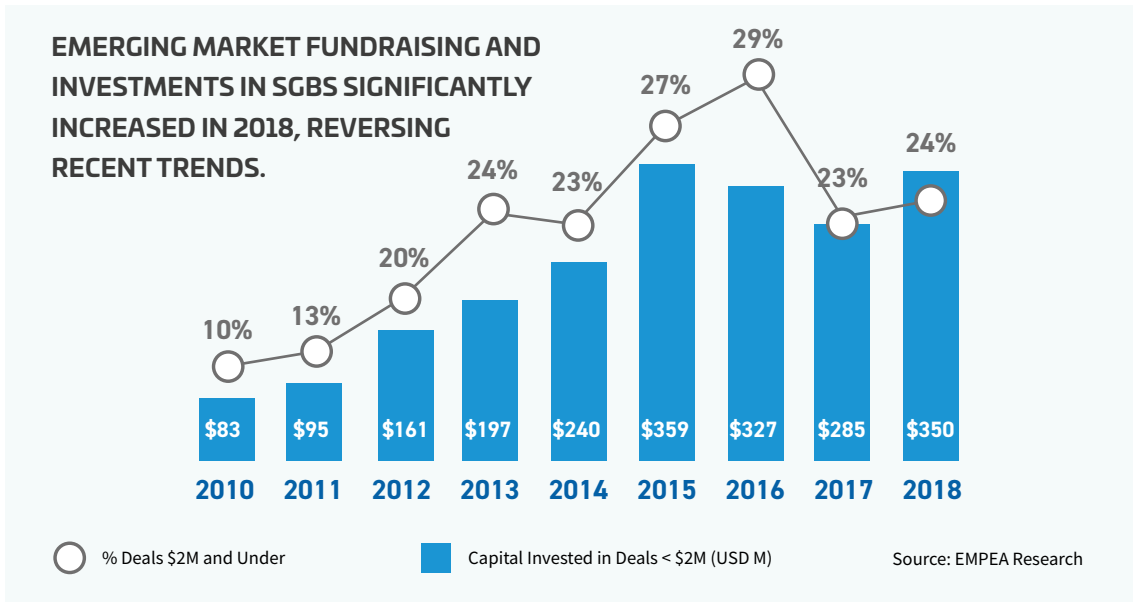


2018 saw renewed growth in SGB investing, with at least 56 new vehicles launching and funds raising at least US \$1.2 billion in committed capital. The median target assets under management (AUM) for SGB-inclusive vehicles reached new heights, signaling an optimistic view towards fundraising among fund managers.

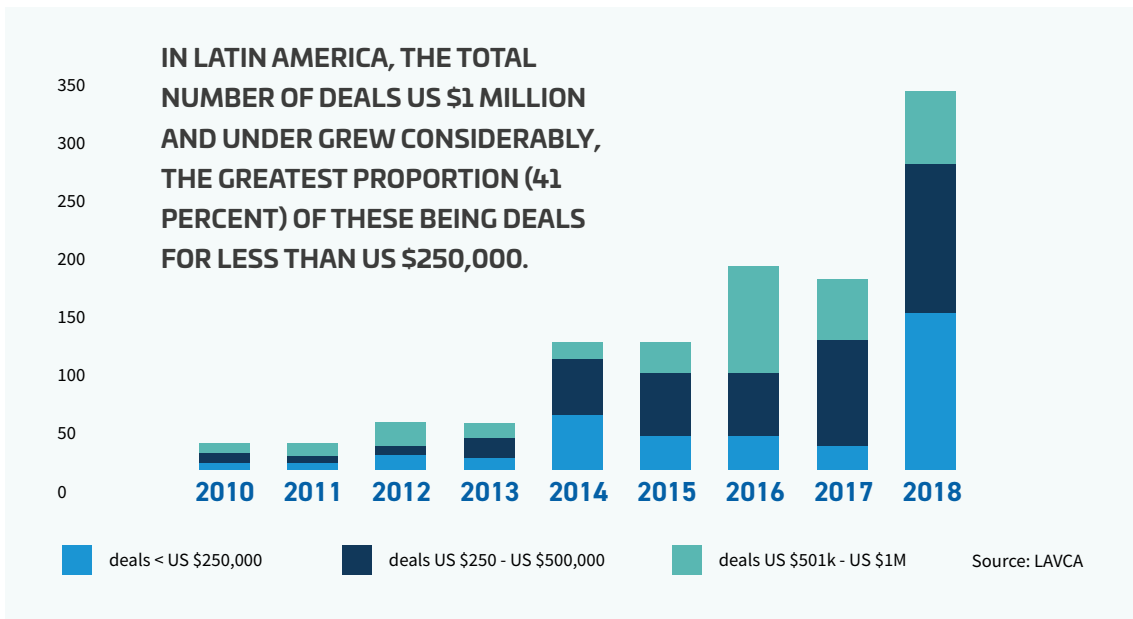
The information and communication technology (ICT) sector remains a major focus area among SGB investors; in 2018, 36 percent of newly launched vehicles focused on ICT or a tech vertical, reflecting a consistent trend over the past decade. This interest in ICT aligns both private investors and institutional donors for the sector, with the most popular technology-centric vertical among donors being fintech (see [Donor Funding](#) section in this report for more details).¹⁴

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See Methodology section for definition of SGB-inclusive investment vehicle
[Fueling Entrepreneurship in Emerging Markets: How 20 Major Funders are Supporting Small & Growing Businesses](#), ANDE/Devex

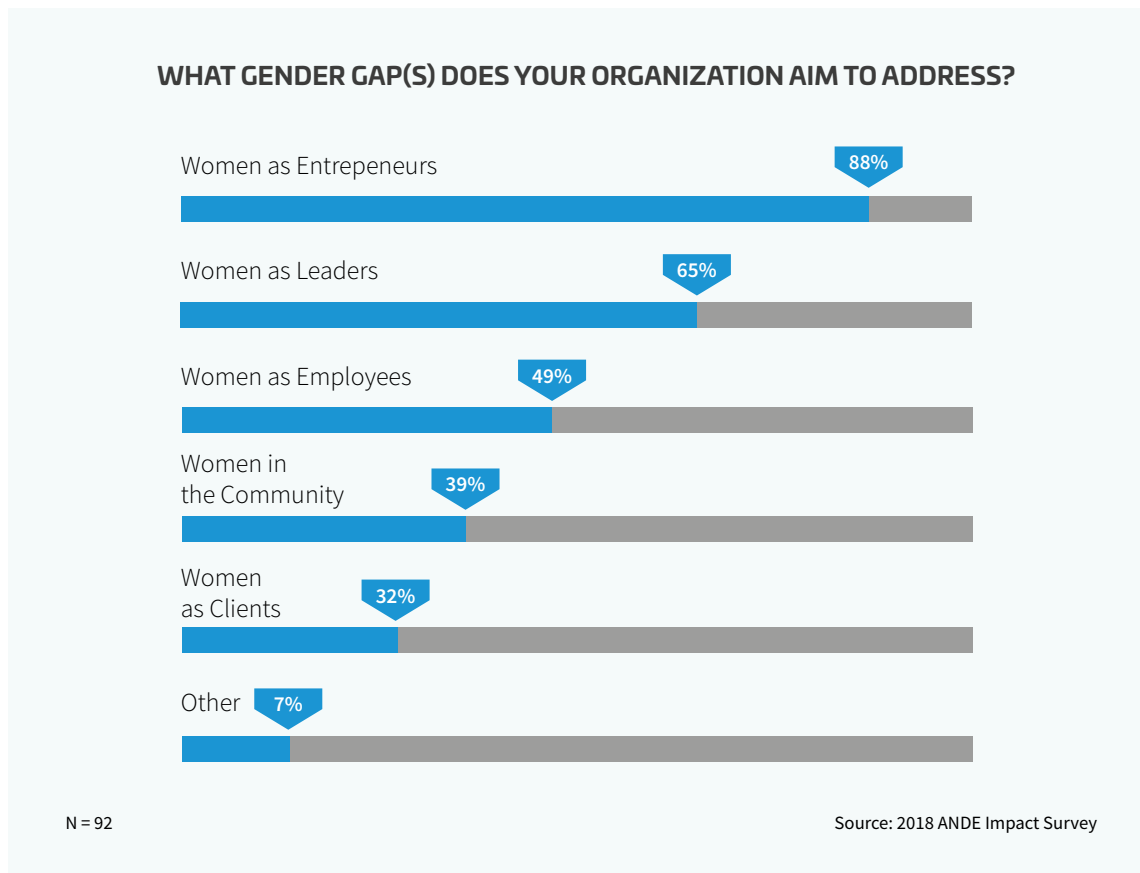


According to the Emerging Markets Private Equity Association (EMPEA), private capital vehicles in emerging markets invested a disclosed US \$70 billion in 2017, a 27 percent year over year increase. While only 0.5 percent of this went towards deals less than \$2 million, suggesting a continued gap in funding at this level, these deals represent a greater proportion of all deals than in 2017. In addition, there are positive signs that not only are more, new SGB-inclusive investment vehicles being launched, but the total amount of deals at this size is also beginning to increase, as evidenced by the Latin America Venture Capital Association’s (LAVCA) data on deals under US \$1m. Deals US \$1 million and under made up more than half (335 out of 610) of all investments tracked in 2018 in Latin America, followed by 114 deals between US \$1 and \$5 million.¹⁵



SGB Investing: Gender

Supporting women as entrepreneurs is consistently listed as the highest priority gender issue ANDE members aim to address.



Of the 56 newly launched SGB-inclusive investment vehicles identified by ANDE, at least 17 percent have an explicit gender-inclusive mandate.¹⁶ This appears to be a growing trend in the SGB investment sector, representing the highest number of SGB-inclusive vehicles with a gender lens since ANDE began tracking this in 2016.

CASE STUDY

Gender Lens Impact Investing: **PALLADIUM IMPACT INVESTMENTS IN NAASAKLE**

Impact investors seek to take advantage of a market opportunity through companies that embody the values that the investor wishes to foster. This might sound complicated, but all it takes is the right stakeholders, and a little bit of shea butter.

ANDE member Palladium recently invested in [Naasakle](#), a majority female-owned company that manufactures shea butter in Ghana for the cosmetics industry. The shea butter industry has been rapidly expanding due an increased demand to use more natural ingredients in every day products.

[Naasakle](#) works with female cooperatives in Ghana, compensating them at least 20% more than the Ghanaian minimum wage and significantly more than they would make working through middlemen in the trade industry. In addition to offering women better economic opportunities, Naasakle provides technical and financial literacy training and organizes savings programs. The investment from Palladium allows the company to grow by financing production improvements, equipment purchases, and working capital funding. This investment also bridges the gap between rural female nut pickers in northern Ghana and global shea butter demand and generates returns on a very impactful investment.

“I’m delighted to be working with Palladium Impact Investments who are keen to support the growth of my work with rural women in Northern Ghana”

— Naa-Sakle Akuete

While gender lens investing continues to be a popular topic in the investment world, gender issues have permeated other aspects of ANDE members’ work as well. In 2019, ANDE hosted its annual [Metrics from the Ground Up Conference in Mérida](#), Mexico with a focus on incorporating a gender lens into impact measurement and management (IMM) strategies. The participant-led discussions and workshops revealed a wide variety of innovative and unique ways to integrate gender into measurement systems and drive improved gender-inclusive strategies.

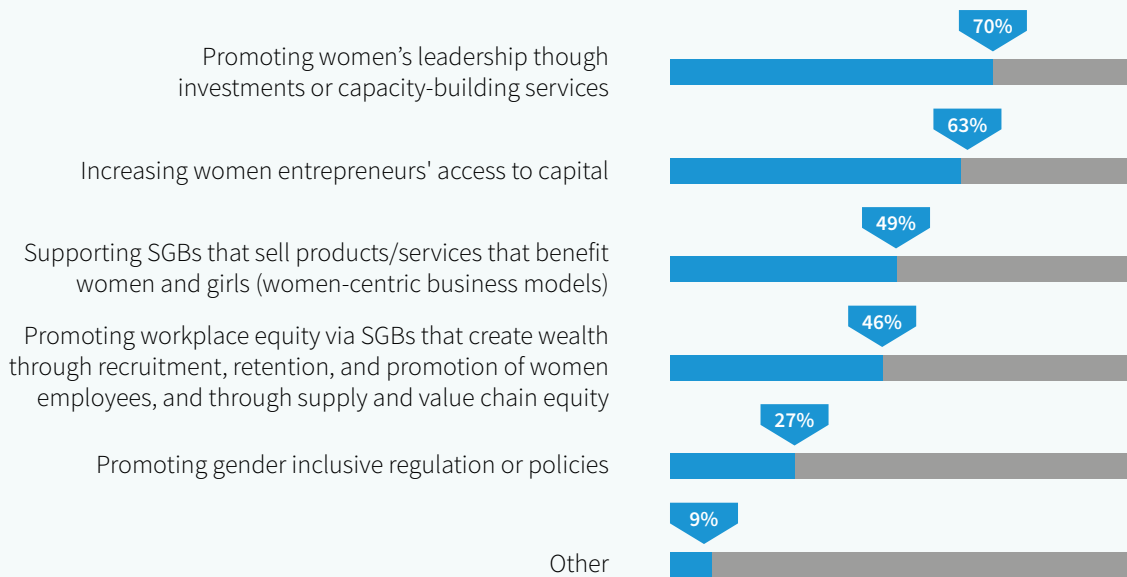
CASE STUDY

Piloting New Approaches to GENDER LENS MEASUREMENT

In 2018, ANDE launched the Gender Lens Impact Measurement (GLIM) fund, supported by the International Development Research Centre (IDRC), to better incorporate gender issues into impact measurement practices for the SGB sector in Latin America. This fund supports the development of innovative strategies and tools for incorporating a gender lens into impact measurement through researcher-practitioner partnerships. In early 2019, six winners were selected:

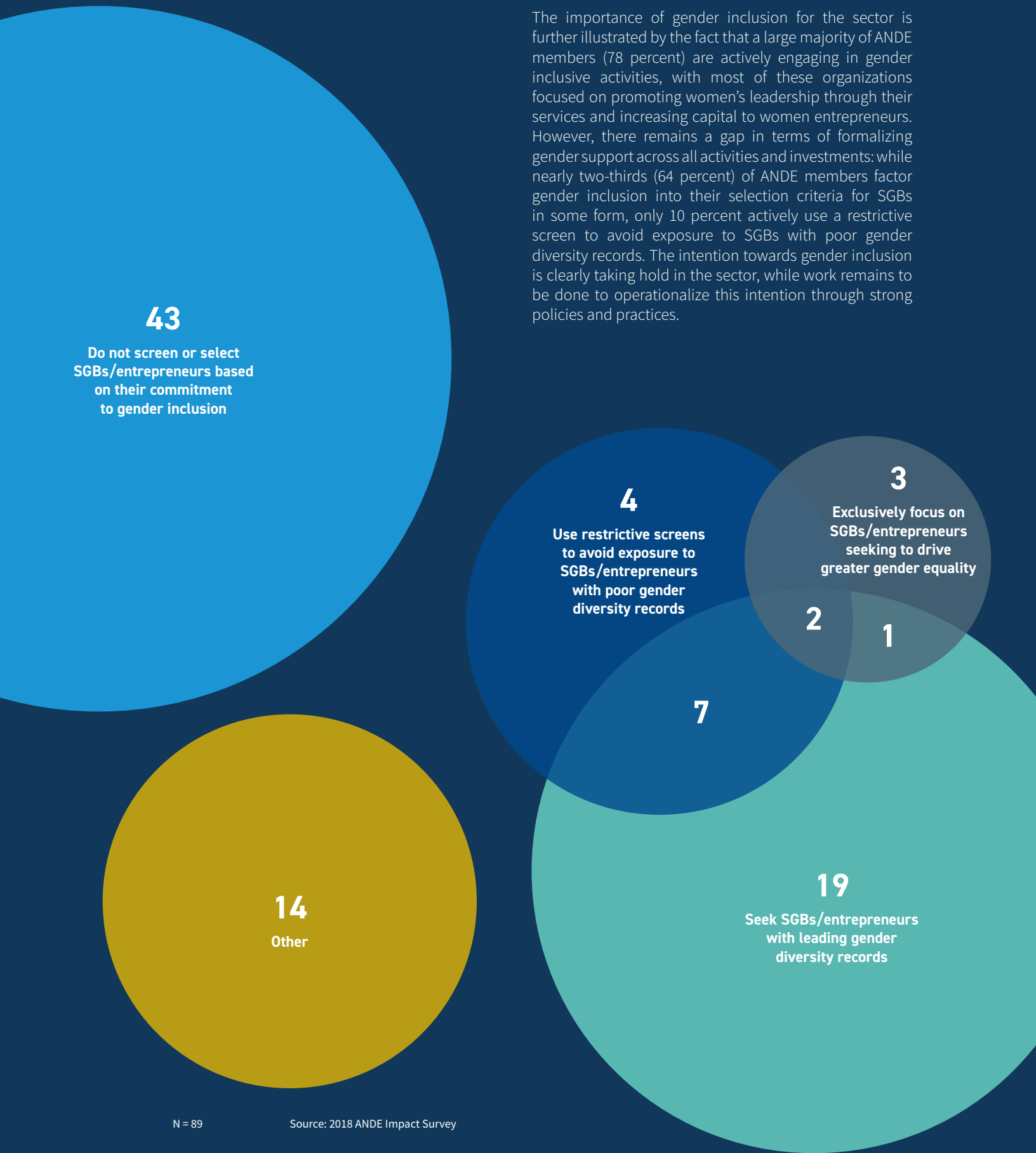
- **NESST** will create a gender lens investment strategy that it plans to apply to its own fund and that can be adopted by SGBs and the investment community.
- **Root Capital and Value for Women** will build and use impact measurement tools to assess the impact of small business-based interventions to improve the climate resilience of women coffee farmers in Central America.
- **Impact Hub and INCAE** will develop an open source toolkit including best practices, tools, and metrics for how SGB accelerators can intentionally apply a gender lens to their programs and measurement systems.
- **Universidad Católica Boliviana San Pablo and Practical Action Bolivia** will create tools to quantitatively and qualitatively measure the impact of gender inclusive approaches on economic development projects.
- **MEDA and Agora Partnerships** will pilot the Gender Equality Mainstreaming in Impact Measurement (GEMIM) tool, a new gender-inclusive impact measurement methodology for SGBs in the Central American agriculture sector.
- **The William Davidson Institute at the University of Michigan and Gente del Futuro (GDF)** will collect empowerment data from women working with GDF in Colombia to examine how empowerment differs based on women’s role in the coffee value chain to understand and better engage women in the sector.

HOW DOES YOUR ORGANIZATION AIM TO PROMOTE GENDER INCLUSION?



N = 94

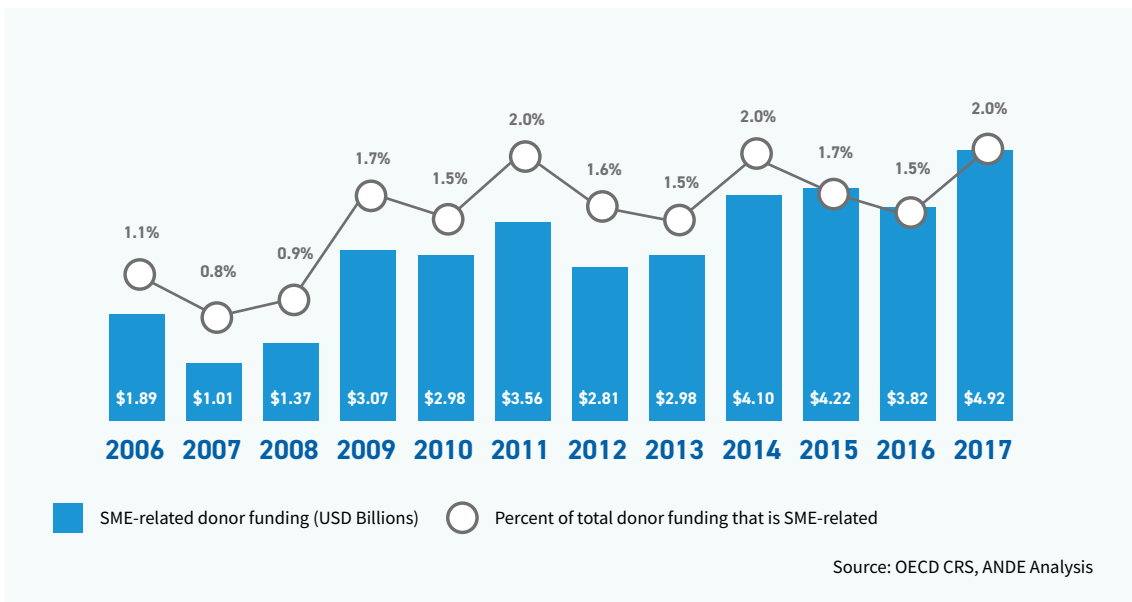
Source: 2018 ANDE Impact Survey



The importance of gender inclusion for the sector is further illustrated by the fact that a large majority of ANDE members (78 percent) are actively engaging in gender inclusive activities, with most of these organizations focused on promoting women’s leadership through their services and increasing capital to women entrepreneurs. However, there remains a gap in terms of formalizing gender support across all activities and investments: while nearly two-thirds (64 percent) of ANDE members factor gender inclusion into their selection criteria for SGBs in some form, only 10 percent actively use a restrictive screen to avoid exposure to SGBs with poor gender diversity records. The intention towards gender inclusion is clearly taking hold in the sector, while work remains to be done to operationalize this intention through strong policies and practices.

Donor Funding: Global

Donor funding tracked in the Organization for Economic Cooperation and Development (OECD) Creditor Reporting System (CRS) database for SME-related projects increased by 22 percent in 2017, to US \$4.9 billion. However, this represents a small fraction of total funding, while the financing gap for SGBs in emerging markets remains at **US \$930 billion**.¹⁷



In 2017 the sector saw an uptick in donor funding for SME-related projects, after two years of decline. According to the OECD CRS data, donor funding for the sector reached an all-time high in 2017. However, the proportion of total disbursements allocated to SME-related projects has yet to surpass two percent.

Almost half (48 percent) of all reported SME-related disbursements in 2017 came from EU institutions. Generally, though, support is highly dispersed among donors, with no single source (country or institution) accounting for more than 10 percent of total SME-related disbursements in 2017.

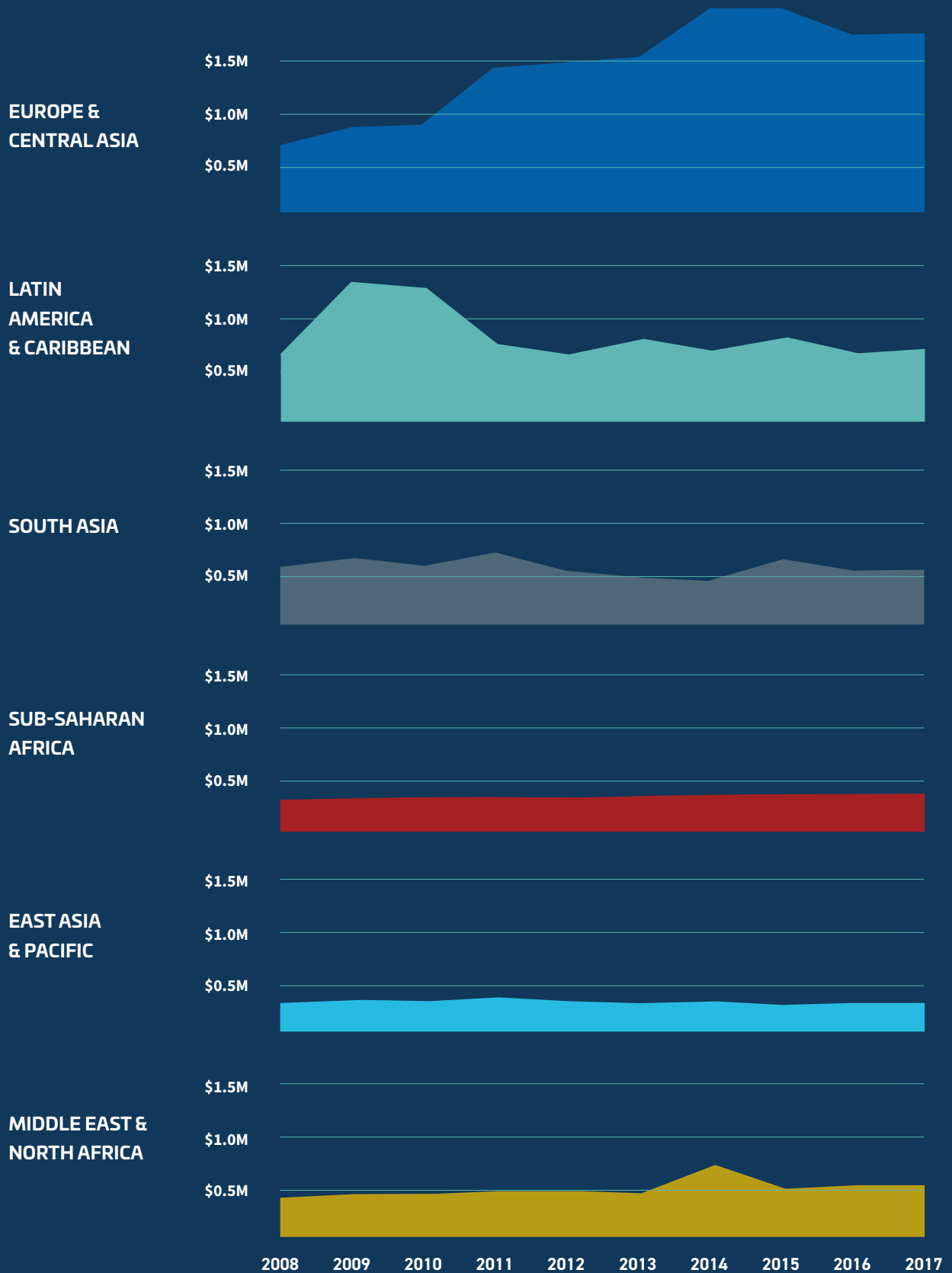
For more on how ANDE calculates SME-related and entrepreneurship-related disbursements, see the Methodology section.

- From 2013-2017, over one-third of SME-related funding was allocated to Turkey.



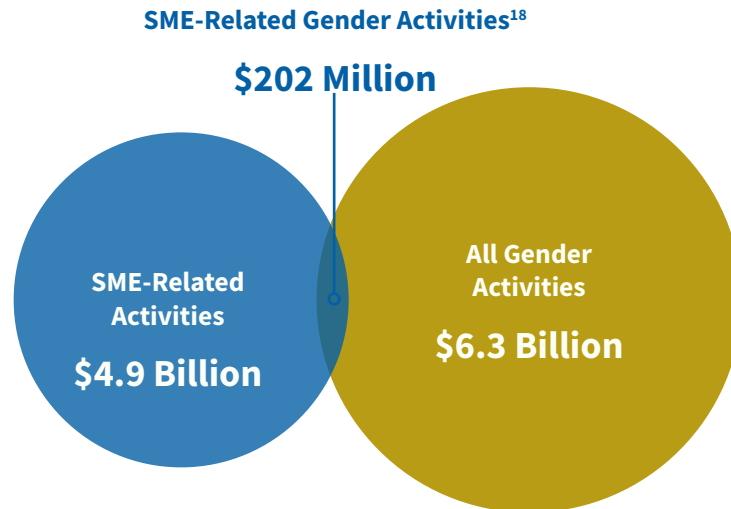
Turkey has consistently received the largest amount of SME-related donor disbursements over the past 10 years. Pakistan, Bosnia and Herzegovina, and Vietnam have been notably pushed out of this top 10 group, replaced by Afghanistan, Uzbekistan, and Brazil. Based on this data, it appears that SME funding is heavily going towards middle income countries (with a few exceptions). There also seems to be a divergence in trends geographically based on this data between where donors are directing their funding efforts versus where ANDE members are focusing. There are notably no countries in this list from sub-Saharan Africa; however, 191 ANDE members (65 percent) are supporting SGBs in Africa which indicates that there is both significant activity and opportunity in the region.

SME-RELATED DONOR FUNDING BY REGION FOR YEARS 2008-2017



Donor Funding: Gender

- Gender-related SME donor funding is a very small proportion of all SME-related disbursements



While donors reported providing \$6.3 billion to support activities related to gender equality and women's empowerment in 2017, and \$4.9 billion to support SME-related activities, these donors only reported \$202 million in activities that both support gender quality and SMEs.

Donor Gender Initiatives

Notable donor-supported activities focused on SGBs with a gender lens in 2018 included:

- The [Women Entrepreneurs Opportunity Facility \(WEOF\)](#) is a joint initiative between the International Finance Corporation (IFC) and Goldman Sachs Foundation, launched in 2014, that aims to address the financing gap faced by women entrepreneurs. The goal of WEOF is to provide access to capital for 100,000 women over its ten-year span to foster economic development. In the second year, the Overseas Private Investment Corporation (OPIC) joined the initiative. As of 2018, the project had reached 50,000 women entrepreneurs through the financial institutions that received investment. With six years left to run, the initiative has already invested \$990 million into 26 financial intermediaries in 26 countries; the original target was \$600 million.¹⁹
- The [Women Entrepreneurs Finance Initiative \(We-Fi\)](#), supported by the World Bank, harnesses the public and private sectors to open new doors for women entrepreneurs across the developing world. In 2018, the fund made its first allocation of US \$120 million, expected to mobilize \$1.6 billion in additional resources. This initial round focuses on improving the business environment for women entrepreneurs in Sri Lanka as well as working with the Islamic Development Bank to support women entrepreneurs in Yemen, Mali, and Nigeria.²⁰ The government of Canada has committed \$20 million to the initiative "to provide financial support, training and networks to women-owned and -led small and medium-sized enterprises in developing countries."²¹

¹⁸ ANDE derives this by using the gender code from OECD, "Women's equality organisations and institutions", which is defined as "Support for institutions and organisations (governmental and non-governmental) working for gender equality and women's empowerment."

¹⁹ [The Power of Partnerships](#), World Bank Group
²⁰ [Women Entrepreneurs Finance Initiative allocates first round funding; Expected to mobilize twice the original target](#), The World Bank

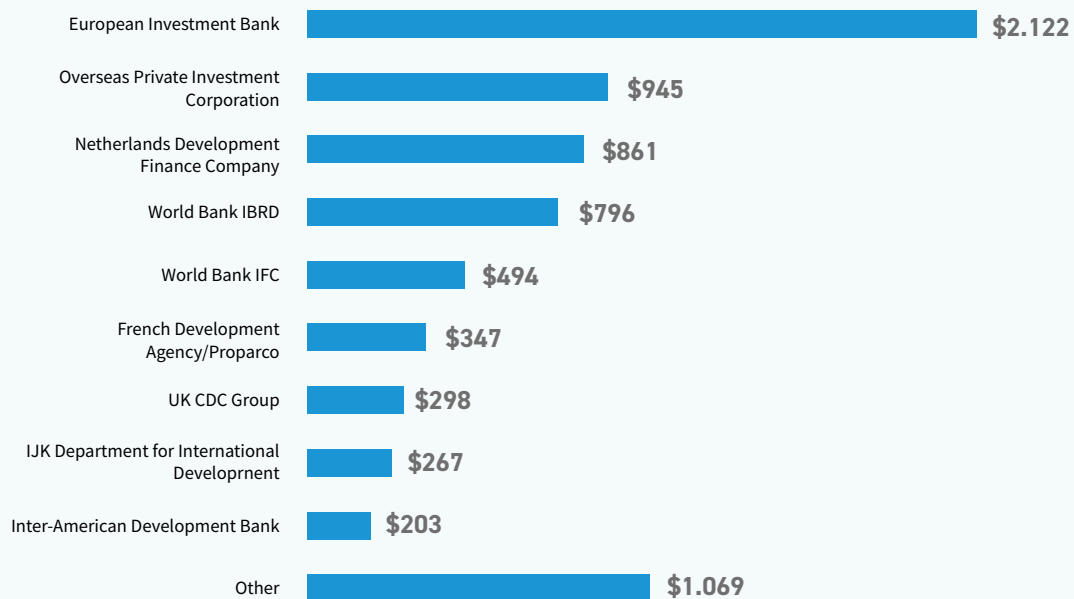
²¹ [Minister Bibeau announces Canadian champion to help empower women entrepreneurs in developing countries](#), Global Affairs Canada

Digging Deeper into Institutional SGB Sector Support

ANDE uses the OECD CRS database to track annual donor support for the SGB sector. The CRS database is useful for this analysis thanks to the database's standardization of project information across donors, providing the ability to apply a consistent coding for SME- and entrepreneur-related support. However, not all public organizations report to the OECD, and some major international public agencies, in particular Development Finance Institutions (DFIs) including the Overseas Private Investment Corporation (OPIC) and the European Investment Bank (EIB), are excluded. In addition, while projects related to SMEs use a standardized coding, this does not allow for separating out activities focused specifically on entrepreneurship. ANDE therefore partnered with Devex in 2018 to dig deeper into 20 key international institutions providing support for the SGB sector.²²

According to this research, these 20 multilaterals, bilaterals, and DFIs disbursed US \$7.4 billion to support SMEs in 2017, compared to the \$4.9 billion provided by donors in the OECD database, showing the importance of DFIs and multilaterals in supporting the sector. The EIB alone disbursed US \$2.1 billion towards SMEs primarily through equity, loans, loan guarantees, and investments into funds.

10 TOP DONORS: 2017 SME-RELATED DISBURSEMENTS

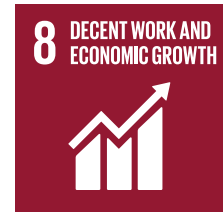


Source: International Aid Transparency Initiative (IATI), Devex Analysis

*Other includes 11 of the top 20 donors identified in the ANDE and Devex report, Fueling Entrepreneurship in Emerging Markets

This data, augmented with interviews with representatives of the donor institutions, also allowed for an examination of major trends in how these donors approach SGB support:

- **SGB support is seen as a means to an end for other development outcomes.** SGB funders see entrepreneurship and SGB development as a way to achieve outcomes in other sectors, such as agriculture or energy, rather than as an end in itself. In particular, there is an interest in SGBs as a means to focus on traditionally excluded groups such as women and youth, as well as to support Sustainable Development Goal 8, “Decent Work and Economic Growth.” This is reflected structurally as well among donor institutions, with few organizations having a department or office that specifically focuses on SGBs or even on SMEs.
- **Many DFIs are currently creating new investment mechanisms to allow them to make smaller, riskier investments relative to the rest of their portfolios,** since DFI deals typically have a minimum investment requirement of US \$5 million, which is well above the capital sought by most SGBs. The most common indirect channels used by DFIs for SGB support include investing in local financial institutions or investing in funds that specifically focus on early-stage investments in the developing world.
- **Increasingly, donor institutions are looking for opportunities to integrate disruptive technology verticals within other sectors of interest,** most popularly AgTech, FinTech, and EdTech. While many donors have an explicit sector focus for their technology verticals, the integrated and cross-cutting nature of technology means that these often fall under programs and offices targeting “innovation” more broadly. For example, the European Investment Bank recently shifted to a focus on early-stage innovation and made a direct investment in [M-Birr](#), an Ethiopian mobile money service.



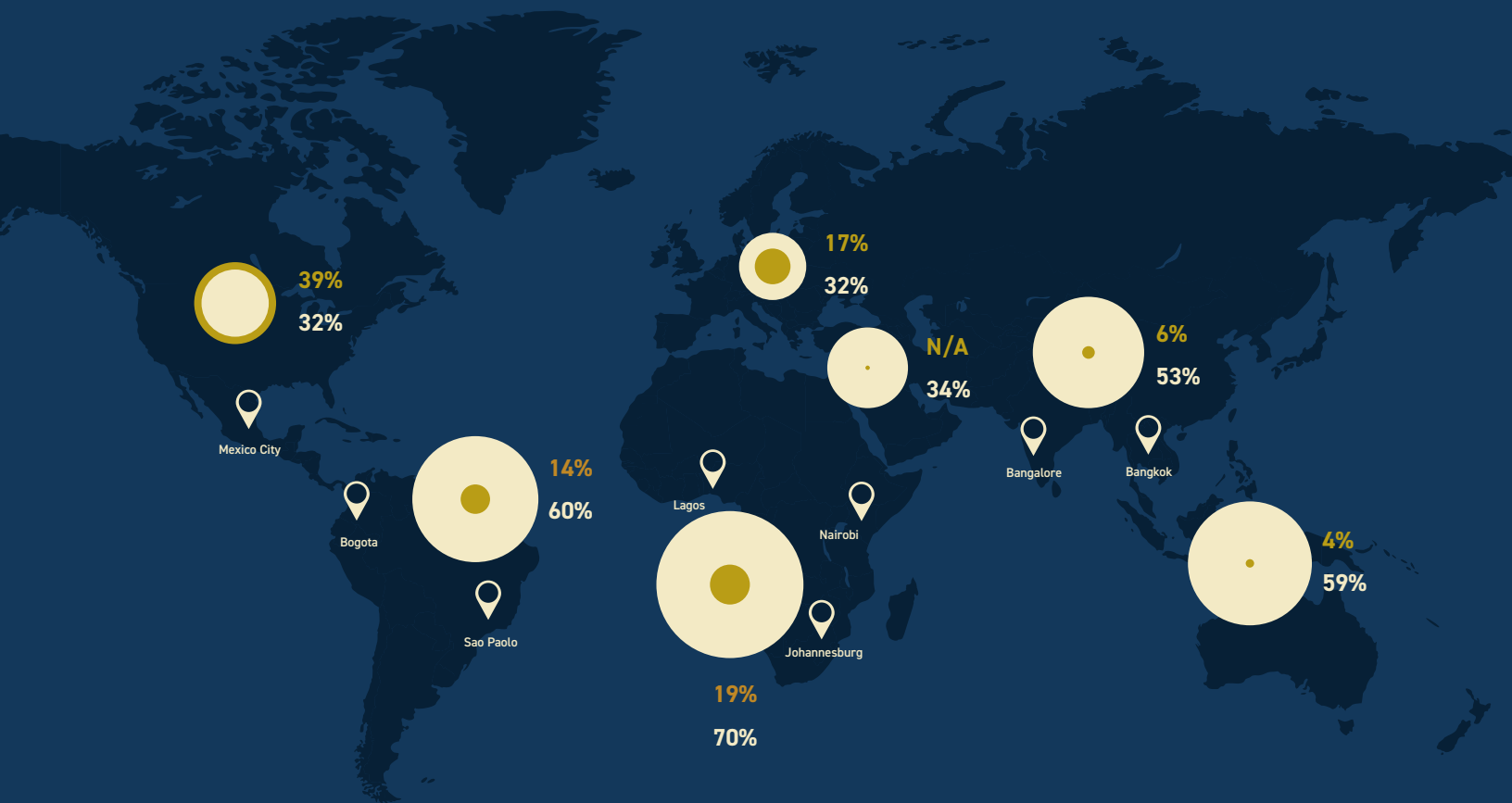
IOT : © Joan Bardeletti, Small is Powerful






ANDE in 2018

In 2018 ANDE added a new chapter in the Andean region of Latin America based out of Bogotá, Colombia that covers Argentina, Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela.

In addition to this new chapter, ANDE added six chapter staff to its existing regional chapters. ANDE's eight regional chapters are critical to enabling its mission of improving lives by strengthening the ecosystems that foster small and growing businesses in emerging markets.



-  Regional Chapter
-  Headquartered in the region
-  Engaged in the Region

Andean

The Andean chapter is the newest ANDE chapter, officially launching in April 2018. This chapter is based out of Bogotá, Colombia and covers Argentina, Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela.



10

MEMBERS
BASED IN
REGION

51

MEMBERS
WITH STAFF
IN REGION

138

MEMBERS
INTERESTED
IN REGION

2018 Sector Trends in the Andean Region

- **The impact investing sector continues to mature in the Andean region; however, much of this growth is targeted towards microfinance.** In a 2018 review of the impact investing landscape in Latin America, ANDE and LAVCA identified 42 deals in Colombia totaling US \$86 million in 2016 and 2017. The largest portion of these deals went to the microfinance sector (45 percent), followed by the ICT sector (28 percent).²³
- **The Andean region garnered investment attention from traditional investors as well,** with US \$1.5 billion in private capital across 110 deals in the region in 2018. Although this is a slight decrease from the US \$1.7 billion invested in 2017, 2018 saw 15 exits that generated proceeds of US \$376 million.²⁴
- **The availability of financial resources for SMEs in the Andean region remains limited, reflecting a larger trend for Latin America as a whole.** The Global Entrepreneurship Monitor's median score for the Andean countries on the availability of SME financing in 2018, including debt, equity, grants, and subsidies has stayed steady around 2.08 (on a scale of 1 to 5). This lags behind other emerging market regions such as East Asia and Pacific, which has a median score of 2.95. This reflects larger trends in Latin America, which has a median score of 1.97, suggesting that finance constraints remain a limiting factor across the region.²⁵
- **Failure is a necessary part of the entrepreneurial experience; however, fear of failure limits opportunities for those who seek to start a business.** According to the Global Entrepreneurship Monitor's (GEM) Adult Population Survey, in 2018 23 percent of the Colombian population responded that although they perceived good opportunities to start a business, the fear of failure would prevent them from doing so. Similar trends were found for the same demographic group in Chile, Argentina, and Peru at 29, 32, and 30 percent, respectively.²⁶

23 Latin America Impact Investing Landscape Study 2018, ANDE and LAVCA
 24 2019 LAVCA Industry Data & Analysis, LAVCA
 25 Adult Population Survey, Global Entrepreneurship Monitor
 26 Adult Population Survey, Global Entrepreneurship Monitor

Investing

The Latin American and Caribbean region is garnering renewed interest from the impact investing sector, with 40% of the Global Impact Investing Network's 2018 survey respondents allocating funds to the region.

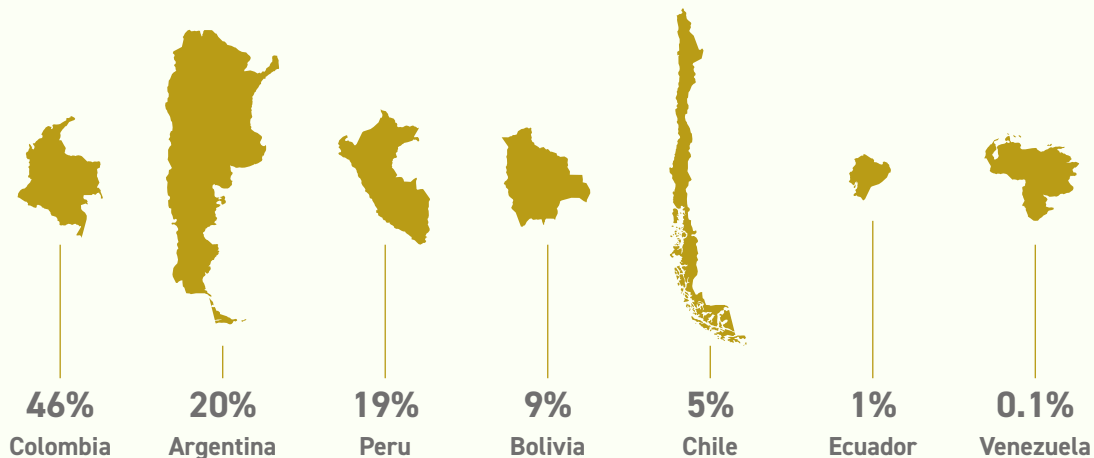
In the 2019 Industry Data & Analysis report, LAVCA reports venture capital investments of US \$334 million across 19 deals in Colombia in 2018. This was bolstered by a \$220 million funding round for the popular last mile delivery app Rappi, a so-called “unicorn” with a valuation of over US \$1 billion and partnerships with over 50,000 businesses.²⁷ However, it is unclear how many of the venture deals in Colombia were focused on SGBs rather than larger-ticket investments into more mature ventures.

Donor Funding

SME-related donor disbursements to the Andean region in 2017 totaled US \$100 million. This total amount represents a decrease from 2016 (US \$138 million), but the breakdown among countries has remained consistent. Over the past nine years, Argentina, Colombia, and Ecuador have consistently been awarded a high percentage of the disbursements (although this was not the case for Ecuador in 2017).

Of the twenty donor institutions examined in ANDE's deep-dive analysis with Devex, six of these donors have a focus in Latin America, and three work in the Andean region specifically, including the Finnish Ministry of Foreign Affairs, the Inter-American Development Bank (IDB), and the Swiss Agency for Development and Cooperation (SDC). The largest of these (in terms of SGB financing) is the IDB, which disbursed at least US \$119 million to the Andean region to support SGBs in 2017.²⁸

DISTRIBUTION OF 2017 DONOR DISBURSEMENTS TO ANDEAN REGION BY COUNTRY



Source: OECD CRS Database, ANDE analysis

27

Colombian “super app” is a unicorn. It wants to be a tech giant. [Bloomberg](#)

28

Fueling Entrepreneurship in Emerging Markets: How 20 Major Funders are Supporting Small & Growing Businesses, ANDE/Devex

Brazil



2018 Sector Trends in Brazil

- **In 2016 and 2017, the majority of impact investing deals in Brazil focused on the ICT sector**, which dominated in terms of total amount invested (US \$54 million) and in number of deals (16). According to ANDE and LAVCA's [2018 Impact Investing Landscape in Brazil report](#), approximately half of these deals were for less than US \$250,000.²⁹
- **The total number of impact investment deals made in Brazil is increasing, with total assets under management (AUM) of US 4.7 billion in 2016 and 2017.** The number of impact deals increased by 42 percent from 2014-2015 to 2016-2017. The aggregate amount invested increased by 56 percent, and the proportion of deals in the expansion/growth stage increased from 25 to 67 percent. This was also the first period of the bi-annual ANDE and LAVCA study to track exits, with eight total exits in Brazil in 2016-2017, six of which were debt repayments.³⁰
- **Eighty percent of impact investors active in Brazil align their strategy with the United Nations' Sustainable Development Goals (SDGs).** Of the impact investors that were active in Brazil in 2018 surveyed for the ANDE and LAVCA study, the two most common targeted SDGs are Goal 1: No Poverty and Goal 10: Reduce Inequality.³¹
- **Brazil continues to face financial inclusion challenges.** Approximately 35 percent of women do not have a formal bank account, and of the 27 percent of low-income adults that were able to save money in the previous year, more than one-third did so informally (i.e. not through a bank). Additionally, the number of defaulters in the country reached a historical record in July 2018.³²
- **Over two-thirds (69 percent) of Brazilian ventures applying to accelerator programs have all-male founding teams**, compared to 48 percent in the GALI global sample. Additionally, Brazilian teams with prior acceleration more often had revenues, employees, and investment at the time of application than those that had not been previously accelerated. There is a clear trend that male-led ventures are more often participating and benefitting from acceleration.

²⁹ [The Impact Investing Landscape in Brazil, ANDE and LAVCA](#)

³⁰ [The Impact Investing Landscape in Brazil, ANDE and LAVCA](#)

³¹ [The Impact Investing Landscape in Brazil, ANDE and LAVCA](#)

³² [2018 Sector Spotlight: Financial Inclusion & Fintech in Brazil, ANDE](#)

Impact Investing in Brazil



Brazil saw 69 impact investment deals with total investments of US \$131 million in 2016 and 2017, representing a growth in the industry relative to previous years. Most impact investing deals in 2016-2017 were made in the ICT sector, consistent with global impact investing trends.³³ Deal sizes varied across sectors, with larger average deal sizes in the sustainable livelihood and financial inclusion sectors, but smaller average deal sizes in the education and health sectors.

In the broader investment market, Brazil remained the largest market for investment in the region, despite uncertainty around the outcome of the 2018 presidential election slowing private equity activity in the country. LAVCA's 2019 industry data analysis found 314 deals capturing US \$3.4 billion deployed in the country.

Donor Funding

In Brazil, SME-related donor disbursements made up a very small percentage (less than one percent) of total donor funding disbursed to the country³⁴ in 2017. Of the 20 donors that ANDE and Devex analyzed in depth, six have a focus in Latin America and two specify supporting SGBs in Brazil. One of these is the World Bank that supports SGBs in Brazil indirectly through its support for TechEmerge, a matchmaking initiative in collaboration with IFC that connects startups to major corporations in emerging markets for a specific sector. The initiative is initially focusing on the healthcare sector in Brazil and India, where the selected startups will receive funding for the pilot launch of their local business ventures.³⁵

33 ANDE Investment Vehicle Database

34 OECD CRS Database, ANDE analysis

35 Fueling Entrepreneurship in Emerging Markets: How 20 Major Funders are Supporting Small & Growing Businesses, ANDE/Devex

Central America & Mexico



2018 Sector Trends in Central America and Mexico

- **In 2016 and 2017, investors allocated US\$392 million through 198 impact investing deals in Central America (excluding Mexico).** Nicaragua and Costa Rica received the most investment. The median deal size for the 198 deals in Central America was US\$ 1 million, while about one-third of deals were for \$500,000 or less.
- **Impact investors in Central America reported 4 exits in 2016 and 2017, and an additional four new exits in 2018, indicating a high potential for additional investments in the region.** Three of the 4 exits from 2016 and 2017 were strategic sales, with combined proceeds of the four exits totaling \$2.9 million³⁶, while the 4 new exits in 2018 generated \$155 million in combined proceeds.
- **In 2018, there were 137 private equity and venture capital deals in Mexico for a total of US \$1.5 billion.** Two large energy deals accounted for the majority of this sum, including the acquisition of InterGen's Mexico operations by Actis (US \$1.3 billion) and a solar energy project funded by Infared Capital Partners.³⁷
- **New opportunities continue to appear in Latin America's ICT sector.** Latin America has the third largest population of internet users, behind Europe and Asia³⁸, which improves potential market access for startups in the region. This is reflected in the number of ventures with an ICT focus applying to accelerator programs, with ICT representing the most common specific focus area for these ventures (13 percent of all applicants) according to data from the Global Accelerator Learning Initiative.
- **Three percent of the 1.7 billion unbanked adults in the world live in Mexico.**³⁹ This is despite of the fact that Mexico emerged as having one of the best regulatory frameworks for fostering financial inclusion within the region, demonstrating additional needs in the financial inclusion ecosystem. For Central America, the population of adults with a bank account for individual countries ranges from 28 percent (in Nicaragua) to 68 percent (in Costa Rica). Mexico falls on the weaker end of the inclusion spectrum, with 35 percent of its adult population with formal bank accounts.⁴⁰

³⁶ Latin America Impact Investing Landscape Study 2018, ANDE and LAVCA

³⁷ 2019 LAVCA Industry Data & Analysis, LAVCA

³⁸ Internet Users in the World by Regions March 2019, Internet World Stats

³⁹ The Global Findex Database 2017, The World Bank

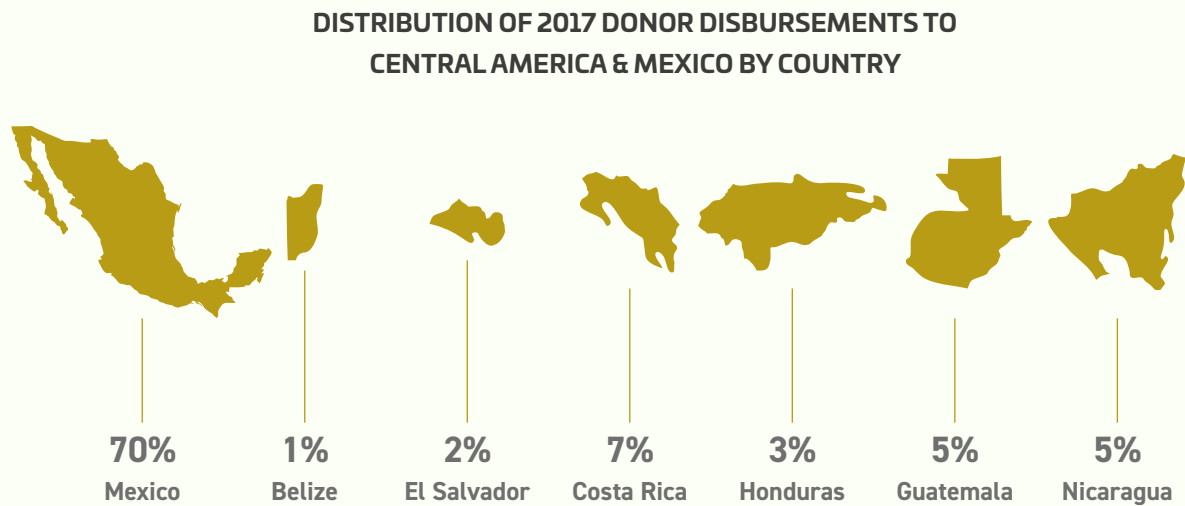
⁴⁰ Assessing the Quality of Regulations for Improving Financial Inclusion in Eight Latin American Countries, The Center for Global Development

- **Female participation in the start-up sector relies heavily on other women.** A study on [Women's Entrepreneurship in Latin America](#)⁴¹ shows that 72 percent of male entrepreneurs hire a majority male team and 67 percent of female entrepreneurs hire majority female teams. This suggests that an entrepreneur's gender can create bias in the hiring process, developing a self-reinforcing cycle of barriers to women.

Investing

Impact investing in the Central American region (excluding Mexico) in 2016 and 2017 focused primarily on microfinance, with 84 percent of deals going towards the sector. For Mexico, the trend is slightly different, with deals in microfinance lagging behind the ICT sector. The other top sectors for impact investors active in Central America and Mexico include agriculture, financial inclusion, health, and energy.⁴²

Donor Funding



Source: OECD CRS Database, ANDE analysis

SME-related donor disbursements to the Central America and Mexico region increased slightly in 2017 from 2016, although the same proportion (78 percent) of this funding was directed to Mexico. The other countries in the region that received significant funding include Guatemala and Costa Rica. Disbursements to El Salvador decreased significantly, which could be a result of political turmoil and social and migration issues in the country.

⁴¹ [Women's Entrepreneurship in Latin America](#), INCAE Business School
⁴² [Latin America Impact Investing Landscape Study 2018](#), ANDE and LAVCA

East Africa

18
MEMBERS
BASED IN
REGION

115
MEMBERS
WITH STAFF
IN REGION

172
MEMBERS
INTERESTED
IN REGION



2018 Sector Trends in East Africa

- **Continued growth of sub-Saharan Africa's technology sector and related verticals show promise for investors and entrepreneurs alike⁴³**, with internet connection rates across the continent reaching 24% in 2018⁴⁴. Additionally, M-PESA continues to lead as the most active and recognizable brand in East Africa⁴⁵, highlighting the relevance of the ICT and digital finance sectors to the SGB ecosystem in the region.
- **Despite significant recent economic growth, local financial institutions in Ethiopia remain notably underdeveloped relative to other East African countries.** Ethiopia's banking sector manages an approximate US \$1 billion, while Kenya's banking system manages over 30 times that amount.⁴⁶
- **Over half of the region's SGB ecosystem support providers are concentrated in Kenya.** Additionally, approximately 50 percent of impact investments in East Africa went into Kenyan ventures.⁴⁷ However, research from Endeavor suggests that the entrepreneurial support system remains largely driven by international donors with a gap in engagement with successful local entrepreneurs. This may be one factor in the large number of "low-productivity microbusinesses," hiring few employees, and raising little in venture capital.⁴⁸
- **In Tanzania, there is an emergence of innovation, tech, and entrepreneurship programs that target female entrepreneurs.** Some of the new players in this ecosystem subset include Ndoto Hub and SafeSpaceco, which offer support in the form of skill development and building entrepreneur confidence. They join some influential players like SheCodesForChange, which continue to encourage women and girls to join the tech space in a leadership capacity.⁴⁹
- **Uganda's entrepreneurial ecosystem continues to be dominated by very small firms with limited growth,** despite SMEs being identified as fundamental job creators and engines of economic growth in the Ugandan government's National Development Plan II.⁵⁰ This trend could explain why Uganda falls so low on the 2018 Global Entrepreneurship Index Rank, despite being highly rated in terms of total early-stage entrepreneurial activity (TEA).⁵¹

43 [The Biggest Tech and Innovation Trends in Africa for 2018, Quartz Africa](#)
 44 [Half the world is now connected by the internet – driven by a record number of Africans, Quartz Africa](#)
 45 [According to a consumer survey conducted by market research firm Kantar TNS](#)
 46 [Africa State of Impact Investing Report 2018, Intelicap, DFID, GSG](#)
 47 [Africa State of Impact Investing Report 2018, Intelicap](#)
 48 [Fostering Productive Entrepreneurship Communities, Endeavor](#)
 49 [What you need to know about the Tanzania Innovation Ecosystem. J. Mtambalike, Medium Blog](#)
 50 [Uganda Entrepreneurial Ecosystem Initiative: Phase I Report, ANDE](#)
 51 [GEDI Global Entrepreneurship Index 2018, Global Entrepreneurship Network](#)

Investing

Although there has been a decline in the proportion of SGB-inclusive vehicles with an exclusively East Africa focus since 2015, this past year the proportion of these vehicles rose from four to seven percent. International NGO (INGO) impact investors heavily target East Africa, with 67 percent of members of the INGO Impact Investing Network active in the region.⁵² While the impact investing sector has continued to mature in the region, in many areas investment options remain limited and constraining. In Rwanda, debt remains the dominant investment instrument, with high interest rates and predominantly short-term loans.⁵³

ANDE's 2018 Rwanda ecosystem snapshot found that most investors report using debt as their vehicle of choice. Additionally, the GIIN found that a significant portion of DFI direct impact investment capital disbursements in East Africa were comprised of debt.⁵⁴

Donor Funding

Donor funding for the SGB sector in East Africa did not change significantly from 2016 to 2017; however, this represents an improvement over recent years that saw a negative trend in terms of funding for the sector.

CASE STUDY

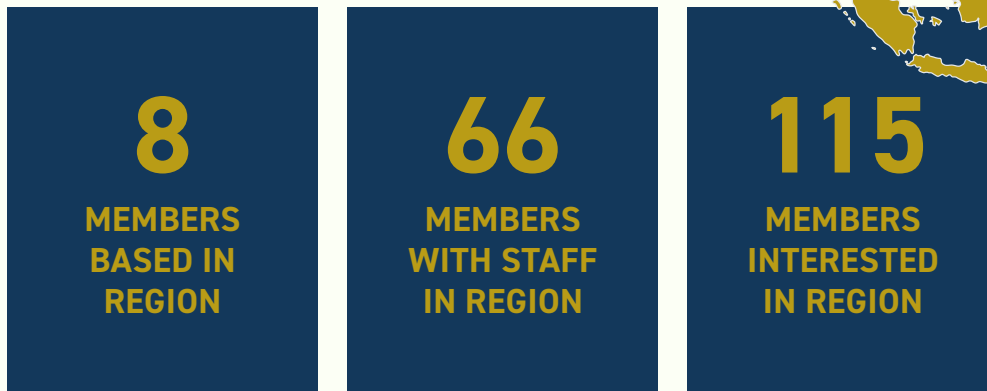
YIELD UGANDA INVESTMENT FUND

Leveraging local capital to de-risk impact investments has long been a topic of conversation in the region and in the greater impact investing sector. Through its *Yield Uganda Investment Fund*, Pearl Capital Partners (PCP) has tackled this challenge through the support of the National Social Security Fund (NSSF) in Uganda in the form of a €2 million commitment, alongside the European Union's (EU) €10 million through the International Fund for Agricultural Development (IFAD).

The fund, which aims to support small and growing agribusinesses, is making investments in SGBs in the range of €250,000 to €2 million. It also has a technical assistance and business development services facility that benefits the investees post-investment by covering a variety of key improvement areas including ESG, out-grower farmer trainings, certifications, capacity and systems improvements, and corporate governance on a cost sharing arrangement basis funded by the EU and managed by IFAD. The impact goals are to improve rural household livelihoods, improve access to markets, create jobs, promote food security, and generate income and new export opportunities, ultimately contributing to the country's economic growth and goal to eradicate poverty. This is the first SGB fund in the region to be capitalized by a pension fund.

52 According to Humentum's Amplify ii: [The INGO value proposition for impact investing](#)
53 [Rwanda Entrepreneurial Ecosystem Snapshot 2018](#)
54 According to Humentum's Amplify ii: [The INGO value proposition for impact investing](#)

East & Southeast Asia



2018 Sector Trends in East & Southeast Asia

- **There is often a mismatch between what entrepreneurs need from the banking system and what is available.** Loan products are most commonly geared towards housing, land, and vehicles rather than businesses (particularly small or startup businesses), often resulting in short loan repayment terms that are unrealistic/unmanageable for entrepreneurs and SGBs.⁵⁵
- **More initiatives in the region are launching to promote gender equality.** The Australian Department of Foreign Affairs and Trade (DFAT), a large donor active in the region, launched two new initiatives in this area: the Investing in Women program, focused on gender equality through fostering coalitions of female-led businesses and other stakeholders seeking to encourage gender equality through their asset allocation,⁵⁶ and the Pacific Women Shaping Pacific Development initiative, with one of four focuses being to empower women through training, financial literacy, and access to retail.⁵⁷
- **Challenges differ considerably across countries in the region,** reflecting the varying development levels among individual economies and adding a level of complexity in creating region-wide collaboration and initiatives to support the sector. For example, stakeholders noted in a recent study that in Thailand there are few private capital players and few stakeholders to take the conversation forward. In contrast, stakeholders active in Singapore have a positive outlook on the investment pipeline, while looking for opportunities for a more regional approach to grow the sector region-wide.⁵⁸
- **Comfort with failure is low in the East and Southeast Asia (ESEA) entrepreneurial ecosystem.** According to a 2018 Global Entrepreneurship Monitor (GEM) survey of the adult population (ages 18-64) in China, Indonesia, Japan, and Thailand, 45 percent of respondents reported that fear of failure would prevent them from setting up a business despite perceiving good opportunities in the market.

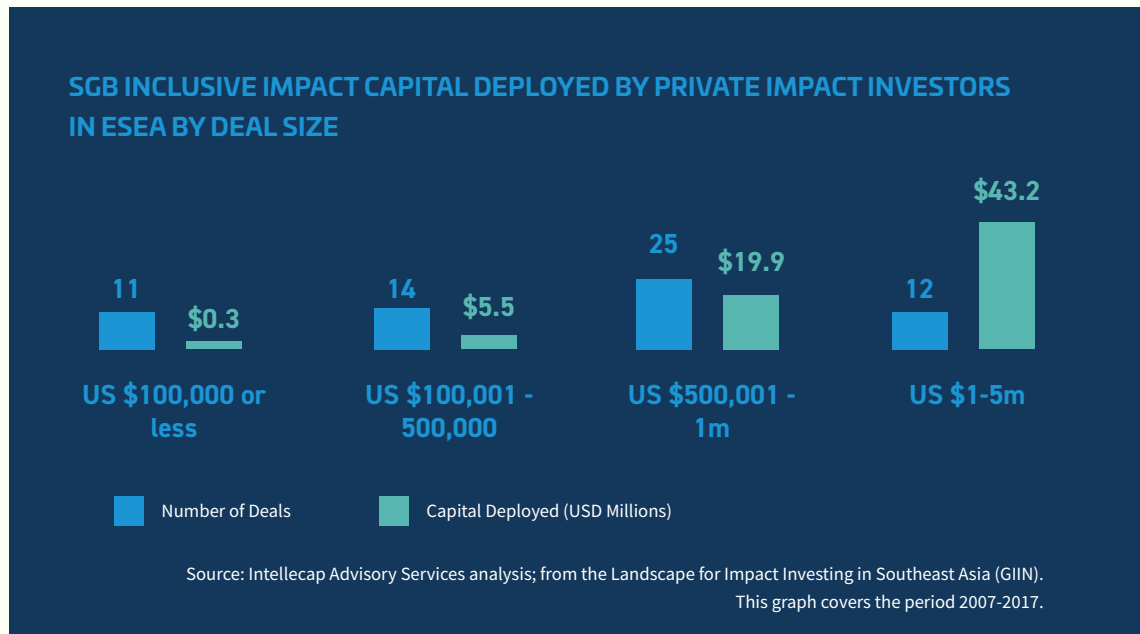
55 2019 Myanmar Entrepreneurial Ecosystem Snapshot, ANDE

56 Investing in Women – Who We Are, Australian Aid

57 Pacific Women – Our Approach, Australian Aid

58 “Advancing Social Enterprises for Realisation of SDGs in ASEAN,” 2019 ASEAN+3 Conference on Social Enterprise

Investing



Most private impact investing deals (75 percent) made in the ESEA region were made in 2013 or later, and just over half (56 percent) specifically targeted SGBs. The majority of deals between \$0.5 - \$1 million went to the microfinance sector in Cambodia, Myanmar, and East Timor.

While debt only accounts for less than a third of private impact investment deals in the region, debt dominates as the leading type of capital deployed in traditional investment deals. ANDE's [Myanmar snapshot](#) found that the majority of SGB support providers offer debt as an investment instrument, ahead of equity, grant, quasi-equity and guarantees. This could be a result of lack of protective laws for investors among ESEA countries.

Donor Funding

Vietnam has consistently received the largest portion of donor disbursements to support SMEs for the region over the past 11 years. The ANDE and Devex deep-dive into 20 donor institutions supporting SGBs found that nine of these donors had a regional focus in East Asia & Pacific; the largest of these being the Australian Department of Foreign Affairs and Trade (DFAT). DFAT's support is relatively unique in that it is focused in Asia but generally open to SGBs in a wide variety of sectors, whereas many donors direct their SGB funding towards specific sectors.

India



2018 Sector Trends in India

- Agriculture continues to be the primary source of livelihood for over half of India's population, presenting a large potential market for local start-ups.**⁵⁹ Consistent with global startup trends, Indian entrepreneurs are driving innovation in the AgTech sector based on local needs; one resulting innovation is the development of Farming-as-a-Service (FaaS), a model that has garnered significant attention from investors, governments, and corporates.⁶⁰
- The green economy represents a major potential growth area for impact investments in India.** The Indian green bond market has matured considerably, with the total green bond issuance reaching US \$7.15 billion in 2018⁶¹— with at least 10 green bonds having been oversubscribed.⁶² Recent innovations in mechanisms to lower transaction costs in green finance, such as the Solar Investment Trust which pools small-scale rooftop solar projects into a special purpose vehicle, provide pathways through which clean energy investments can continue to grow.⁶³
- A shift from grants to impact investments has created new opportunities for entrepreneurs.**⁶⁴ Growing interest from impact investors is a positive sign for entrepreneurship in the country, though the market will need to catch up to investor needs. For example, many investors require strong monitoring and evaluation of impact outcomes, something that many entrepreneurs struggle to implement effectively.⁶⁵ However, it remains to be seen how the shift from grants to investment capital translates into faster firm growth.
- Bengaluru (Bangalore) continues to be a major driver of entrepreneurial innovation in India, particularly in advanced manufacturing, fintech, and edtech.** In the past six years, Bengaluru's Fintech startups received approximately 20 percent of all venture capital investments to the country, making it the premier destination for the sector's venture capital investors.⁶⁶

59 Agriculture in India: Information About Indian Agriculture & Its Importance, India Brand Equity Foundation
 60 Global Startup Ecosystem Report 2018; Startup Genome
 61 Moving from Growth to Development: Financing Green Investment in India, ORF Special Report
 62 Financing the Future of Asia: Innovations in Sustainable Finance, FSG
 63 Financing the Future of Asia: Innovations in Sustainable Finance, FSG
 64 Sustainable Livelihoods India: A supply-side funding landscape study, AVPN
 65 Sustainable Livelihoods India: A supply-side funding landscape study, AVPN
 66 According to a 2018 Startup Genome Report on the Global Startup Ecosystem

Investing

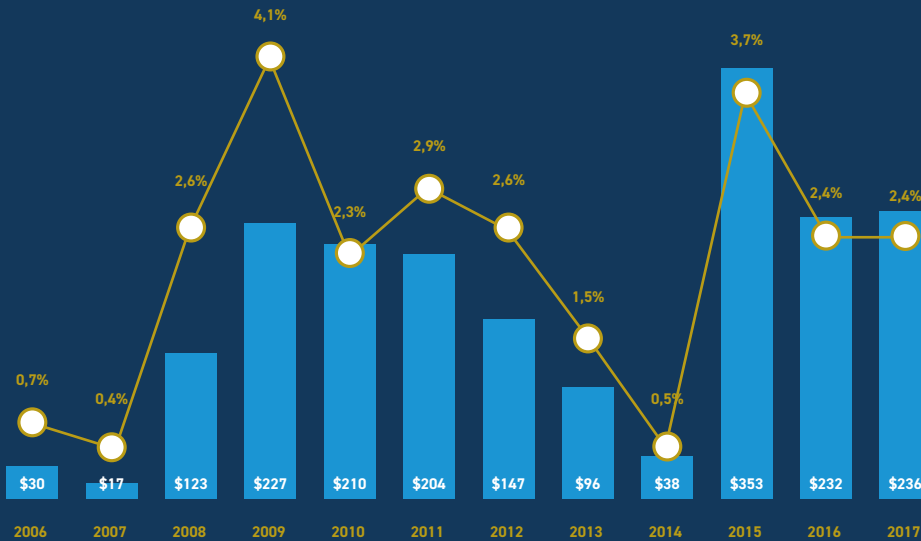
SDGS AS A COMMON IMPACT LANGUAGE

In 2018, India saw the launch of The India Impact Fund of Funds, an SDG-aligned initiative that plans to raise US \$1 billion to be invested in select debt funds that will redistribute this capital to various Indian social enterprises. This represents a broader trend of the emergence of the SDGs as a global impact language between stakeholders to signify common goals and the potential for collaboration.



Donor Funding

THE PORTION OF SME-RELATED DONOR DISBURSEMENTS REMAINED THE SAME AS IN 2016 AND REPRESENTS SLIGHTLY MORE THAN HALF OF THE HISTORIC HIGH OF 4.1 PERCENT IN 2009.



US \$Millions

Source: OECD CRS, ANDE Analysis

In ANDE’s 2019 report *Fueling Entrepreneurship in Emerging Markets*, India is named as a focus for 8 of the 20 major donors. Some of the most notable donor supporters to the sector in the country include the Japanese International Cooperation Agency (JICA) that directed two thirds of its 2017 SME-related disbursements to India, the Overseas Private Investment Corporation’s 2x initiative and its US \$124 million loan facility shared between India and Mongolia, and a US \$18 million investment in the equity of Indian SME lender Veritas Finance from the UK CDC Group.

South Africa



2018 Sector Trends in South Africa

- The MSME sector as a whole in South Africa is experiencing stagnant growth**, with 2.3 million MSMEs in 2017 compared to 2.0 million in 2008. South Africa has experienced protracted economic weakness; the rate of early stage entrepreneurship should be three times its current rate and the country GDP only grew 0.8 percent in 2018 from 2017.⁶⁷ Female MSME ownership has also been in decline over the past decade (declining to 38 percent in 2017 from 48 percent in 2008).⁶⁸
- The public sector and corporate donors remain key supporters of social enterprises and SGBs, though the quality of support is an issue.** Social enterprises “succeeded mostly in attracting funds from the public [sector]”⁶⁹, while donor support remained the dominant funding mechanism for BDS providers.⁷⁰ However, confusion and a lack of quality among business development service (BDS) providers hampers effectiveness, with BDS providers experiencing an “identity crisis” of different names for the same set of services to respond to donor demands,⁷¹ while higher-cost BDS does not always demonstrate a correlation with greater program effectiveness.⁷²
- SGBs are creating jobs in the South African market, spurred by investment.** Small enterprises employ between 50 and 60 percent of the country’s work force and contribute around 34 percent of GDP.⁷³ High-growth small enterprises are leveraging investment to accelerate employment, with SAVCA’s 2018 Venture Capital Survey finding that 77 percent of companies that received investment from a venture capital firm increased their number of full-time employees.⁷⁴

67 2018 South Africa Budget Review, National Treasury, Republic of South Africa

68 The unseen sector: a report on the MSME opportunity in South Africa, International Finance Corporation

69 Social Enterprises in South Africa: Discovering a vibrant sector, Gordon Institute of Business Science at University of Pretoria

70 A Knowledge Brief of South Africa’s Incubator and Accelerator Landscape, ANDE

71 A Knowledge Brief of South Africa’s Incubator and Accelerator Landscape, ANDE

72 2018 Catalyst for Growth Annual Report: The Role of Business Development Support (BDS) on South African SMME Performance, Catalyst for Growth

73 The Unseen Sector: A Report on the MSME Opportunity in South Africa, International Finance Corporation

74 SAVCA 2018 Venture Capital Industry Survey, South African Venture Capital and Private Equity Association

- **The Gauteng ecosystem remains active yet fragmented, with at least 265 SGB support programs in the ecosystem.** Over 60 percent of these have offices or staff in the most affluent suburbs of Gauteng, while less than 13 percent have a physical presence in the rural or impoverished areas. Additionally, there is a lack of collaboration among ecosystem players, possibly due to a lack of common knowledge base, resulting in siloed approaches to the many gaps.⁷⁵
- **South African entrepreneurs are attracting VC funding, though this funding is concentrated in a few geographies.** The total number of VC investments increased from 114 in 2016 to 159 in 2017, an increase of 39.5%.⁷⁶ Over 93 percent of these deals (by value) were located in Gauteng or the Western Cape. Of these, Gauteng saw a higher value per deal, but more VC-backed businesses in 2017 were based in the Western Cape. Cape Town is positioning itself as a booming tech ecosystem, drawing many early-stage tech firms, with a few larger firms accounting for the majority of employment creation in the region.⁷⁷ A higher percentage of companies receive VC funding in Cape Town than in comparable cities in sub-Saharan Africa, including those based in Lagos or Nairobi.⁷⁸

Investing

Access to early-stage finance is consistently listed as a bottleneck for South Africa's entrepreneurial ecosystem. Investors are typically more interested in larger deal sizes, while SGBs are looking for smaller ticket sizes. Additionally, SME lending has remained flat for the past decade while lending to large businesses has increased.⁷⁹ Despite many investors active in the country stating they are willing to fund deals under R1 million (approximately US \$70,000), few deals are actually made in this range, with seed capital representing only 2% of VC deals.⁸⁰ Stakeholder input indicates that although these deals are potentially available, the requirements needed for such deals are not feasible for most SGBs in the country.⁸¹ This leaves most startup founders using their own savings or informal lending avenues (family/friends) to finance the start and early stages of their business.⁸²

Donor Funding

Although the percentage of SME-related donor disbursements shows small incremental growth over the past few years, this is largely due to the amount of total donor aid to South Africa (SME-related and non) decreasing over the past six years. The portion of SME-related donor disbursements also has not come near its peak of two percent (reached in 2007) in over a decade, which is still a small fraction of the billions disbursed to the country over the years.

This declining trend in donor disbursements to the country is consistent with ANDE and Devex's finding that only one of the 20 major donor institutions examined for the study (the International Finance Corporation) is actively and explicitly targeting SGB support in the country.

75 [Gauteng Entrepreneurial Ecosystem Snapshot 2018](#)
 76 [SAVCA 2018 Venture Capital Industry Survey, South African Venture Capital and Private Equity Association](#)
 77 [Evaluation & Network Analysis of the Cape Town-Stellenbosch Tech Sector, Endeavor Insight](#)
 78 [Evaluation & Network Analysis of the Cape Town-Stellenbosch Tech Sector, Endeavor Insight](#)
 79 [Inaugural South African SMME Access to Finance Report, FinFind](#)
 80 [SAVCA 2018 Venture Capital Industry Survey, South African Venture Capital and Private Equity Association](#)
 81 [Inaugural South African SMME Access to Finance Report, FinFind](#)
 82 [Inaugural South African SMME Access to Finance Report, FinFind](#)

West Africa



2018 Sector Trends in West African Region

- **Many SMEs operate informally in West Africa**, limiting their ability to access financing. Enterprise informality is common throughout the sector and particularly in West Africa; for example, an estimated 70% of SMEs in Ivory Coast are categorized as informal or semi-formal.⁸³
- **West Africa's population is very young** with a quickly-increasing population of working-age people. The Gambia, for example, is expected to have 60% of its population of working age (15-64 years) by 2035. This is consistent with other West African countries – and exceeds the sub-Saharan average. SGB intermediaries such as accelerators and incubators are working to engage youth in entrepreneurship; GALI data indicates that youth-led ventures dominate applicants to accelerator programs in Nigeria but are less established and may face different challenges than older teams.⁸⁴
- **Infrastructure remains one of the greatest challenges for support providers in Ghana**, with incubators spending an average of 60% of overall expenditures just on operations. The aspects of operating a business that most adversely affect entrepreneurs in Ghana are unstable power, high rent cost, and overpriced internet.⁸⁵ Despite this, **tech hubs continue to thrive in the region**, with 55 operating in Nigeria, 24 in Ghana, 13 in Côte d'Ivoire, and 12 in Senegal.⁸⁶ These hubs include incubators, accelerators, and co-working spaces.
- **Nigeria and Senegal each implemented five business-related regulatory reforms in 2018**, making it easier to do business in the country.⁸⁷ Both countries implemented reforms around starting a business, dealing with construction permits, registering property, getting credit, enforcing contracts, and paying taxes.⁸⁸

83 Africa State of Impact Investing, Intellectap
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- **Global payment giants have invested in and partnered with Nigerian fintech companies.** However, fintech momentum in Nigeria, Africa's largest economy, may be slowed by proposed regulation by Nigeria's central bank which could make it more expensive for local fintech startups to operate.⁸⁹
- **Mismatches between investors and SGBs have created inefficiencies in the ecosystem and highlight a gap in intermediary support.** ANDE's 2018 ecosystem snapshots of two Nigerian cities, Port Harcourt and Ibadan, as well as a country-level snapshot of Ghana found that investors are often disconnected from the true needs of the ecosystem, while SGBs have a low awareness of investor requirements.^{90,91}

Investing

Investors active in sub-Saharan Africa have indicated an optimistic outlook on West Africa, with a growing number of investors indicating that the region will continue to be attractive for private equity investment over the next three years. African Private Equity and Venture Capital Association's (AVCA) survey of active LPs show that 85% share this opinion, up from 76% in 2017.⁹² AVCA's 2017 Annual African Private Equity Data Tracker shows that West Africa has attracted the greatest share of PE deals reported in Africa between 2012 and 2017.

Over the past six years, 282 PE deals have been made in West Africa for a total of US \$10.8 billion. This is a promising sign for investment generally in the region; however, the median deal size during this period was US \$6 million, indicating a lack of SGB-accessible capital. Additionally, a significant majority of PE deals (both in terms of number and capital disbursed) are concentrated in Nigeria. This is also reflected in VC funding, with 58 startups in the region raising a total of US \$95 million in 2018.⁹³ While reflecting the strong potential of the region, this also demonstrates the risk for Nigerian start-ups to overshadow entrepreneurs from the other West African countries hoping to draw in capital.⁹⁴

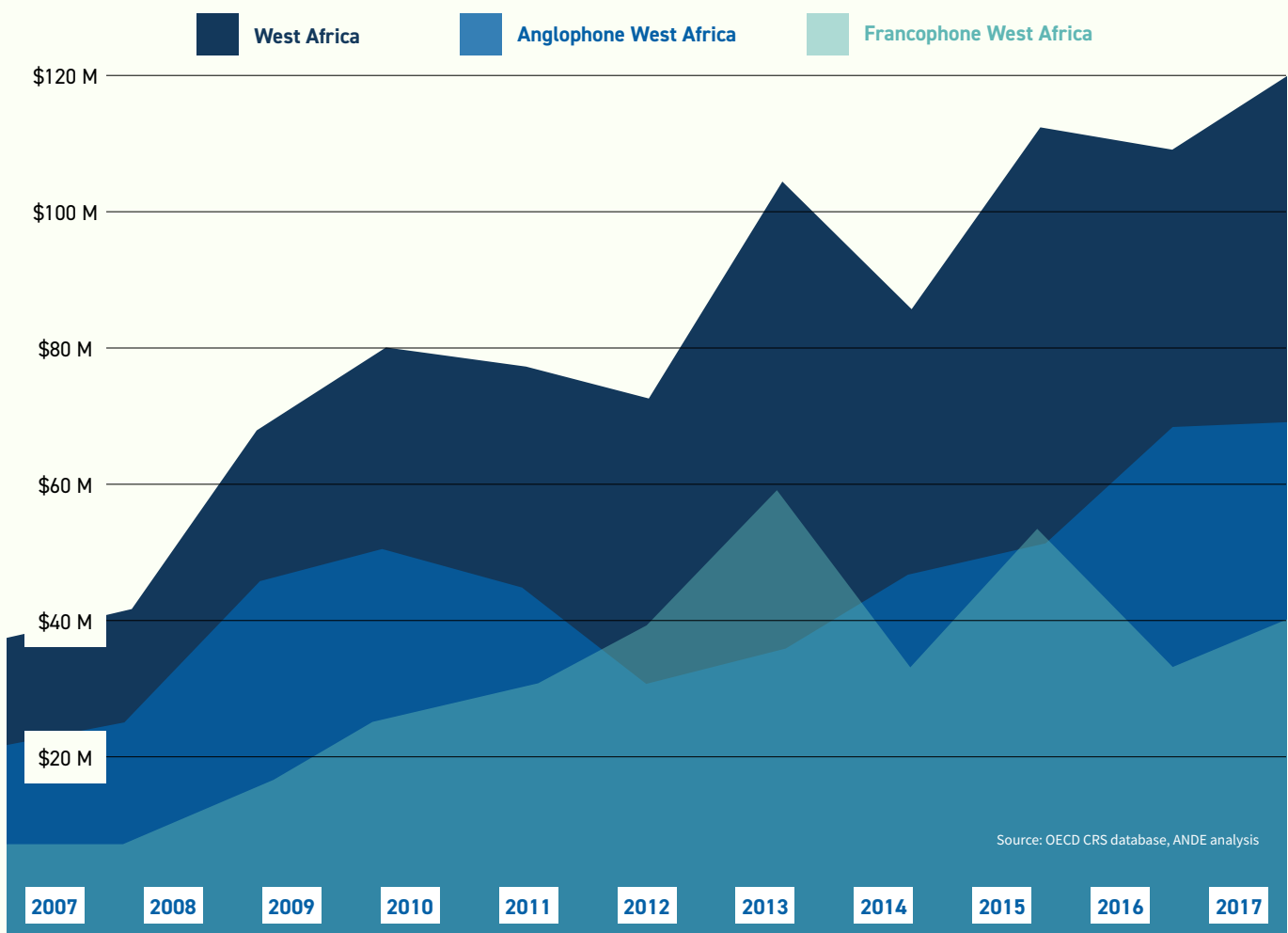
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 93 [Funding Report](#), Disrupt Africa
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Donor Funding

SME-related donor disbursements to West Africa have trended upward since 2007. In the past two years, there's been a divergent trend between anglophone and francophone West Africa. In 2015 SME-related donor disbursements were evenly disbursed between the two; however, since then disbursements to the anglophone region have grown while those to francophone countries have declined.

ANDE research on the top 20 donors to SGBs identified a number of notable donor initiatives supporting entrepreneurship in the region. For example, the regional co-funding initiative *Youth Entrepreneurship and Innovation Trust Fund*, was launched by the African Development Bank (AfDB) with a contribution from the Swedish International Development Cooperation Agency (SIDA) of US \$2.8 million in 2017. The goal of the initiative is to create 25 million jobs and allow 50 million young men and women to join the formal sector through training and skill development by 2025. This effort reflects a broader donor interest in fostering youth entrepreneurship in the region; according to the National Bureau of Statistics 2017 third quarter report, 67 percent of young people in Nigeria were either unemployed or underemployed. Many policy makers and organizations working to spur economic development in West Africa see entrepreneurship as a potential means to provide employment opportunities for this youth bulge.

ANNUAL SME-RELATED DONOR DISBURSEMENTS TO WEST AFRICA



Methodology

ANDE 2018 Impact Survey

ANDE's Annual Impact Survey is a tool to collect data about the impact its members have made in the previous year. The 2018 survey launched in January 2019 and closed in February 2019, and 120 member organizations completed the survey. We would especially like to thank members who took the time to participate in the survey.

ANDE Investment Vehicle Database

ANDE compiled the data in the Investment section of this report by surveying current ANDE members, collecting public information from fund managers, and partnering with external data collectors and aggregators. Partners include the Global Impact Investing Network's (GIIN) ImpactBase, the Emerging Markets Private Equity Association (EMPEA), and the Latin American Private Equity and Venture Capital Association (LAVCA). Funds qualified for inclusion in this dataset met three criteria: the investment target included emerging market countries; target deal sizes were from US \$20,000 to US \$2 million; and the focus was not exclusively on microfinance institutions.

ANDE's analysis also disaggregated gender-inclusive funds. ANDE considered funds to be gender inclusive if the fund has a stated mandate to invest in women-owned or run businesses, businesses with women on the board, businesses that hire women or incorporate women into supply chains in a beneficial way, or businesses providing a socially beneficial product or service targeting women or girls. The intention to invest in these businesses must go beyond considering these factors in investment decisions, but rather explicitly mandating that the fund make investments into businesses with these characteristics.

Donor Tracking

Data presented in the Donor section comes from two sources: the ANDE analysis of the Organisation for Economic Cooperation and Development (OECD) Creditor Reporting System, a database of commitments and disbursements made by donor countries and multilateral institutions in 2016 constant US Dollars, and the 2019 deep-dive analysis that ANDE conducted of twenty donor institutions in partnership with Devex.

To develop an estimate, ANDE searched the database for key words and codes that most likely relate to the SGB sector, specifically: "entrepreneur," "SME," "small business," "small enterprise," and "small and growing business." Any disbursement that was a positive match with one or more of the terms above was categorized as "SME-related." Those that matched "entrepreneur" were categorized as "entrepreneurship-specific." We aggregated disbursement amounts for all donors in the database, and we included both overseas development assistance and other official flows. Working with this existing database, ANDE likely underestimates donor support for

entrepreneurship and SMEs, but we have opted to risk undercounting to ensure that no disbursements were mistakenly included. This methodology was refined in 2017 to include more SME-related search terms, and to remove “start-up” from the criteria, as it was falsely categorizing some disbursements.

ANDE augmented the OECD data with a deep-dive analysis of twenty donor institutions, conducted in partnership with Devex. For this analysis, funding commitments data from the International Aid Transparency Initiative was used for a first layer of data collection, as most of the donors contribute funding data to its public databases on a regular basis. In this case, comparable data was sought for calendar year 2017. This was augmented with searches of donor-specific data sources for information not captured by IATI, as well as with interviews with representatives from each donor institution to identify entrepreneurship support projects not captured in public data sources.

Global Accelerator Learning Initiative

Data on accelerators is provided by the Global Accelerator Learning Initiative (GALI), a collaboration between the Aspen Network of Development Entrepreneurs (ANDE) and Emory University. See details on GALI’s methodology at galidata.org.

Image courtesy of Naasakle International



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