STATE OF THE SMALL & GROWING BUSINESS SECTOR

2017 IMPACT REPORT

Aspen Network of Development Entrepreneurs

To access more data and findings, see the digital version of the 2017 State of the Sector Report at **www.2017.andeglobal.org**.

Cover photo credit: Andrea Samperio Guasso

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THE SGB SECTOR IN 2017: LETTER FROM THE EXECUTIVE DIRECTOR

Dear Colleagues,

Entrepreneurs around the world are addressing the most critical challenges of our time. They are working to end hunger, to improve healthcare, to ensure good quality jobs, to address climate change, and so much more. Given the right tools and resources, they can transform entire economies for the better.

But they also face obstacles. In the midst of nationalist movements that aim to restrict trade and focus inward, we must remember that prosperity is not a zero-sum game. If one country prospers, it does not have to mean that another suffers. When the poorest among us thrive, it lifts everyone up. Small and growing business entrepreneurs are an underleveraged, but important part of helping economies – and people – flourish.

To harness the full power of entrepreneurship, it's important to understand the strengths, weaknesses, and opportunities for growth within the systems in which these entrepreneurs operate. Our latest report, the State of the Small and Growing Business Sector 2017, dives into important data that helps us do just that.

I'm encouraged by how ANDE members are working to close gaps in access to finance for women entrepreneurs. We've seen improvement since last year's revelation of an egregiously low percentage of investment vehicles focused on women. ANDE members are laying the groundwork for a renewed focus on gender inclusion. We still have a long way to go until women entrepreneurs are taken as seriously as men. But together, we can get there faster than any organization or person can alone.

That spirit of collaboration defines our network, and we aim to channel that power to create coordinated approaches to help entrepreneurial ecosystems thrive. This includes connecting SGBs with larger corporations, which some ANDE members actively do, because SGBs can be excellent business partners. Mutual success depends partly on market structures and policies that benefit both local entrepreneurs and international corporations in a globalized economy.

There is no silver bullet to ending poverty, but ANDE members represent important pieces of larger solutions, and we're excited to keep growing. We now have over 280 organizations in our network. In 2017, we launched a new chapter in East and Southeast Asia. Since then, we've launched an Andean chapter and a new Central America office in Guatemala. We are excited to support more direct growth in the countries where our members work. I'm happy to share that our newest report explores global trends at a regional level to reflect this increasing breadth and depth of our chapters.

I hope you find this report useful as you seek to understand the condition of our sector. If you're not sure what your role in these entrepreneurial networks and ecosystems is, consider the following:

If you represent an organization that provides grants or other types of funding, take time to understand the dynamism of the small and growing business sector. If you want sustainable, locally-led solutions to solving poverty, this is the place to look.

If you're an investor, pay attention to biases that may make you miss out on important opportunities.

There are plenty of ANDE members who can work with you on more inclusive investing practices that also produce better results for your firm.

If you work with a corporation that operates in emerging markets, connect with ANDE members who can help you find qualified local partners. Advocate for sensible trade policies that keep options open for local SGBs, and for yourself.

If you're an ANDE member, make sure you're taking full advantage of the resources we have. If you're not an ANDE member, but you believe that entrepreneurship has the power to lift countries out of poverty, join us. Together, let's keep driving the small and growing business sector forward.

Randall Kempner,

Executive Director

Photo Credit: Impact Hub

THE SGB SECTOR IN 2017: AN OVERVIEW

ACCORDING TO ANDE'S MEMBER IMPACT SURVEY, IN 2017:

ANDE GREW TO **283** MEMBERS IN OVER 150 COUNTRIES

OVER THE PAST DECADE, MEMBERS INVESTED US $14.8 BILLION DIRECTLY INTO SGBS AND SUPPORTED OVER 730,000 SGBS WITH CAPACITY DEVELOPMENT SERVICES.

IN 2017

61 MEMBERS SUPPORTED OVER 18,000 SGBS WITH US $62 MILLION IN CAPACITY DEVELOPMENT SERVICES

51 MEMBERS INVESTED US $792 MILLION IN 2,850 SGBS

30 MEMBERS DEPLOYED US $682 MILLION IN PHILANTHROPIC CAPITAL TO SGBS AND INTERMEDIARIES

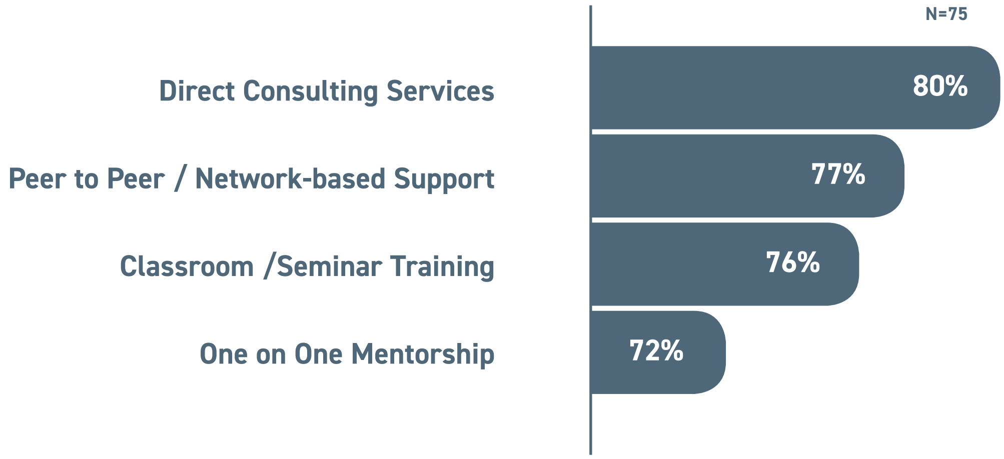
NOTABLE DEVELOPMENTS IN THE BROADER SGB LANDSCAPE:

- In the past 10 years, more than 450 investment vehicles have launched that invest in emerging market SGBs, with an estimated US $11 billion in committed capital
- US $3.7 billion in donor agency support went to SME development in 2016 (or US $29 billion over the past decade)
- At least 218 accelerators operate in emerging markets

CAPACITY DEVELOPMENT: GLOBAL

ANDE members delivered capacity development services through direct consulting, peer networks, and training

TOP 4 TYPES OF CAPACITY DEVELOPMENT ANDE MEMBERS PROVIDE



Source: ANDE Impact Survey

Capacity development services like mentoring, skill-building, and network expansion are critical components of the small and growing business (SGB) sector. In fact, 40 percent of ANDE members identified themselves primarily as capacity development providers. Many investors also provide a variety of nonfinancial support: 63 percent of members reported providing capacity development services, 51 percent of members provided direct funding, and 35 percent provided both. Of those that provide capacity development services, 80 percent offer tailored consulting to SGBs.

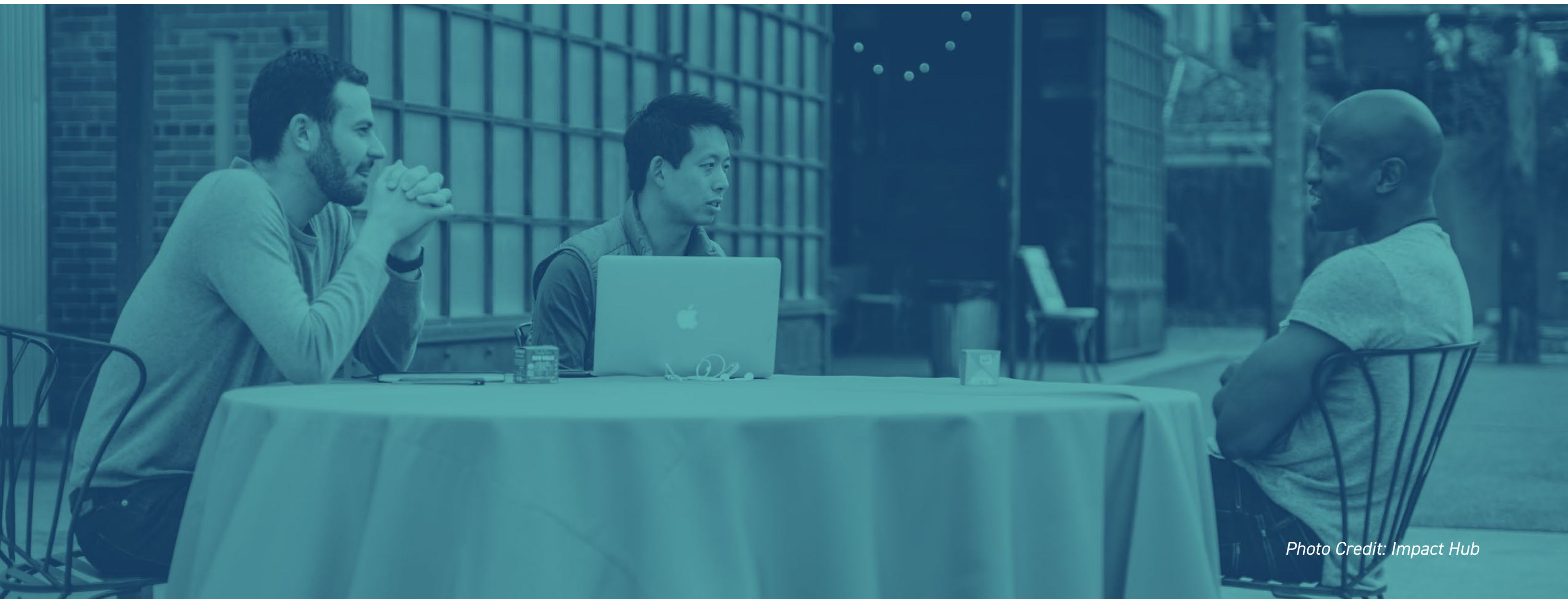
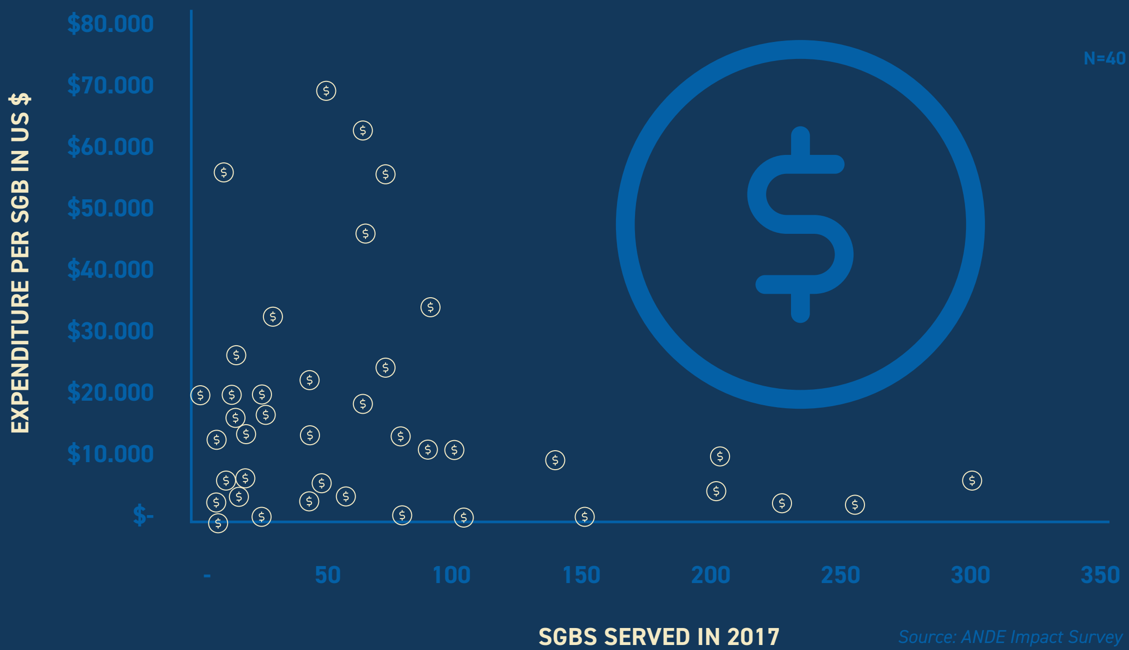


Photo Credit: Impact Hub

Capacity development providers spent an average of US $3,300 per business, spending less per SGB as the number of SGBs they served increased



Source: ANDE Impact Survey

ANDE members spent on average just over US $3,300 per business for these capacity development services. Among organizations that served more than 50 SGBs in 2017, the average cost was about US $2,800. For the 22 organizations that served 50 businesses or less, the average was around US $19,800 per business.

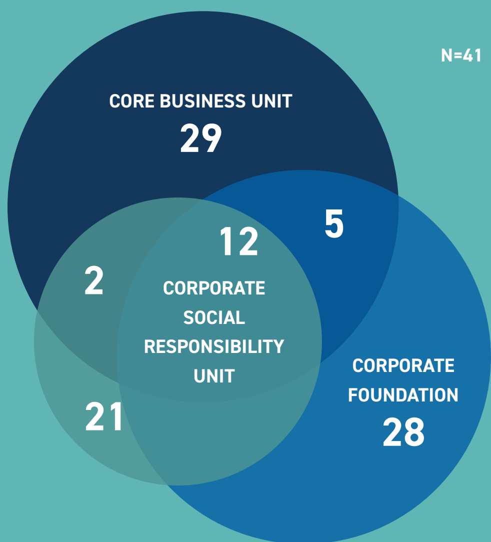
Over 500 accelerators operate globally

In 2017, the Global Accelerator Learning Initiative (GALI) identified 578 accelerators around the world. According to survey responses from 164 of these organizations, most are relatively young – over half have launched since 2014. The most common funding sources for accelerators are government and philanthropic support, followed by corporate funding. Nearly 40 percent earn some – but only 10 percent earn most – of their income through revenue generating activities. Among the organizations that do rely mostly on revenue generating activities, it is more common for the organization to be younger and headquartered in an emerging market country, compared to those organizations that do not rely on revenue generating activities [6].

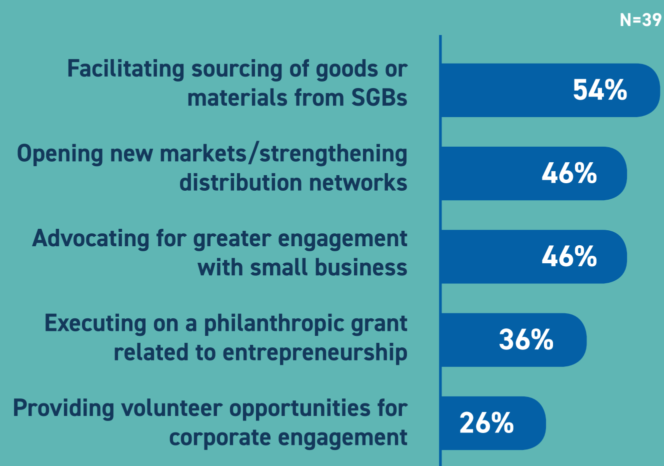
CAPACITY DEVELOPMENT: CORPORATE ENGAGEMENT

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

WHICH DIVISION WITHIN A CORPORATION DID YOU ENGAGE WITH IN 2017?



WHAT WAS THE FOCUS OF YOUR ENGAGEMENT(S)?



Source: ANDE Impact Survey

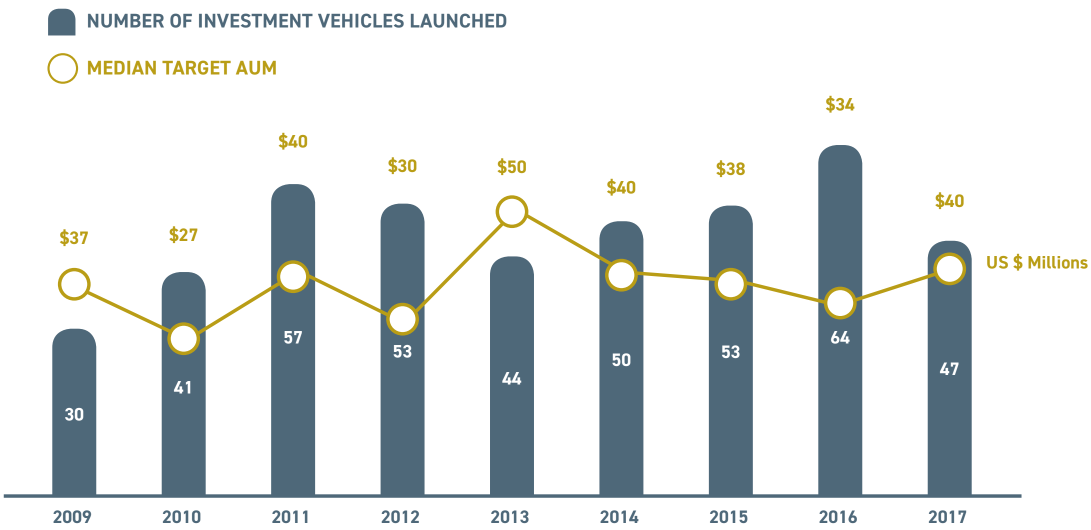
Corporations are increasingly engaging in the SGB sector because they see SGBs as potential customers, suppliers, or sources of innovation. Corporate foundations are important funders in the sector, and corporate social responsibility units often facilitate important capacity development services. In 2017, ANDE member corporations granted over US $34.5 million to SGB intermediaries [ANDE 2017 Impact Survey].

In 2017, 63 percent of ANDE members said they engaged with corporations to support SGBs, 42 percent said they directly supported partnerships between corporations and SGBs, and 38 percent indicated that they did not have any activity related to SGB-corporate partnerships. In terms of the nature of their engagement, 29 members engaged with the core business unit, 28 engaged with corporate foundations, 21 engaged with the corporate social responsibility unit, and 12 members engaged with all three.

In 2017, facilitating sourcing of goods or materials from SGBs was the most common focus of engagement. In addition, accelerators are increasingly relying on corporations for funding. Nearly half of accelerators are at least partially funded by a corporation [7].

INVESTING: GLOBAL

In 2017, at least 47 new investment vehicles launched with a median target Assets Under Management (AUM) of US $40 million



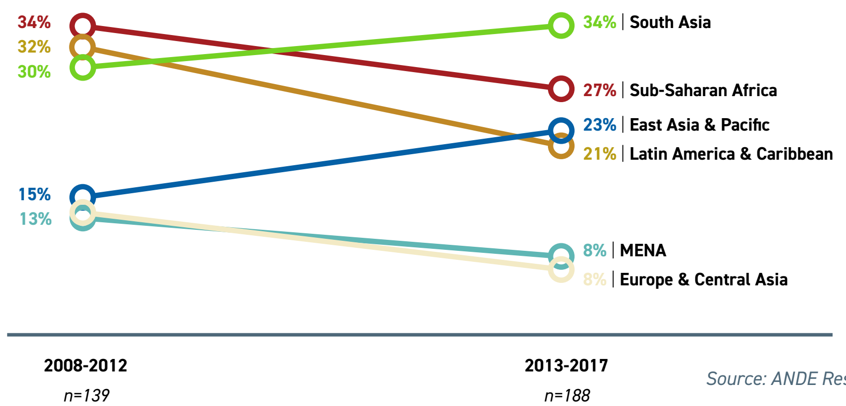
Source: ANDE Research

ANDE compiles the data on investment by surveying current members, collecting public information from other fund managers, and partnering with external data collectors. 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). Investment vehicles qualified for inclusion in this dataset when they met three criteria:

- **The investment target included emerging market countries**
- **Target deal sizes were from US $20,000 to US $2 million**
- **The focus was not exclusively on microfinance institutions**

Of the 47 investment vehicles launched in 2017, 32 percent focus on the information, technology, and communications (ICT) sector and 21 percent are impact oriented. Over 40 percent of newly launched vehicles are willing to consider seed-stage ventures, compared to 29 percent from 2008 to 2012. At first glance it may appear that the number of vehicles launched dropped in 2017. However, the most recent year of data tends to lag due to delays in communications and collection of data. As a result, we can not say definitively that this represents a true decline in the number of vehicles launched.

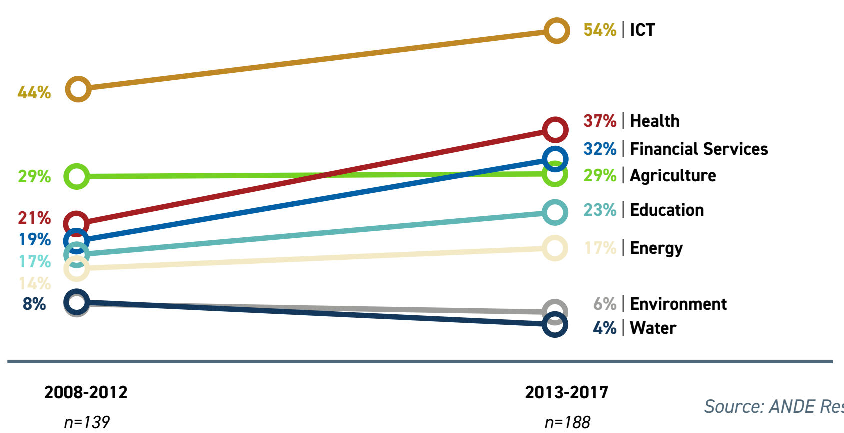
The proportion of vehicles launched in Asia increased in the past decade of SGB investing



Source: ANDE Research

The proportion of investment vehicles that focus on East Asia and Pacific and South Asia increased, while the proportion of vehicles that focus on every other region decreased. Latin America and the Caribbean saw the largest decrease proportionally, with 50 investment vehicles launched over the past 5 years compared to 55 from 2008 to 2012.

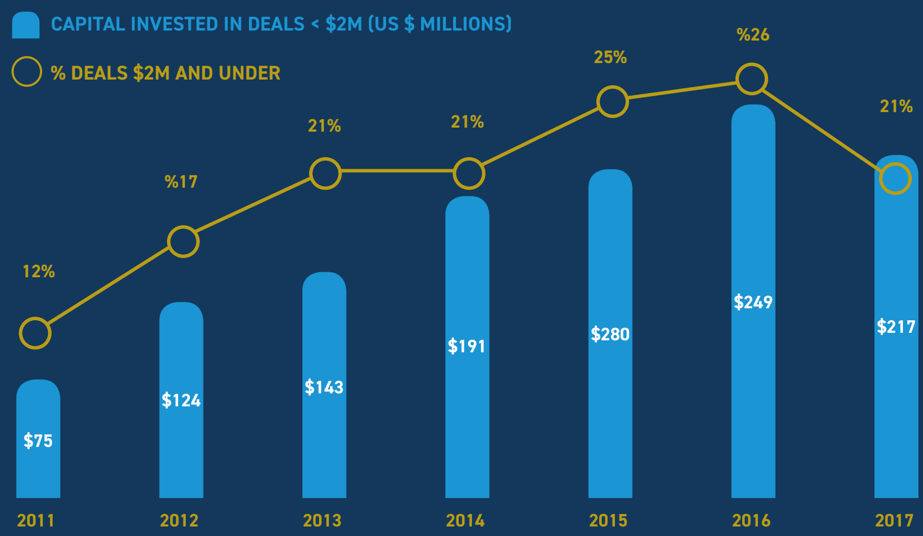
The health sector saw the most growth, and over half of vehicles focus on ICT



Source: ANDE Research

For nearly every sector, the proportion of vehicles that focus on that sector increased while shrinking sectors saw only marginal decreases. This is in part because over 60 percent of vehicles launched from 2013 to 2017 focus on more than one sector, compared to 45 percent of vehicles launched from 2008 to 2012. The proportion of vehicles that focus on agriculture remained constant over the past five years, and consequently the vehicles that focus on health and financial services surpassed agriculture to become the second and third most common sectors of focus, with ICT remaining the top sector. Only 6 percent of vehicles launched over the past 5 years focus on the environment.

Emerging market fundraising and investments were higher in 2017, but early-stage deals declined overall



Source: EMPEA Research

According to the Emerging Markets Private Equity Association (EMPEA), fundraising for emerging market private capital rose to US $61 billion in 2017, reaching the highest level since 2008. Over 80 percent of this was for investment in Asia. Emerging market venture capital fundraising continued to improve reaching US $11 billion. Moreover, 58 percent of venture capital vehicles holding a close were first-time vehicles.

Despite these overall gains, the proportion of emerging market deals under US $2 million decreased to 21 percent with just over 900 deals recorded in 2017. The total capital invested in deals under US $2 million also decreased by 13 percent to US $217 million, despite total emerging market capital invested reaching unprecedented levels of US $48.6 billion, 43 percent higher than in 2016.

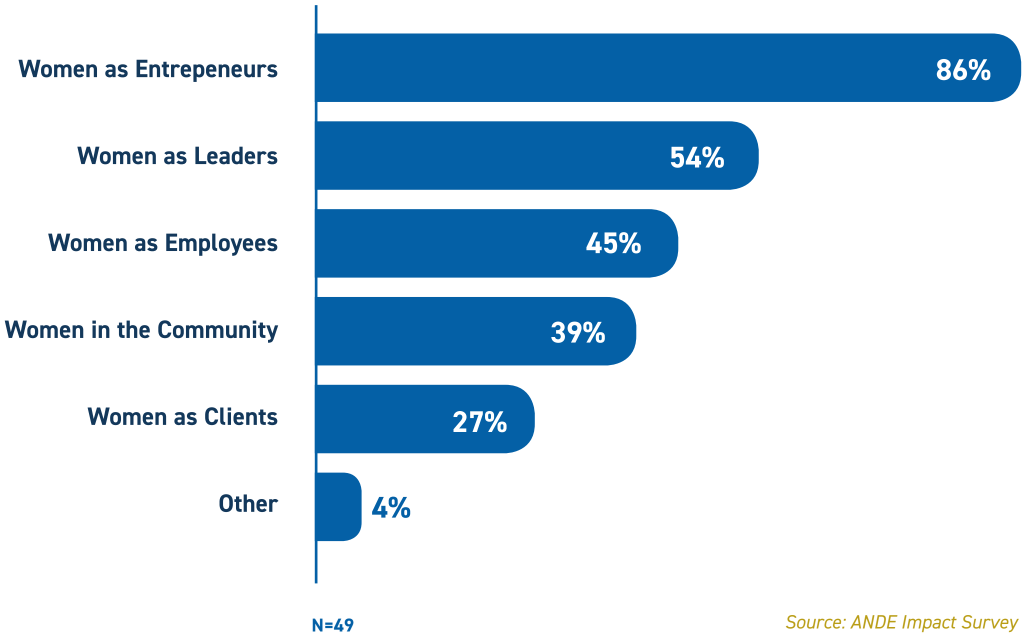
In Latin America, the number of deals US $1 million and under fell by 7 percent to 168, but the number of deals between US $250,000 and US $500,000 improved

While the total number of deals fell in Latin America in 2017, according to the Latin America Venture Capital Association (LAVCA), the number of deals between US $250,000 and US $1,000,000 for SGBs increased to 56 percent of deals under US $1,000,000, compared to 38 percent for deals that took place from 2010 to 2016. This is consistent with ANDE's research, which found that the median minimum investment size increased to US $200,000 for vehicles launched after 2013 up from US $138,000 for vehicles launched from 2010 to 2013.

INVESTING: GENDER

Most ANDE members prioritize gender inclusion, and “Women as Entrepreneurs” is the top gender gap they aim to address

WHAT GENDER GAP(S) DOES YOUR ORGANIZATION AIM TO ADDRESS?



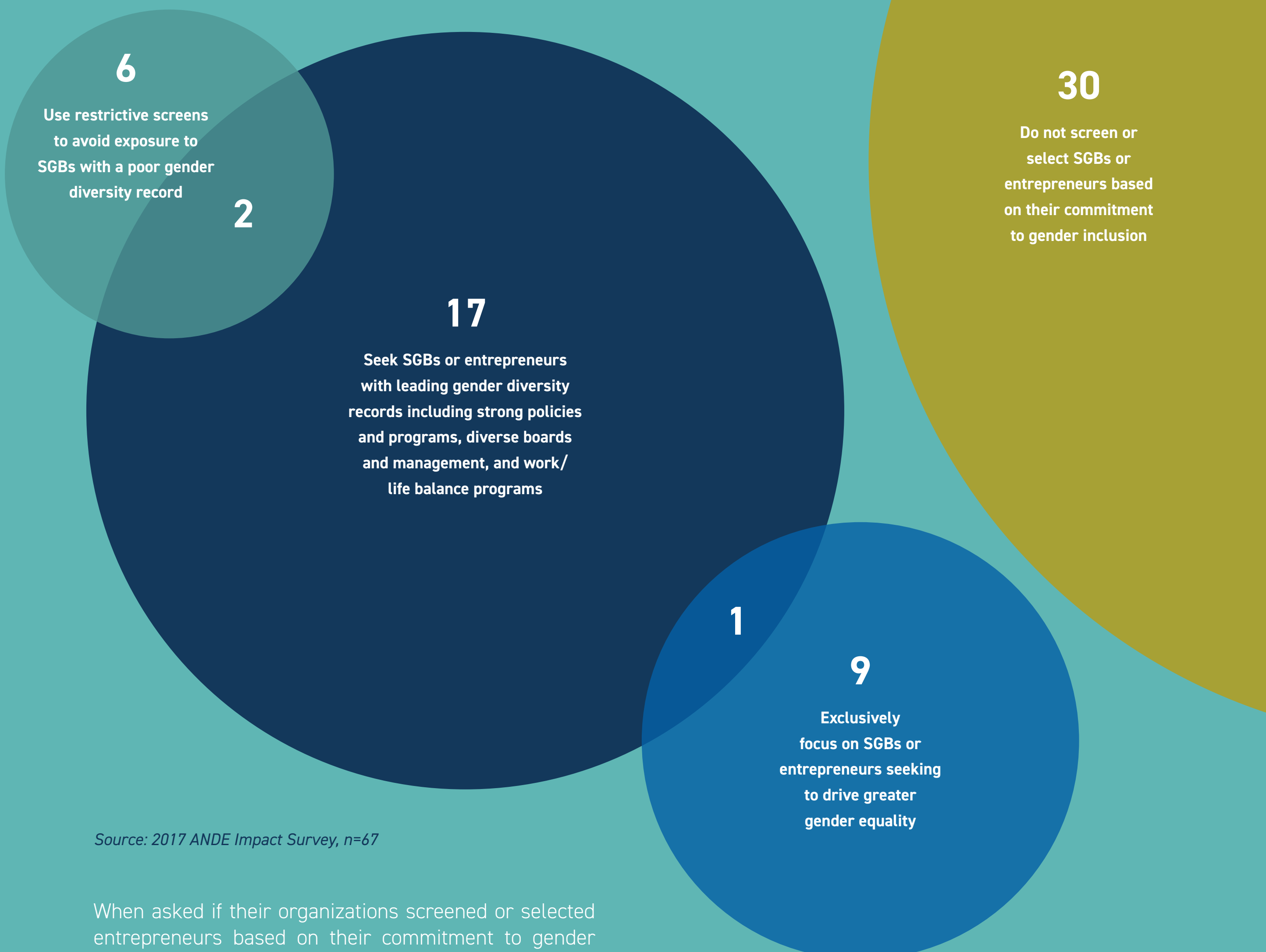
Source: ANDE Impact Survey

From 2013 to 2017, the percentage of launched vehicles that focus on gender inclusion was 6 percent, increasing from 2 percent between 2008 and 2012. Half of these new gender-focused vehicles since 2013 were launched in 2017.

The term gender-lens investing has become quite popular over the past couple of years, but ANDE members have demonstrated that an organization does not need to be an investor to implement a gender inclusion strategy.

In 2017, 65 percent of ANDE members who worked directly with SGBs or entrepreneurs said they prioritize gender inclusion, and 62 percent collect gender disaggregated data. Of the capacity development providers that completed the survey, 77 percent said they prioritize gender inclusion, as opposed to 54 percent of investors. Most of these members aim to address the gap of “women as entrepreneurs” and “women as leaders”, with only 27 percent of respondents aiming to address “women as clients”.

Most ANDE members do not screen SGBs or entrepreneurs to promote gender inclusion, but those that do seek ones with leading gender diversity records



Source: 2017 ANDE Impact Survey, n=67

When asked if their organizations screened or selected entrepreneurs based on their commitment to gender inclusion, nearly half of ANDE members responded that they do not. A quarter of the members who responded said that they seek SGBs or entrepreneurs with leading gender diversity records including strong policies and programs, diverse boards and management, and work/life balance programs. Nine members said they exclusively focus on SGBs or entrepreneurs seeking to drive greater gender equity, and six said they use restrictive screens to avoid exposure to SGBs with poor gender diversity records such as weak policies, poor supply chain safety records, or involvement in an industry seen as harmful to women. These categories were adapted from Morgan Stanley's 2017 report, ***An Investor's Guide to Gender Diversity*** [36].

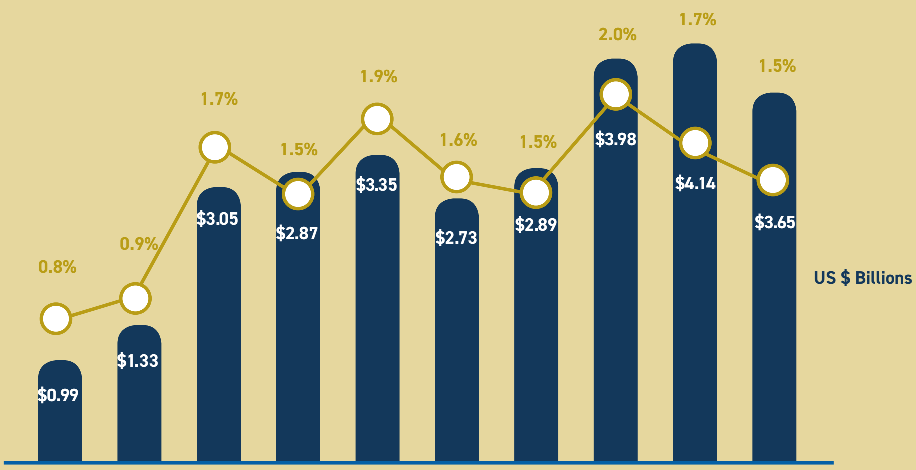
DONOR FUNDING: GLOBAL

Donor funding for SME-related projects declined by 12 percent in 2016

Donors and development financial institutions remain essential sources of funding for the SGB sector, for both capacity development activities and investment.

Disbursements for SME-related projects fell slightly to US $3.65 billion, which was 1.5 percent of total donor funding in 2016. Funding levels for entrepreneurship (which is included in the SME-related disbursements) remain at US $420 million, only .17 percent of total donor funding.

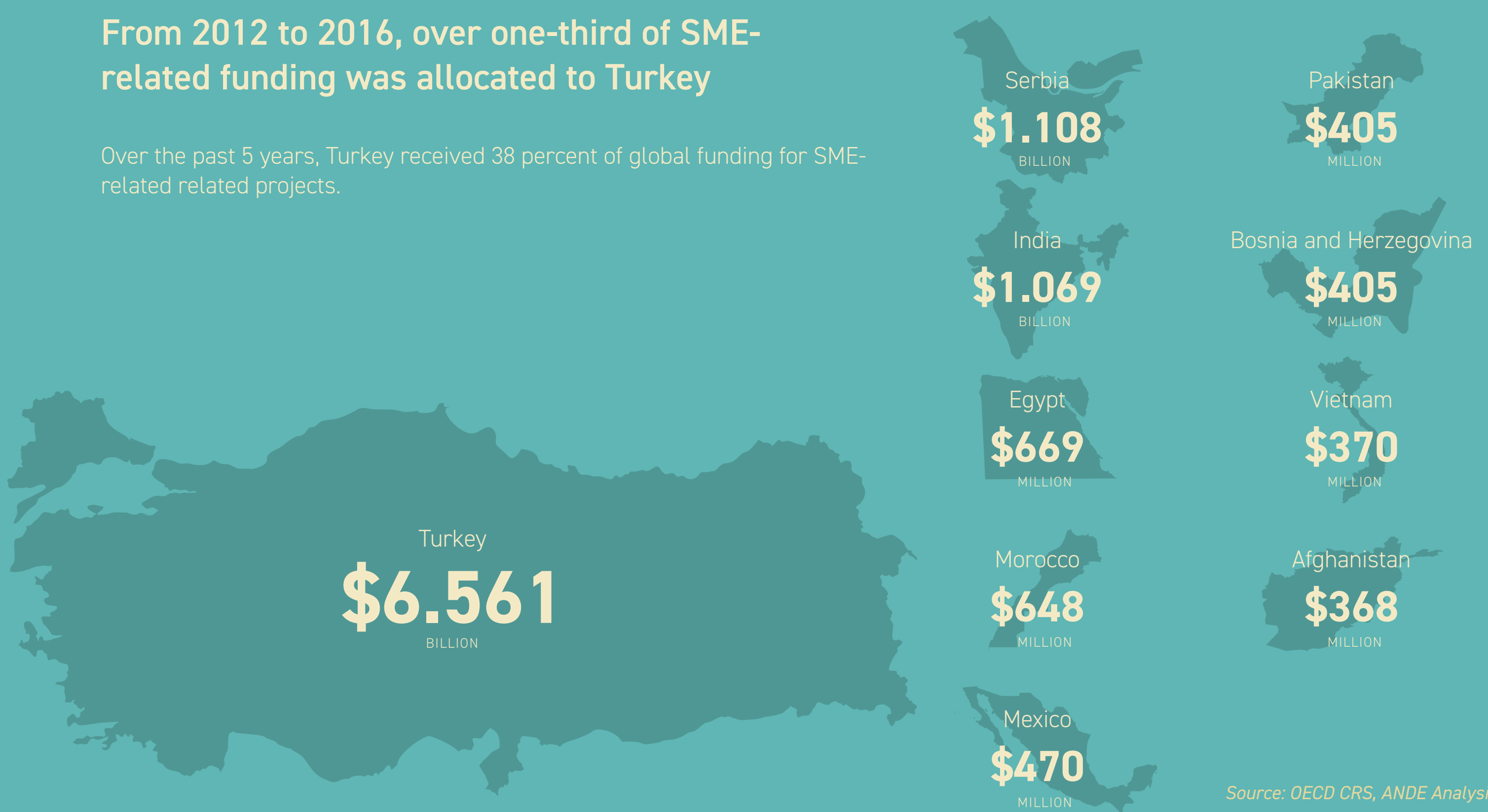
Over 80 percent of funding for SMEs in 2016 came from European donors. The top 10 largest disbursements made up 35 percent of SME-related funding in 2016, and 7 of the top 10 disbursements were made by the European Investment Bank.



Source: OECD CRS, ANDE Analysis

From 2012 to 2016, over one-third of SME-related funding was allocated to Turkey

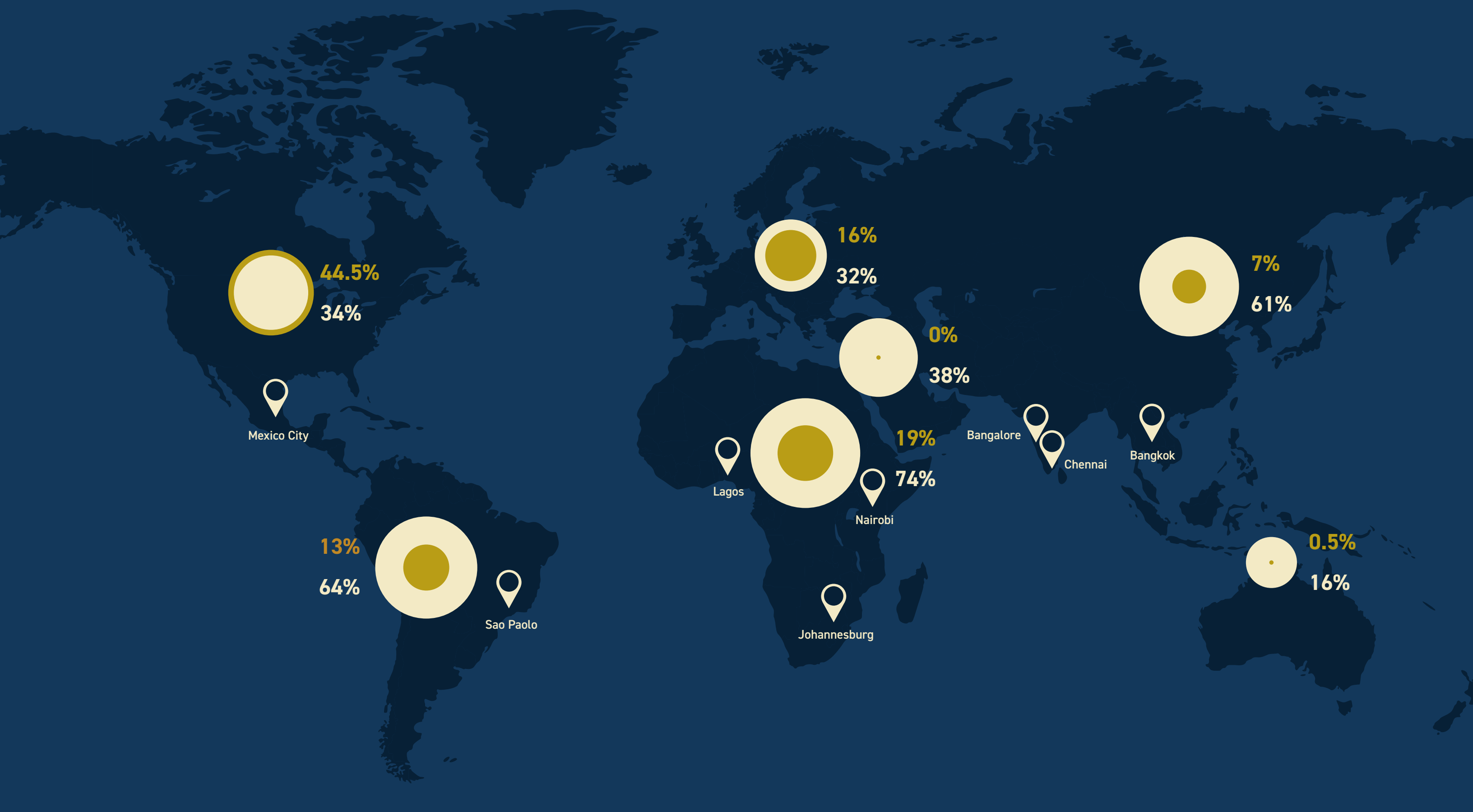
Over the past 5 years, Turkey received 38 percent of global funding for SME-related related projects.



Source: OECD CRS, ANDE Analysis

ANDE IN 2017

By the end of 2017, ANDE had grown to sixteen regional chapter staff in each of our seven regional chapters. These regional chapters enable ANDE members to collaborate and strengthen local entrepreneurial ecosystems. Each local context is distinct and presents diverse areas of opportunity.



Staff Presence

Members Headquartered in the Region

Members Engaged in the Region

Aspen Network of Development Entrepreneurs

BRAZIL

14 MEMBERS BASED IN BRAZIL

41 MEMBERS WITH STAFF IN BRAZIL

102 MEMBERS INTERESTED IN BRAZIL

2017 Trends in Brazil

1. **Inclusive business becoming a priority.** Initiatives related to gender, ethnicity, and youth are becoming increasingly common in Brazil. For example, SITAWI Finance for Good is structuring metrics that track the gender and ethnicity components of the businesses that they support and their beneficiaries, including employees and potential clients.
2. **Behavioral insights improving financial literacy in Brazil.** ANDE members are developing innovative projects and products related to financial education and human behavior. Fundación Capital is developing a project to understand the spending habits of low-income families by collecting data from a mobile application. In addition, Bank of America Merrill Lynch launched an initiative to introduce financial education into schools.
3. **Digitalization of financial services improving access to finance.** A new Brazilian law is improving financial inclusion by making it easier for some of the poorest people in the country to open digital bank accounts. Resolution 4,480 has allowed four of the country's smaller banks to create financial products for low-income workers, such as accounts that can be opened online using mobile apps without visiting a branch. This digitization could allow for small family-run businesses to scale more easily and increase their access to capital through increased power to prove profitability. ANDE members are also using digitalization to increase access to products, services, and knowledge for low-income populations. For example, the International Finance Corporation (IFC) has projects focused on introducing women to digital tools, especially financial inclusion platforms.
4. **Reduced bureaucracy is a step in the right direction.** The latest Organisation for Economic Co-operation and Development (OECD) Survey of Brazil says that the country could lift GDP at least 20 percent over 15 years by deepening reforms to strengthen institutions, improving business regulation, and reaping the benefits of tighter integration into the global economy [19]. Lowering trade barriers could make Brazilian firms more competitive by allowing them to source inputs at lower prices. This, in turn, would boost trade volumes, raise productivity and wages, and reduce prices for low-income consumers. Moreover, while the bureaucracy of creating a new business in Brazil is still relatively high compared to other upper-middle income economies, steps are being taken to reduce barriers to entry. These initiatives include the individual microentrepreneur legislation that allows professionals to regulate their activities, and the Aliança Empreendedora's mapped ecosystem of support for this type of entrepreneur [17].

ACCELERATORS AND INCUBATORS

Brazilian accelerators and incubators relied primarily on government and philanthropic funding

In 2017, ANDE published a report called *Landscape Study of Accelerators and Incubators in Brazil*, which analyzed the characteristics of 53 accelerators and incubators in Brazil.

Approximately one-third of respondents guarantee financing to some or all the businesses supported, with equity being the most common form of investment. The most common sources of funding for operations are government, philanthropy, and venture fees, with each being cited by almost half of the respondents. On average, the funding sources that make up the largest portions of operating budgets are government (median contribution 60 percent) and philanthropy (median contribution 50 percent).

The report recommended that, given the current macroeconomic and political situation in Brazil, accelerators and incubators should consider diversifying their funding sources. This could be done by exploring possibilities for corporate partnerships or expanding the use of venture fees or equity stakes. In addition, organizations investing in the entrepreneurial ecosystem should pay attention to the specific role and needs of accelerators and incubators when defining funding priorities.

INVESTING

Investment vehicles remained steady in Brazil

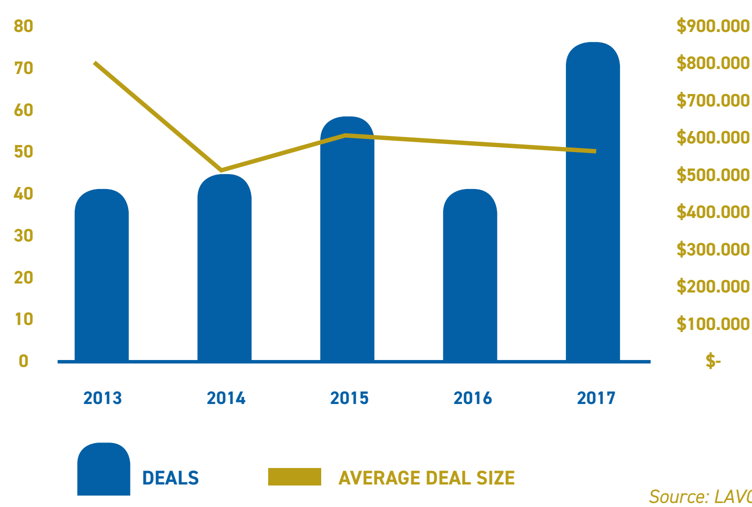
In 2017, five new investment vehicles were launched in Brazil. Brazilian firms manage all five of these vehicles; in fact, only six vehicles launched in the past decade are based outside of Brazil. None of the vehicles have an explicit impact objective.

Over the past five years, a quarter of vehicles launched focus on financial services, an increase from 14 percent between 2008 and 2012.

ICT dominated newly launched investment vehicles, while no environment-focused vehicles were launched in the past five years

Two-thirds of investment vehicles launched over the past 5 years focus on ICT, compared to 41 percent of vehicles launched from 2008 to 2012. Sector-specific vehicles increased in every category except environment and energy. The health sector saw the greatest growth, increasing to 39 percent of all vehicles launched from 2013 to 2017 from 5 percent in the previous 5 years.

SGB DEALS INCREASED AFTER A DIP IN 2016 AS THE AVERAGE DEAL SIZE HOVERED AROUND US $600,000



Source: LAVCA

Aspen Network of Development Entrepreneurs

CENTRAL AMERICA & MEXICO

16 MEMBERS BASED IN CENTRAL AMERICA AND MEXICO

66 MEMBERS WITH STAFF IN THE REGION

122 MEMBERS INTERESTED IN THE REGION

2017 Trends in Guatemala and Mexico

In recent meetings in Guatemala and Mexico, ANDE members discussed the progress made in 2017 on gender inclusion, financial literacy, and talent in their respective countries:

1. **In Mexico, members aim to understand the nuances of gender inclusive initiatives, while Guatemalan members struggle to get SGB investors on board.** According to the Cherie Blair Foundation, if full gender parity were achieved on different economic indicators, GDP in Mexico would increase by 43 percent by 2025. [39] With this understanding in mind, many organizations are interested in filling the gender gap in Mexico. The key to their success will be truly using a gender lens and measuring the effectiveness of gender inclusive investments and interventions. In Guatemala, SGB investors are lagging behind on gender lens investing, even though it has become prominent in the microfinance sector.
2. **Despite an increase in the availability of financial products and services, financial inclusion remains a challenge in both Guatemala and Mexico.** Recent research by the World Bank on the financial services market in Guatemala found a lack of transparency, unfair practices, and weak redress mechanisms for consumers [24]. The World Bank also found that almost half of Mexicans do not report any current use of formal or informal financial services, and there is a high level of usage of sources of informal credit and saving [20]. In this context, ANDE members find there is a need to design user-centric financial products and services and reconsider the infrastructure available for accessing and utilizing them.
3. **Guatemalan and Mexican universities strive to address the talent gap.** Gallup defines a "good job" as 30 or more hours of work per week for an employer who provides a regular paycheck. [21] In Mexico, only 26 percent of people report having a good job, and only 19 percent of Guatemalans report having a good job. [21] The pressure to work for an established corporation over an SGB makes recruiting and retaining talent a challenge for SGBs in these countries. However, as Mexican universities are increasingly incorporating entrepreneurship and innovation into their curriculum, a natural extension is that talented youth are more likely to work for an SGB than their predecessors. Unfortunately, while some private Guatemalan universities have made the curriculum shift toward entrepreneurship, the higher education system remains centralized and inaccessible to most Guatemalans.

ACCELERATORS

Mexican ventures applied to accelerators for the network and mentorship opportunities

The GALI report *Acceleration in Mexico: Early Impacts on Mexican Ventures* examines application and follow-up data from 318 ventures operating in Mexico that applied to one of 15 accelerator programs in Mexico. The study found that it is not uncommon for entrepreneurs to attend more than one accelerator program in Mexico, as a third of ventures in the sample had been previously accelerated. The data suggests that previously accelerated ventures enter programs with significantly higher revenue, yet experience nearly no revenue growth on average. On the other hand, those being accelerated for the first time enter with much smaller revenue streams but experience a considerable increase. In terms of investment, previously accelerated ventures experience significantly more equity growth on average.

In order to add value to the entrepreneur experience, Mexican accelerators will need to further differentiate the benefits of these programs [8].

INVESTING

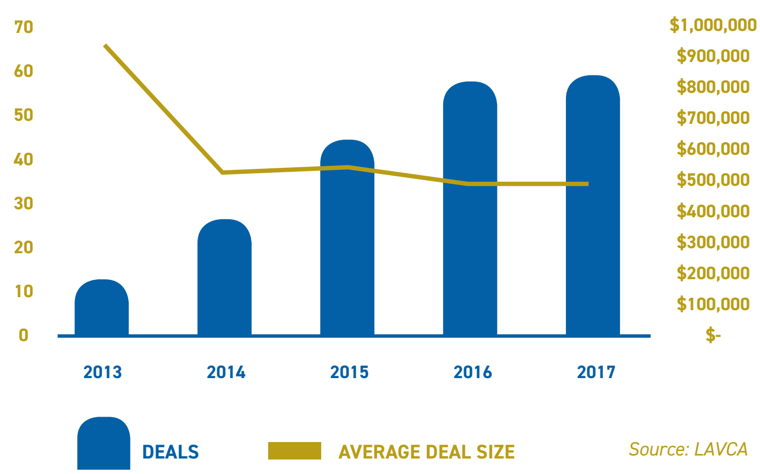
91 percent of all vehicles investing in the Central America and Mexico region invested in Mexico

The vast majority of investment in the region is happening in Mexico. Over 91 percent of investment vehicles launched in the past decade focus on Mexico, with US $821 million of committed capital. This is compared to the US $93 million raised for vehicles that focus in the region but exclude Mexico. Honduras, Nicaragua, and Panama see the most investment activity in Central America.

Between 2014 and 2016, the total number of deals in Central America grew by a minimum of 32 percent. In 2017, the total number of deals only grew by two percent. This drop is attributed in large part to the decrease in early-stage deals in 2017.

The overall average deal size has stayed consistent around US $500,000. In 2017, the average deal size was US $484,000.

FEWER DEALS THAN EXPECTED IN CENTRAL AMERICA AND MEXICO IN 2017



Source: LAVCA

Aspen Network of Development Entrepreneurs

EAST AFRICA

24 MEMBERS BASED IN EAST AFRICA

116 MEMBERS WITH STAFF IN THE REGION

173 MEMBERS INTERESTED IN THE REGION

2017 Trends in East Africa

1. **Increased interest amongst investors in supporting SGBs in the last mile distribution sector.** "Last mile" is a term used in supply chain management and transportation planning to describe the movement of people and goods from a transportation hub to a final destination in the home. A few notable companies that received venture capital in the sector include Copia Global, Sendy, Soko Watch, and Twiga Foods. In addition, Practical Action, B.O.P Innovation and Hystra launched the Global Distributors Collective, a one-stop shop and a community of practice for last mile distributors.
2. **Increased debt financing in the solar energy sector.** This has enabled off-grid solar distributing companies to provide a wider product offering to their end users. The majority of these have been efficient household appliances (fans, televisions, and refrigerators) that integrate with a core solar home system product [30].
3. **Investors increasingly interested in off-grid solutions that facilitate productive uses of energy.** This was evidenced by the launch of 2016-17 Global LEAP Awards Off-Grid Refrigerator Competition. InspiraFarms, an ANDE Member that supports small and growing agribusinesses with off-grid post-harvest solutions, raised over US $5 million in 2017 and 2018. In addition, in 2017 the East Africa Postharvest Technologies Competition launched, increasing financial support to off-grid solutions that reduce post-harvest loss, and the first All Africa Post Harvest Congress was held in Nairobi.
4. **Talent conversations leading to action.** Spire, Shortlist, and Fuzu have all sponsored breakfast workshops, meet-ups, and workshops focused on talent, and these conversations and workshops have led to more 'upskilling' trainings and other capacity building workshops. In addition, new entrants to the Uganda market, such as ProInterns and Kafeero Foundation, focus on providing talent solutions to SGBs.
5. **More corporations engaging with the sector.** In 2017, Safaricom introduced Masoko, an e-commerce platform targeting formal retail and informal online trading in Kenya. Drawing on the Amazon model, the initiative is expected to facilitate increased access to consumers for local SGBs. Merck, a German pharmaceutical company, launched its African Satellite Programme aimed at early-stage start-ups in Kenya.

CAPACITY DEVELOPMENT

In East Africa, most capacity development providers are sector agnostic and focus on mentoring, talent placement, and network-based support

Of the 70 capacity development providers in this sample, 76 percent operate in Kenya, followed by Uganda (34 percent), and Tanzania (27 percent). Roughly half of these capacity development providers support start-ups and SMEs in East Africa through mentoring, talent placement, network-based services, training and other classroom-based support, partnership brokering, and one-to-one advisor support [Search IB].

GALI has identified 16 accelerators headquartered in East Africa, including 2 in Ethiopia, 9 in Kenya, 1 in Rwanda, and 4 in Uganda.

INVESTING

The number of investment vehicles in East Africa are declining

In East Africa, 33 percent of investment vehicles launched in the past 5 years focused on the ICT sector, down from 38 percent from 2008 to 2012. The median target AUM of vehicles launched after 2012 is US $30 million, which is a 40 percent decrease in the median target AUM of vehicles launched from 2008 to 2012 of US $50 million. Similarly, the median minimum investment size also decreased to US $100,000 over the past 5 years from US $250,000 during the previous 5 years.

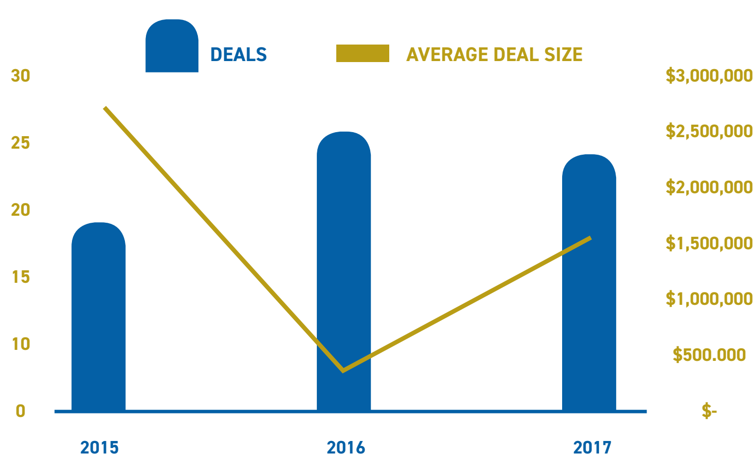
The most dramatic change is the sharp decrease in recently launched vehicles that focus on early-stage ventures. From 2013-2017, only 30 percent of recently launched vehicles focus on early-stage ventures, down from 71 percent in the previous five years.

Most investment vehicles focused on East Africa are regional vehicles

Over 88 percent of all East Africa-focused vehicles launched in the past decade are regional vehicles. Only six vehicles focused on a single country, and five of those vehicles focused exclusively on Kenya. Ethiopia is the country most often excluded from the scope of regionally-focused vehicles, and only six vehicles launched in the past five years included a focus on Ethiopia.

According to Disrupt Africa, 24 Kenyan tech start-ups raised US $32.8 million in 2017, accounting for 17 percent of funding for tech start-ups raised in Africa. This represents an 8 percent decrease in the number of deals from 2016, when 26 Kenyan ventures received investment. The average investment size has varied dramatically over the past 3 years, starting at US $2.6 million in 2015, decreasing 85 percent to US $400,000 in 2016, and increasing again by 250 percent to US $1.4 million in 2017. While the agritech sub-sector accounted for more money in 2017, more e-commerce ventures secured backing with five start-ups receiving investment, compared to three agritech ventures.

THE NUMBER OF TECH START-UP DEALS REMAINED CONSISTENT, WHILE AVERAGE DEAL-SIZE VARIED DRAMATICALLY



Source: Disrupt Africa

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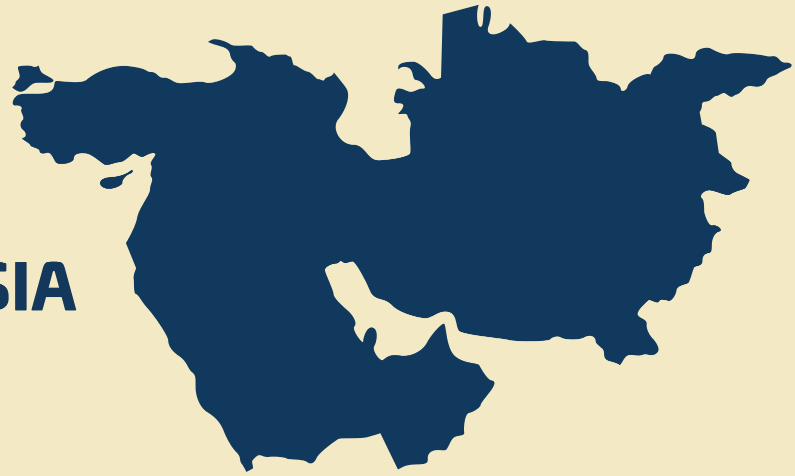


EAST & SOUTHEAST ASIA

5 MEMBERS BASED IN EAST AND SOUTHEAST ASIA

53 MEMBERS WITH STAFF IN THE REGION

137 MEMBERS INTERESTED IN THE REGION

2017 Trends in East & Southeast Asia

1. **The challenges in this region vary widely from one country to the next.** A 'one-size fits all' approach is unlikely to be effective in the region due to extreme variations between countries. Keeping the local context in mind will be critical to effectively moving the sector forward in all countries in the region.
2. **There is increasing need for cross-sector collaboration and knowledge sharing.** The shared goal of fostering entrepreneurship overlaps with many sectors. Sharing best practices and lessons learned could foster accelerated learning and growth in the region.
3. **Most intermediaries are relying heavily on donor funding.** ANDE members noted that NGOs dominate the SGB sector in the region, with few examples of self-sustaining organizations. Expanding the types of organizations in the sector will result in diversified funding sources, a key to sustainability in the region.
4. **Gender lens investing and programming is showing early signs of success in the region.** ANDE members that operate in the region are increasingly including a gendered approach in their programming and investing strategies. The global ratio of the percentage of females who are either a nascent entrepreneur or owner-manager of a new business to males is .88 in the region, compared to .76 five years ago, according to the GEM's 2017 Adult Population Survey (APS). The global average is .68, so East and Southeast Asia appears to have a more woman-friendly business environment relative to other regions [22].

CAPACITY DEVELOPMENT

Most capacity development providers in East and Southeast Asia broker partnerships and network-based support

Capacity development providers identified by Search Inclusive Business in East and Southeast Asia tend to focus on network building, both by brokering partnerships and providing mentoring and talent placement. The region has the highest number of sector agnostic capacity development providers, with less than a third of capacity builders in the region focusing on the top sector of ICT.

A third of the organizations in the sample operate in Myanmar, and the next three represented countries are Indonesia (26 percent), Cambodia (17 percent), and Vietnam (17 percent).

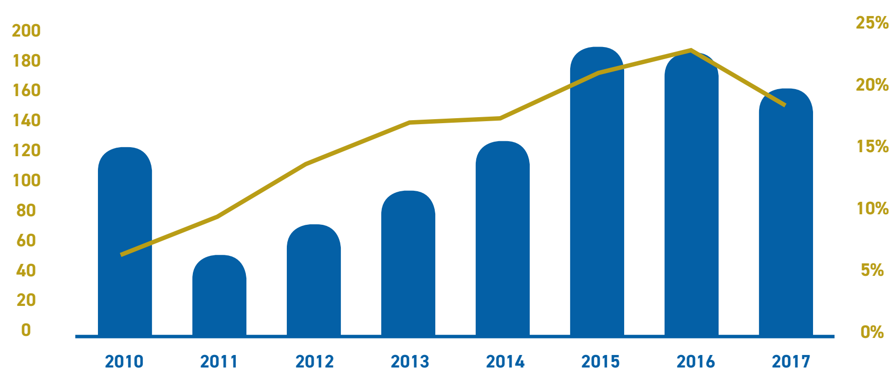
GALI has identified 2 accelerators in Cambodia, 2 in Indonesia, 3 in Myanmar, 1 in the Philippines, and 2 in Vietnam.

INVESTING

58 percent of vehicles launched after 2012 in Southeast Asia focused on ICT

Over the past 5 years, 58 percent of vehicles launched in Emerging East and Southeast Asia focused on the ICT sector, up from 21 percent from 2008 to 2012. In the past decade, 28 percent of vehicles launched had a focus on early-stage ventures.

IN EMERGING ASIA, THE VOLUME AND PROPORTION OF DEALS UNDER US $2 MILLION DECLINED FOR THE FIRST TIME IN 8 YEARS



Source: EMPEA

Despite huge growth in Emerging Asia over the past year, EMPEA data shows that deals involving SGBs declined in 2017 to 153 from 180 in 2016. The committed capital also decreased, going from US $171 million in 2016 to US $143 in 2017 [26]. (Note: EMPEA includes India in its definition of Emerging Asia.)

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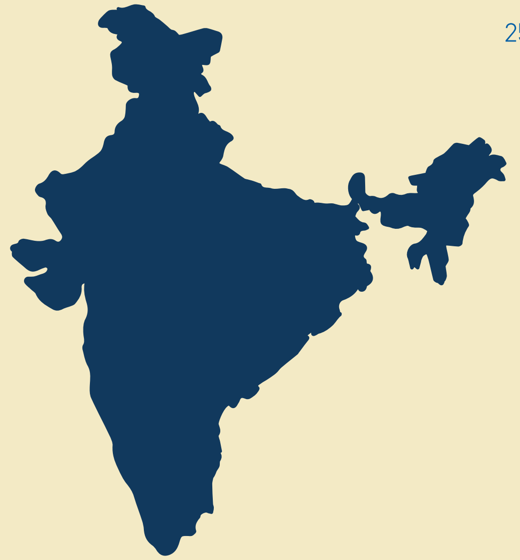

INDIA

12 MEMBERS BASED IN INDIA

68 MEMBERS WITH STAFF IN INDIA

131 MEMBERS INTERESTED IN INDIA

2017 Trends in India

1. **Development agencies are driving gender lens programming gains.** Several gender inclusive initiatives were supported by bilateral and multilateral development agencies in 2017. The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) launched a three-year program on Women Entrepreneurship, specifically focused on supply and demand-side activities. In addition, the United Nations Development Programme, GIZ, IFC, and several other organizations launched the Indian Women Impact Alliance, aimed at strengthening the business environment for women. However, on the capital supply side, taking action on gender lens investing is still low, even though awareness is increasing. This may be because many of the businesses oriented towards gender impact are often not yet in the position to raise or absorb capital.
2. **Fintech and AgTech start-ups are beginning to receive long-awaited later stage financing.** Most sectors in India, especially those leveraging technology, received increased investor interest. However, many of the tech-focused business models have not been able to secure more than Angel or Seed A investment until now. The increased mobile penetration across India, including in rural areas, is the driver for the tech-based models. An increasing number of business models are tapping into this opportunity and the topic of digitizing rural value chains is gaining momentum.
3. **Indian corporations are forgoing early-stage SGB partnerships for later-stage businesses.** Some corporations are recognizing that early-stage start-ups are not the right partner for collaboration, as they often cannot deliver on the scale required. These corporations look to post-Series A start-ups for investment and acquisition purposes. The past year has seen more mergers and acquisitions by corporates in the start-up space, especially in the financial sector. However, many traditional financial institutions are continuing to engage with start-ups through incubator and accelerator programs. Overall, corporates still struggle to find the right collaboration partners, as start-ups also have the freedom to forge partnerships and are becoming selective. The need to help corporates navigate the start-up landscape is high, as best practices for engaging with the start-up economy vary significantly across institutions.

ACCELERATORS AND INCUBATORS

Philanthropy is the most common funding source in India, followed by the government

In 2017, ANDE identified 259 accelerators and incubators in India and compiled a report called ***Landscape Study of Accelerators and Incubators in India***, which analyzed survey responses from 60 of these organizations. Of the respondents who shared data about their funding sources, the most common were philanthropy, government, or corporate support.

The report postulates that the model established in Silicon Valley, where the accelerator is structured as a seed fund, is more challenging to replicate in emerging markets where capital is scarcer and exits are fewer. Leveraging corporate support is one opportunity for funding in this environment [29].

According to GALI's landscape study, the top sectors of focus for accelerators and incubators in India are healthcare/life sciences and agriculture & food. The Search Inclusive Business database also shows that about one third operate in the health sector.

INVESTING

Over half of vehicles launched in the past five years in India focus on the ICT sector

Over the past 5 years, 53 percent of newly launched vehicles focus on the ICT sector, up from 38 percent from 2008 to 2012. The median target AUM of vehicles launched after 2012 is US $64 million – more than double the US $27 million target AUM from 2008 to 2012. Recently launched vehicles focusing on early-stage ventures is down to 58 percent from 70 percent in the previous five years.

With ticket sizes rising in 2017, early-stage deals declined in India

According to YourStory, the value of private equity investments in 2017 was $US 13.7 billion, much higher than in 2016 and 2015, when funding was at US $4.1 billion and US $8.4 billion respectively. However, both 2016 and 2015 saw more deals, at 1,034 and 913 respectively [3].

The average deal size is well over US $2 million every year, indicating that Indian SGBs may not be seeing proportional growth. In 2017, 10 companies cornered almost 70 percent of all funding, and only US $4.2 billion has been invested in companies or start-ups that are not Top 10 fundraisers. Only a fraction of this amount has gone to early-stage companies, with fewer of these types of deals happening this year compared to the past two [3].

In 2017, 485 Series A and earlier deals took place with an average deal size of US $1.1 million. This represents a 39 percent decrease in deals from 2016, when there were 795 early-stage deals and the average deal size was US $800,000. In 2015, 716 of these deals had an average deal size of US $1.9 million [3].

A recent McKinsey study that found that the growing ticket size of impact investments, for which the average has increased every year since 2013, is partly due to demonstrated profitable exits in the social sector providing more liquidity to enterprises and improving their ability to raise capital. [25]

According to Trak.in, the number of start-up SGB deals involving Indian companies declined by 44 percent from over 400 deals in 2016 to 225 in 2017. As a proportion of total start-up deals in India, SGBs made up 33 percent of deals in 2015, 40 percent in 2014, and dropped back to 33 percent in 2017 [Trak.in].

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SOUTH AFRICA

21 MEMBERS BASED IN SOUTH AFRICA

55 MEMBERS WITH STAFF IN SOUTH AFRICA

112 MEMBERS INTERESTED IN SOUTH AFRICA

2017 Trends in South Africa

1. **The Business Development Services Provider (BDSP) space is active, and programming is dependent on the funding structure.** There are many BDSPs in South Africa, and this expansion has led to a lack of clarity about what that constitutes. Corporate Enterprise and Supplier Development funds contributed to the growth of this industry. Most programs rely on a multitude of funding sources, with donor funding still the largest source of funding. Many have revenue-generating activities, though few generate enough revenue to be sustainable through these activities alone. The priorities of funders influence program structure and outcomes, and these effects need to be better understood.
2. **Supplier development mandates of Broad-Based Black Economic Empowerment are driving resources to the sector.** More support has been provided to SGBs as a result of legislation which requires corporates and state-owned entities to spend two percent of their annual net profit after tax on supplier development and another one percent on enterprise development. South African-based ANDE members have played key roles in enabling corporations to meet these requirements. As a result, many corporations are moving away from 'box-ticking' to get Broad-Based Black Economic Empowerment points, and towards integrating SGBs as a core element of company strategy. That said, some in the sector argue that these policies are yielding unintended negative consequences, such as the stifling of potential growth and job creation in SMEs, as companies are disincentivized to grow too much.
3. **As the number of Venture Capital Companies (VCCs) grow, so do governance concerns.** In 2017, the South African Revenue Service released several addendums to the VC tax incentive, set up under Section 12J of the Income Tax Act, which grants a tax reduction to investors who make investments in approved VCCs that then invest in qualifying small companies. The number of approved VCCs now stands at 103, and much of this growth is attributed to Section 12J originally enacted in 2009. The Southern African Venture Capital and Private Equity Association (SAVCA) has expressed concerns that the increase in the number of approved VCCs could lead to governance issues in some VCCs that could taint the broader industry. [33] Despite the growing number of VCs, there is still a gap for very early stage (ideation and start-up) finance.
4. **Investor confidence is on the rise.** A stronger Rand was triggered by the election of the new ANC president, Cyril Ramaphosa. The new leadership is supportive of job creation, entrepreneurship development, and private sector partnerships such as the national Youth Employment Service, a private sector led initiative involving corporations and Small, Medium and Micro-sized Enterprises to provide work placement opportunities to youth.

BUSINESS DEVELOPMENT

BDSPs in South Africa tend to be sector agnostic and provide multiple services

ANDE's South Africa Ecosystem Map identified 142 capacity development providers, or BDSPs as they are more commonly called in South Africa. Over 80 percent of these organizations are locally based as opposed to internationally headquartered, and they are fairly evenly split between for-profit and non-profit programs. According to data from the Search Inclusive Business directory, technical support providers tend to be sector agnostic and offer multiple business development services.

Accelerators and incubators are funded through a variety of sources, and most are donor funded

In order to deepen understanding of the incubator and accelerator landscape in South Africa, ANDE hosted a series of breakfast roundtables in Johannesburg and Cape Town in 2017. One key finding from these meetings was that funding sources appear to influence program design and services. For example, a funder may need to spend their budget within a given financial year, which may not align with a program duration that best serves the entrepreneur.

Most participating programs were funded through diverse sources, such as donor funding (corporate, government, and philanthropic grants), revenue generation, and direct investment. Donor funding is the biggest source, with one-third being solely donor funded, and nearly two-thirds receiving at least some grant funding. Half of the group reported having some revenue generating activities, though fewer rely solely on private revenue generation.

INVESTING

Investment vehicles focused on South Africa declined over past decade, especially those funding early-stage ventures

Most investment vehicles in South Africa are sector agnostic, but the ICT sector has the greatest share with 14 percent. The median target AUM of vehicles launched after 2012 is US $37 million, compared to US $44 million for vehicles launched from 2008 to 2012.

Only 3 vehicles (21 percent) launched in the past 5 years focus on early-stage ventures, compared to 11 (50 percent) in the previous five years. This shift away from early-stage ventures is also evidenced by the fact that the median minimum investment size doubled from US $100,000 from 2008 to 2012 to US $200,000 for vehicles launched after 2012.

According to Disrupt Africa, South Africa was home to the highest number tech of start-ups funded in Sub-Saharan Africa for the third year in a row. With 59 South African start-ups successfully fundraising in 2017, this accounted for 37 percent of all start-ups receiving funding in Africa. This was an 8 percent decrease from 2016, when 64 South African ventures received investment [12].

South African start-ups raised a total of US $50 million in 2017, 25 percent of the total funds raised in Africa. The average investment size increased 15 percent to US $840,000, from US $731,000 in 2016. Between 2015 and 2016, the average deal size decreased by 40 percent from US $1.2 million [12]. The increase in the number of start-ups fundraising and the decrease in ticket sizes indicate that investors are investing smaller amounts into more ventures. Overall, this suggests healthy backing is available for early-stage ventures.

While these deals may include those above ANDE's US $2 million SGB definition, the average deal size indicates that most of the deals would meet ANDE's criteria.

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WEST AFRICA

10 MEMBERS BASED IN WEST AFRICA

54 MEMBERS WITH STAFF IN THE REGION

136 MEMBERS INTERESTED IN THE REGION

2017 Trends in West Africa

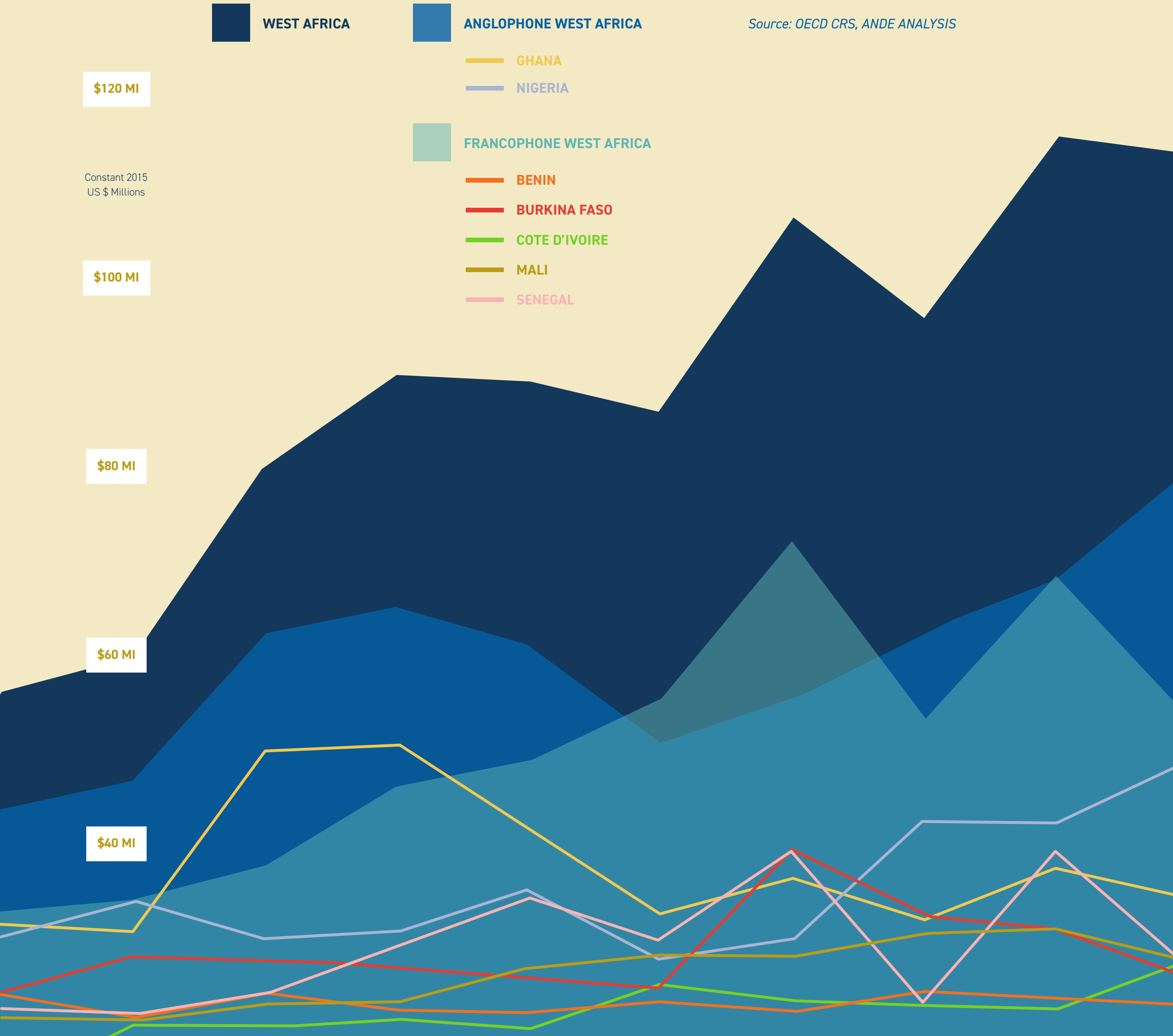
1. **Governments are tackling unemployment through entrepreneurship and innovation.** Governments of West African countries are becoming more proactive in responding to the region's high unemployment and are often turning to youth entrepreneurship to reduce the level of unemployment and foster economic growth. For example, in Ghana, the recently launched National Entrepreneurship and Innovation Plan works with innovation hubs to accelerate job creation in Ghana.
2. **Nigeria is making huge strides on Ease of Doing Business Index.** According to the recent World Bank Ease of Doing Business report, Nigeria is regarded as one of the 10 most improved countries worldwide. Nigeria was 169th and 170th on this report in 2017 and 2016, respectively. In 2018, Nigeria is ranked in the 145th position of the 190 countries in the Ease of Doing Business Index [18]. This stark improvement was thanks to the implementation of numerous reforms related to starting a business, paying taxes, and getting permits.
3. **Angel investors are bridging investment gaps.** The mismatch between investors and entrepreneurs has created a major gap in SGB financing. Start-ups often seek investments at US $500,000 or less, below the size of most private equity investments. However, there has been an increase in angel investors, and emergence of their various networks in West Africa making deals that suit the start-up ecosystem. The investor networks include Lagos Angel Network, Ivoire Angels, Senegal Angels, and Sierra Leone Business Angel Network.

DONOR FUNDING

Over the past five years, SME-related disbursements continued to rise in anglophone West Africa

From 2007 to 2012, donor funding for SME-related projects was on the rise in francophone West Africa, primarily driven by funding for Côte d'Ivoire, Burkina Faso, and Senegal. However, anglophone West Africa saw increases in levels of funding every year from 2012 to 2016 while funding for francophone West Africa went up and down, with funding levels roughly the same in 2016 as they were in 2012.

As a percentage of total donor funding in West Africa, funding for SME-related projects never surpassed one percent. Smaller countries like Benin and Togo reached as much as 3 percent but averaged 1.1 percent and 1.2 percent over the past decade.



METHODOLOGY

ANDE 2017 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 2017 survey launched in January 2018 and closed in February 2018, and 137 members 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 this section by surveying current ANDE members, collecting public information from other fund managers, and partnering with external data collectors. 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 when they 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.

Trak.in

The data from the India breakdown in the investment section was calculated using the data provided on Trak.in on Indian deals that have taken place since January 2015. These deals were compiled, and deals below US $20,000 and above US $2,000,000 were excluded from the analysis.

OECD Creditor Reporting System

Data presented in the Donor section comes from 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 2015 constant US Dollars. Unfortunately, the OECD survey instrument does not allow for users to directly classify their programs in relation to entrepreneurship. 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 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 is working with the OECD and other data aggregators to improve the available data for tracking donor support to emerging market entrepreneurs.

Search Inclusive Business Database

Data presented in the Regional Chapter breakdowns of the Capacity Development Provider section of the report is based on the Search Inclusive Business Database, which was developed by the Practitioner Hub for Inclusive Business and the Inclusive Business Action Network with support from Endeva and funding from DFID Impact Programme. Organizations described are those that provide at least one type of technical assistance, support start-ups/SMEs, and operate in the country or countries specified.

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 more at galidata.org.

Photo credit: John-Michael Maas

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Thanks to all the members who submitted vignettes, data, and photos for this report.

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