



# A Roadmap for the Small and Growing Business (SGB) Sector

# A Look Ahead

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# About this Document

Commissioned by the Aspen Network of Development Entrepreneurs (ANDE), this Roadmap for the Small and Growing Business (SGB) Sector outlines the **expected transformations in the sector over the next ten years, and the challenges and opportunities inherent to such change**. It includes a set of **13 recommendations** that, if adopted, can help sector support organizations focus resources, initiate momentum-building, “catalytic” actions, and mitigate inherent challenges from both within and outside the sector.

It should be noted that this Roadmap is meant to provide **high-level strategic direction to sector support organizations engaged in strategic or program planning** and seeking additional perspective on where to invest time, effort, and resources to advance the promise of SGBs. The Roadmap is **not** meant to articulate specific steps; rather, it provides a point-of-view on key actions and potential tools (i.e. “accelerators”) to consider as program strategy transitions to implementation.

As primary researchers for this Roadmap, the Monitor Deloitte team **consulted ANDE leadership and staff; interviewed ANDE member organizations; surveyed subject matter and sector experts in the fields of international development, economic growth, and social finance; conducted and synthesized a literature review of the most recent insights from the field; and hosted a day-long workshop with a selection of ANDE staff and representatives from across the SGB sector** – foundations, capacity development providers, academic institutions, and investors – to validate existing and surface new ideas. Insights from this Roadmap, where applicable, will have appropriate source attribution; however, many of these perspectives were synthesized from multiple sources and are therefore summative views on the future of the sector.

This Roadmap also builds on an additional report commissioned by ANDE and authored by Monitor Deloitte as part of their decennial review: *ANDE at 10 Years: Impact and Influence on the SGB Sector*. The report assesses the degree to which ANDE has influenced and impacted the evolution of the sector over the past 10 years and is available **[here](#)**.



# Executive Summary

**We believe every small and growing business in emerging markets should have the resources and support needed to thrive and create positive economic and social impact.**

Within the SME sector, small and growing businesses\* are the engines of emerging market economies. By some estimates, they contribute up to 33% of GDP in emerging markets and create over 50% of jobs (a higher number, if the informal sector were accounted for in these markets).<sup>1</sup>

SGBs are natural facilitators of economic progress and social impact in developing countries, if properly enabled. **They drive economic growth, invite local investment, and bring place-based social and environmental change to their communities.** Because of their intimate understanding of local needs, they are also **better positioned to serve Base of the Pyramid (BOP) customers and support global value chains seeking last mile distribution advantage.** They also generate increased access for underserved or marginalized groups, usually through employment, which helps **foster self-confidence and autonomy.**

As advocates of a pro-growth business environment, SGBs **encourage a spirit of entrepreneurship that can transform the economic infrastructure of developing nations.** Moreover, they provide a platform for sustained growth that can help emerging economies achieve their long-term economic goals.

Though enormous progress has been realized in the last decade with the diversion of resources and business support services to SGBs, more can still be done. Overcoming structural constraints will **require coordinated action on the part of the ecosystem of support organizations, funders, SGBs, and individuals to accelerate progress.**

*\*Note on nomenclature: For the purposes of this report, Small and Medium Enterprises (SMEs) and SGBs are used near interchangeably. SGBs are a subset of SMEs, as defined by different global institutions (e.g., IFC, World Bank), but the types of recommended supports to both segments are complementary.*

**SGBs and the Sector must contend with different “forces” of change that will introduce unpredictable implications for business prospects.**

Over the next decade, the SGB sector will continue to grow, creating new jobs, producing new products, serving new customers and suppliers, and ultimately creating greater shared wealth in developing countries that enable them. However, a confluence of macro political, social, and economic trends, or “forces,” will push SGBs and the Sector to adapt:

- **Demography:** Demographic shifts across global economies will influence the communities that SGBs serve. Aging populations in mature economies and the “youth bulge” in developing economies with a highly transitory workforce will complicate SGB hiring strategies.
- **Technology:** The Future of Work and automation will exert downward wage pressures on thousands of low-skilled jobs prompting SGBs to invest in reskilling and upskilling programs and create highly mobile, tech-enabled businesses to remain market responsive and competitive.
- **Global Development:** Development funding to certain sectors will dwindle as governments refocus priorities (e.g., infrastructure upgrades across developing countries), but increased interest from industry in exploring ‘next’ markets (e.g., frontier markets) will ease investment gaps.
- **Political Economy:** Rising wealth inequality and political polarization across the globe stoke tensions as governments, caught in the delicate balance between economic growth and sustainable development, turn increasingly to localized solutions.
- **Global Business and Supply Chains:** The case for SGB integration into multinational (MNC) global value chains will continue to grow, especially as more institutional and private stakeholders acknowledge the value of SGBs in creating linkages to BOP customers and playing a critical role in attainment of the Sustainable Development Goals (SDGs).
- **Environment:** Climate change will threaten communities around the world. But crisis presents opportunity for SGBs to bring local innovative and market-driven approaches to meet the energy needs of their communities and markets.

## Constraints endogenous to the sector continues to impede progress, unless innovatively addressed.

Macro forces notwithstanding, the sector faces a persistent **lack of access to capital, markets, talent, and a weak or immature enabling environment**. SGBs continue to face **high transaction costs of doing business**; lack access to follow-on capital from financiers; and require high levels of business development or technical assistance support to become “investment ready.” SGBs struggle to **attract the right talent for their businesses**. In emerging economies, they are often unable to compete with larger and established domestic firms or MNCs.

Moreover, they are often unprepared for challenges to their labor force brought on by greater technology advances and evolving labor demands (e.g., employee demands for professional development/promotion potential). Further, SGB successes on the global market and in the digital economy is contingent on their ability to **adeptly navigate inefficiencies in the business environment, their knowledge and readiness for new markets, and their operational maturity and professionalization interacting with other enterprises at a sufficient level of scale**.

Finally, with governments recognizing the contribution SGBs make towards advancing social and economic progress, great effort has been invested to reform business-crippling regulations, which often have outsized impacts on SGBs. However, more progress is needed; **indeed, it still takes an average of 20 days and costs 23% of income per capita to start a business in 2019**.

## The SGB Roadmap for the Sector outlines key recommendations to accelerate progress.

Taking into account the macro-level and endogenous challenges to the sector, a framework comprising four pillars for enhancing support and mitigating threats to SGBs and sector support organizations was developed. These pillars and their associated recommendations for action are summarized below:

- **Improving Access to Capital:** This pillar focuses on broadening avenues by which SGBs tap opportunities to fund and sustain operations with growth capital. Recommendations include:
  - *Developing alternative finance instruments aligned to meet SGB needs;*
  - *Mobilizing local sources of capital; and*
  - *Increasing the supply and accessibility of blended capital.*
- **Improving Access to Talent:** This pillar focuses on increasing SGB capabilities in attracting, training, and retaining new and existing workers. Recommendations include:
  - *Promoting SGB employment opportunities to new graduates and younger employees;*
  - *Developing local non-competitive SGB clusters to foster peer-to-peer learning; and*
  - *Encouraging training entities to focus on ‘soft-skills’ development.*
- **Improving Access to Markets:** This pillar focuses on providing additional market access opportunities to oft-overlooked viable pipelines (e.g., public procurement). Recommendations include:
  - *Implementing policy and capital supports to help SGBs ascend value chains;*
  - *Assisting SGBs with navigation of public sector procurement; and*
  - *Integrating women-owned businesses into the mainstream economy.*
- **Improving the Enabling Environment:** This pillar focuses on addressing regulatory and non-financial constraints to supporting SGBs. Recommendations include:
  - *Measuring and communicating SGB impact;*
  - *Expanding global advocacy to engage philanthropy and DFIs;*
  - *Revising national level business regulations; and*
  - *Strengthening entrepreneurial support organizations.*

Each pillar is accompanied by a set of “accelerators” or **additional tools at the Sector’s disposal to realize the recommendations in practice and help inform resource expenditures towards a particular recommendation**. These accelerators (i.e. Strategic Communications, Innovation, Partnerships and Networks, Research, Advocacy, and Evaluation) are explained in greater detail on page 8.

## Our Vision for the SGB Sector

SGBs and sector support organizations can greatly impact the economic development trajectories of the communities to which they belong.

- Vision -

***“Every small and growing business in emerging markets has the **resources and support needed to thrive and create positive economic and social impact.**”***

Small and Growing Businesses (SGBs) are defined 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.<sup>1</sup>

A growing body of research outlines the impact of SGBs. Beyond creating jobs, SGBs produce goods and services that benefit all sectors of society. This leads to job growth, wage growth, revenue growth, net income growth, new products, new customers served, and new suppliers supported. As such, **SGBs create shared wealth, which is essential to the growth of the middle class**. Further, SGB-produced goods and services often include social goods and infrastructure.

By fostering a pro-growth business environment, SGBs encourage **a spirit of entrepreneurship that can transform the economic infrastructure of developing nations**. Moreover, they provide a platform for sustained growth that can help emerging economies achieve their long-term economic goals.

However, lessons learned from over a decade of support to this segment of businesses in emerging markets has taught us that SGBs still face many **entrenched structural challenges** that inhibit their ability to achieve prosperity. To confront the challenges ahead, the sector must effectively **deliver coordinated action** and leverage the respective strengths of the ecosystem of support organizations – **public sector; capacity and technical assistance providers; private banks; development finance institutions; multilateral financial institutions; foundations; corporations; and invested others** – to accelerate progress. Only then can SGBs be equipped with the resources needed to achieve sustainable enterprise and create enduring positive economic and social impact in their communities.

# Trends and Challenges Affecting the SGB Sector

A confluence of macro political, social, and economic trends – or “forces” – will push SGBs and sector support organizations to adapt.

## Forces Causing Uncertainty

In an effort to identify the most uncertain and most consequential trends, or “forces” – *those with the potential to be extremely disruptive to the progress of SGBs and sector support organizations if left unaddressed* – the Monitor Deloitte team conducted research and hosted a workshop with a cross-section of sector support organizations and a Deloitte panel of development experts. The following six categories emerged as thematic groupings of forces. Of the 16 bolded forces below, **climate change, wealth inequality, the face of labor, the future of work, global value chains, and public and private sector investments** surfaced as priority uncertainties.<sup>1,2</sup> It is important to note that the scale, pace, and direction of each force is difficult to predict; this Roadmap **does not attempt to be exhaustive, but raises these issues as an opportunity to help inform program and future sector strategy.**

### DEMOGRAPHY

Demographic shifts across global economies will influence the communities that SGBs serve. In particular, aging populations in mature economies and younger populations in emerging markets suggest that the **face of labor** will change over the next 5 to 10 years. As the **local labor supply** changes based on these shifts, SGBs will need to reckon with identifying sufficient local talent to support labor needs. “Encore careers,” “alumni workers,” and “youth bulge” will become part of the labor lexicon; stereotypes towards older workers and highly transitory younger workers will be upended as governments and private industry consider innovative alternatives for their employment.

### TECHNOLOGY

The gig economy that swept the West will become increasingly mainstream as developing societies catch up. With the emergence of 5G, to remain competitive, more mature SGBs will have to integrate **broadband internet** into their business models. The **Future of Work** and **automation** will create downward wage pressures on thousands of low-skilled jobs. However, upward pressures for reskilling and upskilling may open up new talent opportunities to SGBs. Ongoing **innovation** may present opportunities for growing businesses to leapfrog the menial tasks and manual operations in favor of technical efficiency and scale.

### GLOBAL DEVELOPMENT

Globally, with new impetus from the current administration, interest in **infrastructure funding** to support growth and prosperity has helped invest billions of dollars towards projects that foster a stronger enabling environment. However, other global development sectors – agriculture, health, and environment are primary examples – have experienced dwindling **foreign assistance dollars and programming**, in part due to rising populist sentiments from donor countries. This void may be filled by growing **investment interest from private industry** as reflected by upward trends in FDI in developing countries and new innovations in local and frontier markets.

### POLITICAL ECONOMY

Rising **wealth inequality** is generally higher in emerging economies than in the most unequal developed countries, indicating that access to capital may continue to be a persistent concern for SGBs. Central bank intervention, particularly in developing economies, may lead to **rising inflation**, which increase **commodity prices** and erodes purchasing power, affecting the business environment especially for SGBs. **Political polarization** across both developed and developing countries on issues such as wealth inequality and displaced labor, may lead to stalemates on budget discussions to fund programs.

### GLOBAL BUSINESS & SUPPLY CHAINS

The case for SGB integration into **global value chains (GVCs)** grows, as multinational companies (MNCs) and global institutions recognize their value in providing value-added services in the form of greater access to local or bottom of the pyramid markets or leveraging participating in GVCs to evolve and mature their operations, and maintain competitiveness. Across markets, **regulations and ease of doing business** is in flux as the introductions of newer regulations creates a capacity issue for new firms and entrants to meet ever stringent reporting requirements. This also has implications for SGBs seeking to professionalize their enterprises.

### ENVIRONMENT

**Climate change** continues to threaten communities around the world. Natural disasters, declining agricultural yield, and localized famines, as well as climate-induced migration may alter the communities SGBs currently seek to serve. SGBs will be uniquely affected as local supply chains are threatened, especially in coastal regions, and sources of capital change as funding pivots toward humanitarian focused efforts. However, this factor also represents an opportunity for SGBs as **demand for localized clean and efficient energy solutions** increases.

Macro trends notwithstanding, the sector is also confronted by a **series of challenges from within**, including a persistent **lack of access to capital, markets, talent, and weak or immature enabling environments**. In the latest ANDE member survey, a lack of access to capital was the most cited and most significant challenge for both SGB support organizations and the SGBs that they worked with (27%). Lack of access to talent (18%), markets (14%), and cumbersome government and policy and regulations (14%) rounded out the top four challenges.<sup>1</sup>



A recent report by the Ministry of Foreign Affairs of the Netherlands defined seven overarching capital challenges for small and medium enterprises in developing countries. This included, among others, **high transaction costs** of doing business (e.g., companies have limited or nonexistent data to inform investment decisions), **lack of access to follow-on capital from financiers**, and **high levels of business development or technical assistance support** to get the enterprise “investment ready.”<sup>1</sup> These findings suggest support organizations will continue to struggle to mobilize investment dollars unless additional supports are provided to help SGBs navigate complex financial arrangements.



The World Bank’s Human Capital Index (HCI) finds that most emerging market countries, with some exceptions, are not sufficiently investing in education infrastructure to ensure their citizenry will be productive and able to compete successfully in the world. The HCI reveals many emerging market countries are **underprepared for the challenges to their labor force brought on by greater technology advances and evolving labor demands**.<sup>2</sup> This has implications for SGBs looking to identify the right talent for their businesses, and sector support organizations who need competent local partners to engage and provide effective entrepreneurship programming.



Enabling greater SGB participation in the globalized and digital economy is contingent on the previous two factors – access to capital and talent – but also on an SGB’s ability to **adeptly navigate inefficiencies in the business environment, its knowledge and readiness for new markets, and its operational maturity and professionalization interacting with other enterprises at a sufficient level of scale**.<sup>3</sup> Furthermore, as SGBs seek new markets and therefore scale, they will face issues of business ownership and management, which, if not successfully addressed will mean the end of their business viability over the long-term.



The global recession hit new and small businesses disproportionately and demonstrated the productivity gap that existed between them and larger firms. Moreover, business regulations tend to have outsized impacts on SGBs (and sector support organizations) whom lack the capacity to interpret the impact of the regulations on their operations. While progress has been made in this area – **it now takes an average of 20 days and costs 23% of income per capita to start a business, compared to 47 days and 76% of income per capita in 2006**<sup>4</sup> – there still much more to be done to improve the experience of starting and sustaining a business.



# A Roadmap for the SGB Sector

A support framework enhancing SGB and sector support organizations' access to **capital, markets, talent**, and an **improved enabling environment** can help mitigate the aforementioned challenges. This Roadmap offers **13 key actions** for consideration by the broader SGB sector, including ANDE and its members, which are detailed in subsequent pages, and summarized below.

## Improving Access to Capital

- C1. **Develop** suite of alternative financing instruments better aligned to meet the needs of a diverse range of SGBs.
- C2. **Mobilize** local sources of capital, including banks and local investors to support SGBs and the sector.
- C3. **Increase** supply and accessibility of blended capital to support SGBs, particularly in hardest to reach sectors/geographies, or to support pioneering businesses/sectors.

## Improving Access to Talent

- T1. **Promote** SGB sector employment opportunities to new graduates and younger employees.
- T2. **Develop** local non-competitive SGB clusters to foster peer-to-peer learning.
- T3. **Encourage** training institutions, universities, larger companies and other talent development organizations to offer more training in "soft-skills".

## Improving Access to Markets

- M1. **Implement** policy and capital support to help SGBs ascend value chains.
- M2. **Assist** SGBs with navigation of public sector procurement and/or other delivery opportunities.
- M3. **Integrate** women-owned businesses into the mainstream economy.

## Improving the Enabling Environment

- E1. **Measure** and communicate the impact of SGBs at all levels – locally, nationally, and globally.
- E2. **Expand** global advocacy efforts to encourage greater funding of and investment in the SGB sector by philanthropic organizations and Development Finance Institutions.
- E3. **Revise** national level business regulations to support SGB growth.
- E4. **Strengthen** entrepreneurial support organizations in emerging markets.

## Accelerators | Tools the sector can leverage to achieve the recommendation in practice



**Strategic Communications:** Some actions will require targeted goal-oriented messaging to a broader audience to help facilitate a cohesive vision for the sector.



**Innovation:** Certain actions will utilize an intentional innovation component that seeks to do the action differently, in new and novel ways, to generate momentum or greater interest in the SGB sector.



**Partnerships and Networks:** Some actions may require the convening of sector stakeholders to generate or share knowledge and coordinate to amplify the impact of that action.



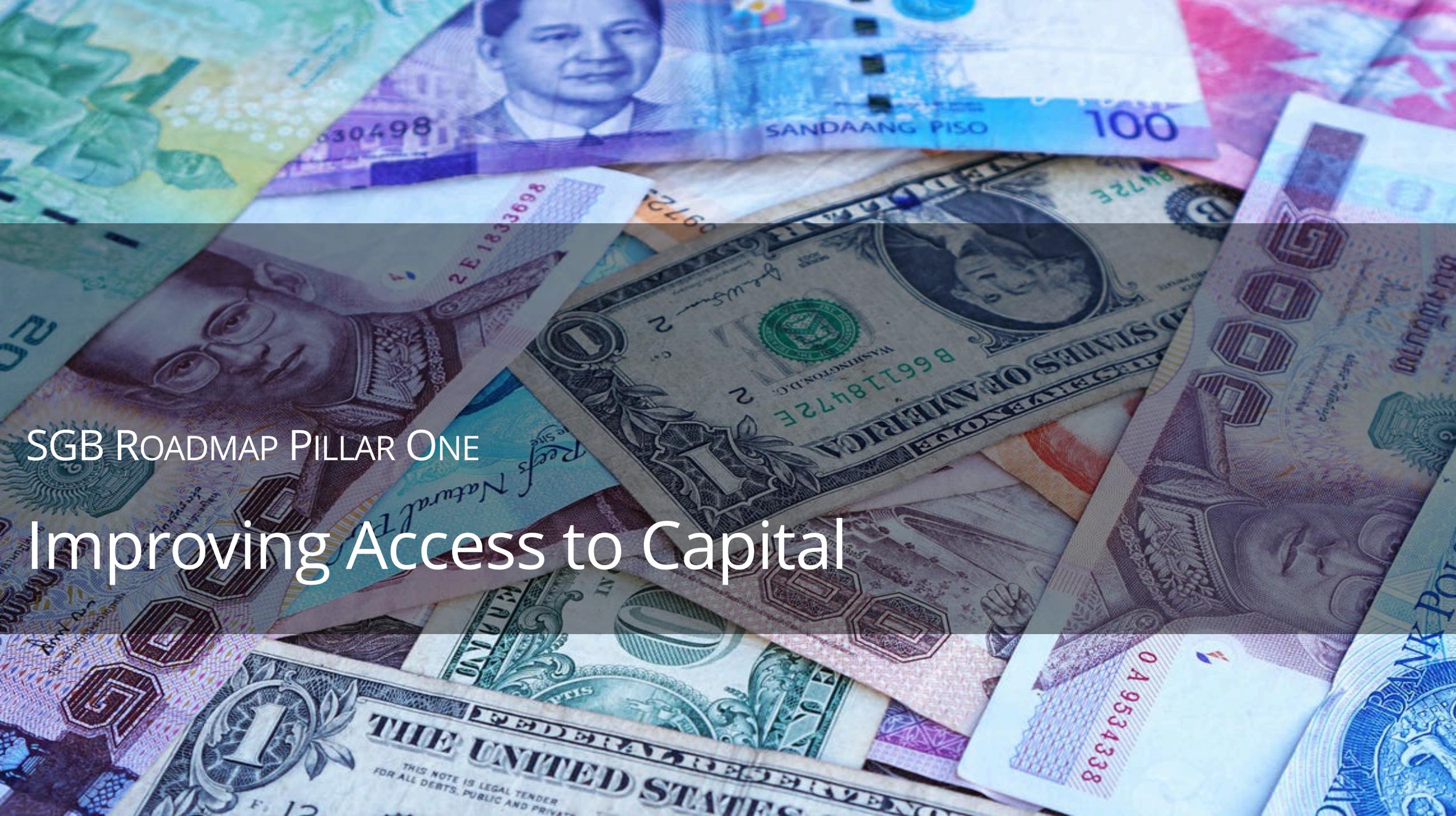
**Research:** Some actions require additional research to provide tested or proven modes of effective implementation and engagement, especially from non-sector players.



**Advocacy:** Some actions can benefit from awareness building for key decision makers and influencers. This accelerator is particularly helpful for solidifying the business case for SGB support.



**Evaluation:** Certain actions will need to measure the outcomes of taking action or build the business case for investment and show how SGBs are marking meaningful impact.



SGB ROADMAP PILLAR ONE

# Improving Access to Capital

# Key Actions

**C1. Develop** suite of alternative financing instruments (and support actions/activities) better aligned to meet the needs of a diverse range of SGBs.

**C2. Mobilize** local sources of capital, including banks and local investors to support SGBs and the sector.

**C3. Increase** supply and accessibility of blended capital to support SGBs, particularly in hardest to reach sectors/geographies, or to support pioneering businesses/sectors.

**C1. Develop suite of alternative financing instruments (and support actions/activities) better aligned to meet the needs of a diverse range of SGBs.** Traditional financing vehicles and investment tools are not ideal for supporting SGBs in emerging markets. There is often misalignment around management control expectations, investment return timelines, and the amount of capacity development necessary to lead to successful firm and investment outcomes. In response, there has been significant growth of alternative structures at the deal level (royalty-based finance), investment vehicle level (permanent capital vehicles), and blended finance options that include a grant component. Further development of these tools and improved tailoring to local context is needed.

## Accelerators



**Research:** Segmenting different types of (alternative and traditional) finance tools mapped to SGB size and maturity<sup>1</sup> can facilitate knowledge sharing and diffusion, and attract new investors. In parallel, research from the sector on what financing / investment instruments are available, for what types of enterprises, and the requisite supports needed to access these instruments could help SGBs and support organizations navigate rapidly evolving alternative finance options.



**Evaluation:** A sector standard for what products and services are in fact SGB-friendly, with a proven track record of supporting SGB growth, can help channel investment dollars toward the most promising alternative finance tools. More evidence is needed on what types of investments lead to different financial, enterprise, and development returns, to attract more and diverse investors. The sector should evaluate existing alternative finance instruments and explore dimensions of effectiveness (primarily, promoting SGB access to patient capital that translates into long-term productive outcomes).<sup>2</sup>



**Innovation:** The sector can explore developing and improving alternative finance tools that are uniquely tailored to the needs of SGBs. This effort would entail scanning for emerging technologies (e.g. next-generation distributed ledger technologies) to create market-competitive financial instruments adapted specifically for SGBs, and driven collectively by private investors and government institutions, DFIs, and other multilateral banks and institutions.



**Strategic Communications:** Insights from research, evaluation, and innovation will generate important insights that will contribute to further building the field of SGB finance. To attract, sustain, and grow private investment in this sector, financial actors will need to be informed and engaged on these insights. The sector will benefit from activities around global, regional, and country-level investor attractiveness actions (i.e. 'road shows') as well as ongoing investment promotion support activities (i.e. "investor after-care" follow-up activities).

## C2. Mobilize local sources of capital, including banks and local investors to support SGBs and the sector.

In most emerging markets, there is a shortage of appropriate and accessible local capital for SGBs. Local and regional financial institutions tend not to make smaller loans due to their cost and risk structure, while microfinance is often too small for the needs of growing SGBs. Similarly, in most emerging markets there are few active local VC or angel groups that provide equity or quasi-equity investment. Development finance has historically played an important stop-gap role, however, it has had the unintended consequence of crowding out or detracting from the development of local capital markets. It would be in the best interest of the sector to promote local sources of capital for SGBs.

### ➤➤➤ Accelerators



**Research:** In general, more research is needed on capital market policies and legal and regulatory frameworks at the local level. This is needed to provide a sound base of evidence and practice for investors and policy-makers looking to further develop local capital markets for SGB finance. The focus of this research should look at upgrading capital market policy frameworks; understanding the role of regional or local banking institutions as a provider of local currency loans; and enabling an “efficient transaction environment, including the use of fintech and crowdfunding solutions.”<sup>1</sup>



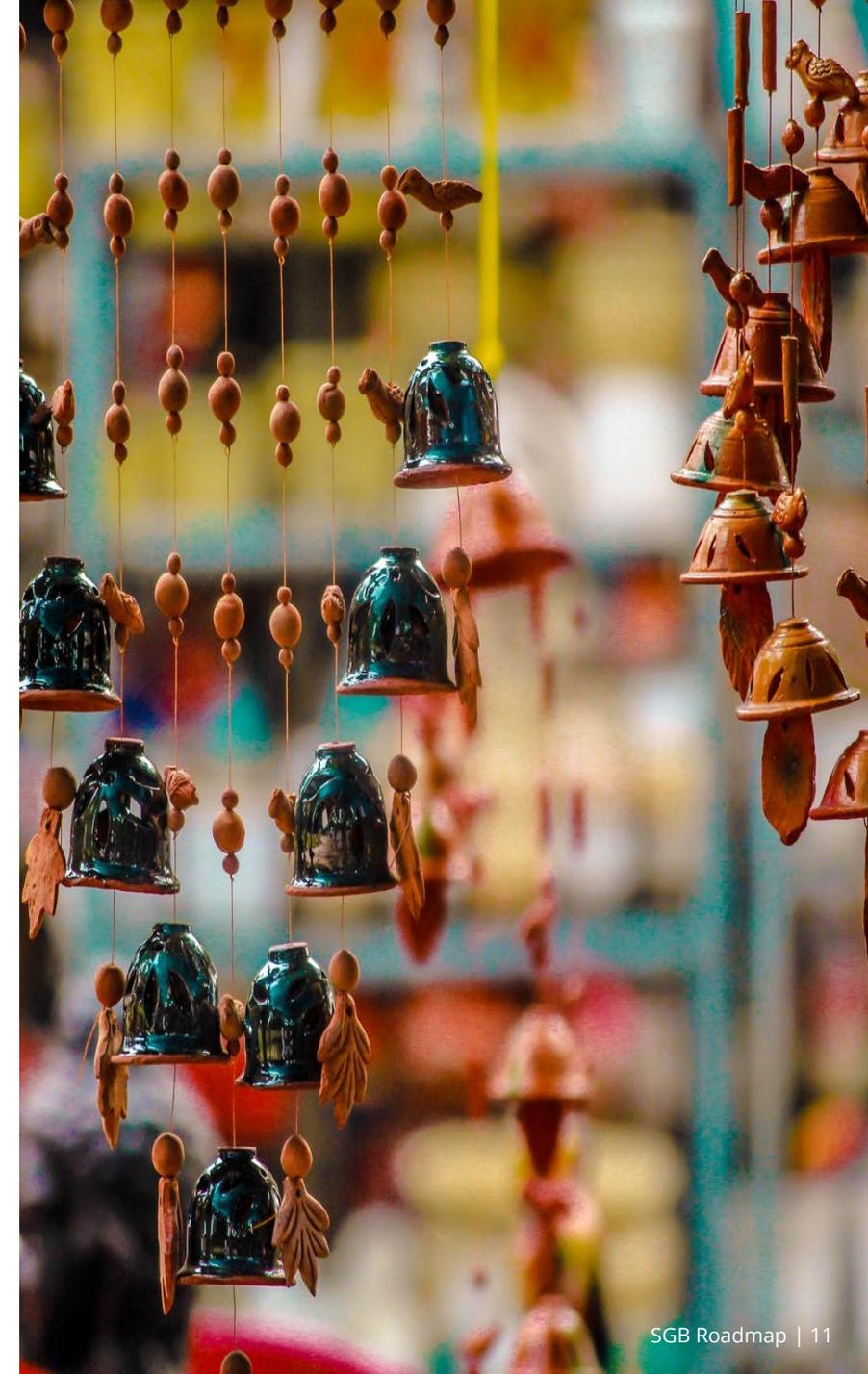
**Innovation:** New approaches in an emerging market context are needed to adopt rising technologies (i.e. block chain) that not only help to de-risk local SGB lending, but also promote transparency, which is key to reducing leakage and patronage in SGB finance. Innovations in progress could use additional support and advocacy from the sector, to help drive investor interest. For example, the World Bank recently piloted Issuer-Driven Exchange Traded Fund initiative with the Brazilian Treasury which supported local currency bond markets and enhanced the viability of ETFs in emerging markets.<sup>2</sup>



**Evaluation:** One evaluative effort by the sector on alternative finance might examine the financial and enterprise returns from alternate forms of SGB finance by local institutions, such as through factoring, invoice financing, and movable property lending/asset financing. This could be also combined with a strategic communications campaign to promote greater use of diversified local financing approaches to SGBs.



**Partnerships and Networks:** The sector could identify and promote viable partnership models between traditional local financial actors and local or global FinTech players, to bring more effective and scalable solutions to areas such as “Know Your Customer (KYC),” working capital optimization, cross-border and business-to-business (B2B), and cash flow management.<sup>3</sup>





**C3. Increase supply and accessibility of blended capital to support SGBs, particularly in hardest to reach sectors/geographies, or to support pioneering businesses/sectors.** Recent years have seen much ado about the promise of blended finance to bring new levels of scale to capital available for SGBs – yet much of the progress has concentrated in middle-income countries and/or predominantly reached only mid- and large- sized enterprises.<sup>1</sup> With support from governments, DFIs, and local and global financial actors, blended finance instruments can be expanded to help hedge inherent risks while supporting the growth needs of SGBs.

### ➤➤➤ Accelerators



**Research:** As one study observes, “blended finance should only be used if it crowds in additional private finance that would not otherwise be forthcoming.”<sup>2</sup> To entice existing investors to commit additional resources while bringing in new financial actors as well, it is important that blended finance’s impact on existing markets be understood. Research is needed to better “gauge at what terms private capital would be willing to undertake a project on its own and fine-tune concessionality accordingly (‘getting the price right’)” and better understand investor risk propensity, particularly in Least Developed Countries.<sup>3</sup>



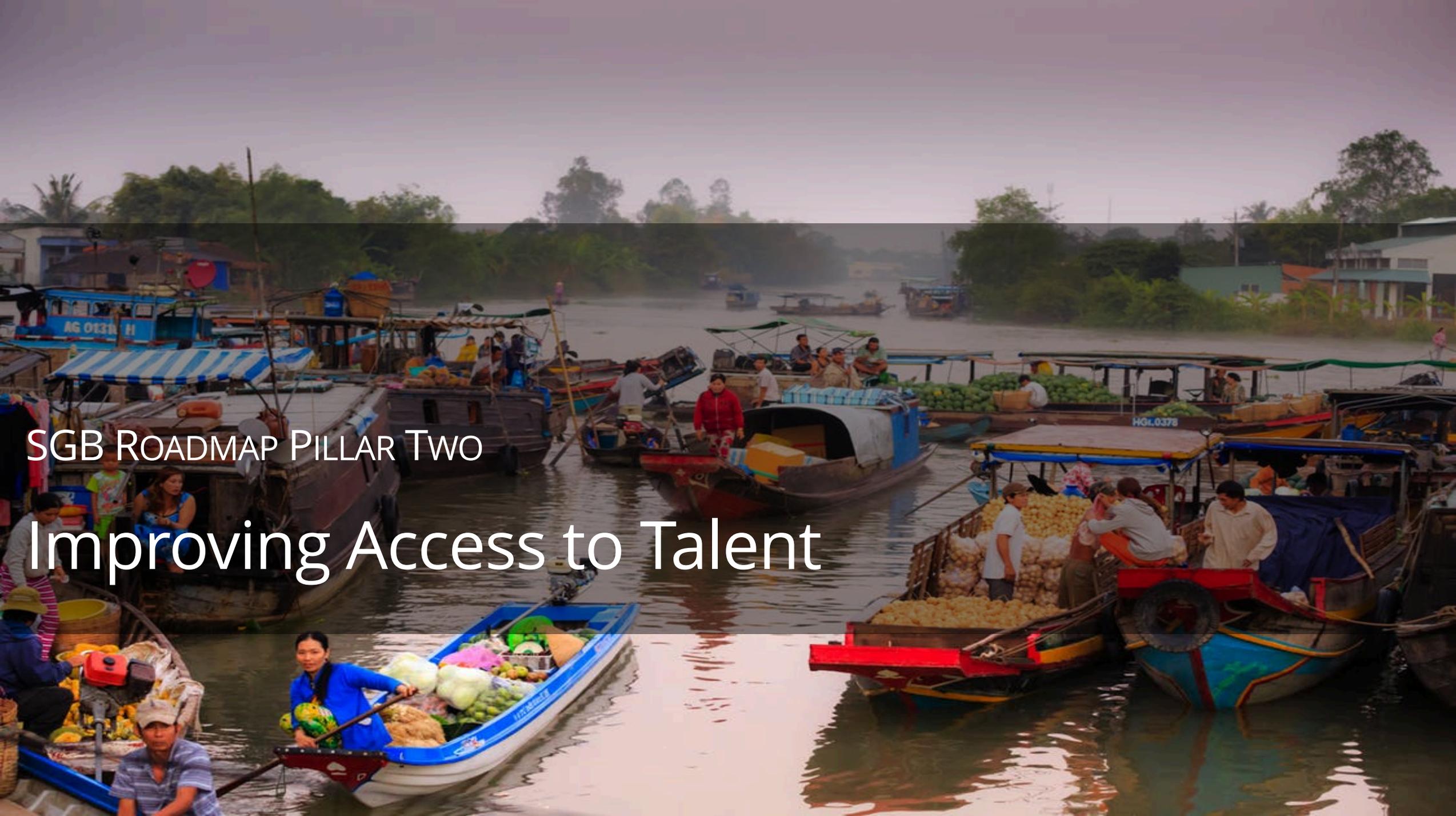
**Innovation:** There is considerable room to explore models of blended finance across a range of ‘less traditional’ SGB finance models, such as in credit risk mitigation, asset-based lending, factoring, debt securitization, and various ‘hybrid’ instruments (e.g., subordinated, convertible, mezzanine).<sup>4</sup> Innovations should be explored through a combination of research and partnership efforts, with an intentional pathway to scale positive results and diffuse insights.



**Advocacy:** To encourage more blended finance SGB lending and investing, there needs to be shifts in the way that DFIs, MDBs, and donors support and facilitate blended finance instruments. A targeted advocacy effort is needed to engage these stakeholders to do finance differently. For example, donors might be able to lower traditional lender requirements for a positive rate of return<sup>5</sup>, while MDBs could add Special Purpose Vehicles (SPVs) to their private sector windows (PSWs) designed to “target highly catalytic uses such as early-stage finance.”<sup>6</sup>



**Partnerships:** Beyond existing long-standing partnerships among global DFIs, MDBs, donors, and philanthropic institutions, the sector must develop a focused engagement strategy for domestic and local investors so that they can close the gap between perceived and real risk and bolster investment decisions with real knowledge and understanding of the local context.



SGB ROADMAP PILLAR TWO

# Improving Access to Talent

## Key Actions

T1. **Promote** SGB Sector employment opportunities to new graduates and younger employees.

T2. **Develop** local non-competitive SGB clusters to foster peer-to-peer learning.

T3. **Encourage** training institutions, universities, larger companies and other talent development organizations to offer more training in “soft-skills.”

**T1. Promote SGB Sector employment opportunities to new graduates and younger employees.** SGBs face structural challenges in attracting top level talent. Compared to other large firms or NGOs, SGBs typically offer jobs with less security and lower pay; in emerging markets – in Asia and Latin America in particular – they are marked with a cultural stigma. Further, they are often more reticent or unable to invest sufficient resources in professional development for employees either due to fears of local poaching of their most skilled employees or are unconvinced by the return on investment in trainings.<sup>1</sup> As a result, SGBs in less mature economies are already unattractive options for recent graduates and young employees looking for job stability and professional development and promotion prospects.

### Accelerators



**Partnerships and Networks.** There is an opportunity to improve the promotion of jobs in the sector by implementing outreach to top universities and reaching qualified students who may be driven by more of a social mission or seek an entrepreneurial culture. In addition, the sector could promote industry-level programs that provide a salary top-up to top candidates or develop a leadership development program that allow employees to do skill-building rotations at different SGBs in a community. Partnerships with governments are also essential. In South Africa, for example, 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, continues to push entrepreneurship development as a vehicle for job creation.<sup>2</sup>



**Innovation.** New models of support for training, retaining, and reskilling workers continue to emerge and is an area where sector resources are particularly needed. In Uganda, *Educate!* uses a direct implementation and government partnership approach to deliver elements of practical training, leadership, entrepreneurship, and innovation to help young people construct their own paths.<sup>3</sup> In Rwanda and Nicaragua, *Teach a Man to Fish* helps students develop marketable competencies appropriate to the local market and small-run enterprises.<sup>3</sup> These business model innovations are disrupting the way entrepreneurship – and its value – is being communicated to students, their communities, and public and private partners.

**T2. Develop local non-competitive SGB clusters to foster peer-to-peer learning.** SGB employees struggle to access formal training programs. Support organizations, formal educational institutions, SGBs, government, and other local private sector can coordinate to foster strong linkages in the local and regional talent ecosystem, promote knowledge transfer, and increase economic and social mobility for workers. The Government of India, for example, formally established a Ministry of Micro, Small, and Medium Enterprises to oversee Cluster Development as a key strategy for enhancing productivity and competitiveness. The enterprises are locally grouped depending on select criteria.<sup>1</sup> In other instances, the cluster can be industry-driven; one consortium selected cluster participants to serve as rotational facilitators during the 14-month program to lead problem-solving discussions and share knowledge across participating companies.<sup>2</sup>

## ➤➤➤ Accelerators



**Partnerships and Networks.** Critical to the success of P2P learning is the role of an impartial learning facilitator who can identify opportunities for knowledge sharing, seek out funding sources for collective professional development opportunities, and provide structure to learning events. In Chile, for example, “small firms can aggregate training demand to receive training through technical training intermediary agencies – nonprofit associations organized by economic or regional sectors and financed through dues from participating companies.”<sup>3</sup>



**Research.** Research has found that peer engagement among entrepreneurs is effective, especially if SGBs are paired or exposed to businesses with similar characteristics but higher overall performance than their own (and whom are not direct competitors).<sup>4</sup> However, more research is needed to collect data on the particular trends and challenges that SGBs across different industries and sectors confront, with a possible output a set of mitigations that peer learning groups can take to develop best and growth-promoting practices.



**Evaluation.** A formal evaluation effort to understand what types of P2P learning models satisfactorily positions SGBs for success is needed. This can include a determination of specific success measures and a codification of operating procedures that best fit the needs of participants, as well as an established set of continuous learning opportunities that further SGB capacity.





**T3. Encourage training institutions, universities, larger companies and other talent development organizations to offer more training in “soft-skills.”** Great employees come with solid functional skill sets in areas like finance or marketing. However, in the business world today, so called “soft-skills” like communication, teamwork, creativity, technology fluency, innovation, and proactive problem-solving have become ever more important. Employees who are able to demonstrate flexibility, creativity and collegiality are particularly valuable in growing businesses where there is a greater need to rely on generalists to solve multi-faceted business challenges. Yet, training programs in emerging markets typically focus more on functional or highly specialized expertise than in what it takes to support cross-functional and business management needs. One study found 85% of an entrepreneur’s success was contingent on skills related to “human engineering” – the process of communicating, negotiating, and leading. Only 15% was dependent on specialized or conceptual knowledge.<sup>1</sup>

### »»» Accelerators



**Research:** Development of research tools and forecasting models that help to capture and distill insights into the changing landscape of skills in emerging markets could be particularly valuable to convince training institutions of the imperative of soft skills development. Research has shown greater employer willingness to use strategies like extensive screening of applicants, increased training time, and job rotation to select for and reinforce soft skills,<sup>2</sup> but this needs to be communicated to training institutions. Research should also focus on developing a suite of best practices that support soft-skills development, resources that can help, and potentially a compendium of curriculum, workshops, or conferences focused on enabling soft skills development for SGB entrepreneurs and management.



**Advocacy.** Underlying the spirit of this action is the assumption that governments, local and national, are already invested in inclusive access for all, but that is not the necessarily the case. Indeed, in South Asia and Africa, where nearly 60% of the world’s new workers will be by 2030, the current educational infrastructure will ensure at least one billion people lack a secondary education – let alone one in soft-skills.<sup>3</sup> A targeted advocacy effort towards higher education institutions would be welcomed, with a goal of getting acceptance from decisionmakers on the importance of integrating soft-skills with technical and conceptual elements of entrepreneurship in a standard curriculum widely disseminated across different training and education institutions.



SGB ROADMAP PILLAR THREE

Improving Access to Markets

## Key Actions

M1. **Implement** policy and capital support to help SGBs ascend value chains.

M2. **Assist** SGBs with navigation of public sector procurement and/or other delivery opportunities.

M3. **Integrate** women-owned businesses into the mainstream economy.

**M1. Implement policy and capital support to help SGBs ascend value chains.** Many SGBs access global value chains (GVCs) as lower-tier suppliers of larger domestic firms. Due to their lack of capabilities, SGBs are “usually not able to access export markets, and hence are restricted from increasing the value-added they take.”<sup>1</sup> However, through providing inputs to larger firms, these domestic linkages help SGBs specialize in the provision of inputs to production and can, with their finite resources, select the most appropriate segment according to their own comparative advantage.<sup>2</sup> To accelerate their integration, governments could incentivize larger domestic firms whom export with MNCs to share knowledge of their experience working with foreign MNCs (who control the GVCs) with SGB suppliers. Additionally, governments and sector partners could target, through investment and policy programs, the critical conditions – higher labor productivity, significant foreign ownership share, and ICT as a core part of business activity – that inform the potential to ascend value chains.<sup>3</sup>

### Accelerators



**Advocacy.** SGB integration in GVCs must be facilitated through government programs and participation. An advocacy campaign could reinforce the importance of SGB participation in value chains, and the requisite supports needed from government to enable access to business professionalization and development services, and product quality certifications.<sup>4</sup> The sector could work with governments to pass legislation requiring SGBs at a certain level of maturity to engage with GVCs as an X-tier supplier with a specialty function. Alternatively, governments could set up a fund that serves as an incentive for MNCs to partner more readily with domestic firms and their SGB suppliers, after which a period of time, the subsidy would be phased out as value-added partnerships take root.



**Partnerships and Networks.** The sector, specifically capacity development providers and industry associations, can connect MNCs and domestic firms with SGBs and help SGBs identify stages in GVCs that could benefit from their specialized, local expertise. The value to MNCs and larger domestic firms should also be communicated; through this partnership, they will have access to a reliable pipeline of partners to fill lower-tier value chain needs.



**Research.** Research is needed into the current inventory of existing incentive programs or policies that may incent larger domestic firms whom interact more regularly with MNCs to transfer knowledge to their SGB suppliers.<sup>5</sup> Additionally, research is needed on different opportunities for SGBs to invest their resources in critical success factors, like access to ICT or innovation capabilities, that determine the extent of an SGB’s participation in GVCs.



## M2. Assist SGBs with navigation of public sector procurement and/or other delivery opportunities.

Most public procurement processes in emerging markets were not designed to issue contracts to companies the size of a typical SGB. Additionally, many SGBs are deterred from public contracts due to a lack of knowledge of the opportunity and technical confidence to successfully execute.<sup>1</sup> However, SGBs can be empowered through reconfiguring public procurement policies, including policies that favor female-owned and ethnic minority-owned enterprises. National, provincial, and municipal/local governments should consider developing specific set-asides for SGBs within their own procurement policies. Alternatively, governments might consider incenting larger firms to seek out SGBs as vendors through promoting programs or legislation, like South Africa's Broad-Based Black Economic Empowerment (B-BBEE) certificates, which offers certified companies the chance to bid on – and more likely win – government contracts.

### Accelerators



**Advocacy.** The sector could support the development of policy frameworks or tools redesigned for inclusion of SGBs in the procurement process. In the United States, Jobs to Move America has designed, in close collaboration with public agencies, an “inclusive procurement” tool that helps participants navigate specific inclusion criteria to cover commitments to creating good jobs, harnessing local talent, and providing training opportunities for all workers.<sup>2</sup>



**Evaluation.** The sector should also examine whether public sector procurement and/or other delivery opportunities actually attract the interest of SGBs, many of whom may not have the capacity to engage regularly in public sector procurement processes. One study finds that to date, “no attempt has been made to systematically collect reliable statistics on the size of public procurement in economies around the world. Data is [only] publicly available for high-income countries.”<sup>3</sup>





**M3. Integrate women-owned businesses into the mainstream economy.** Despite the great economic and social impact potential of integrating women into the business sector – one study estimated nearly \$12 trillion can be added to global GDP by 2025 through improving gender equality – most emerging market countries still lag in gender equality in commerce.<sup>1</sup> Women-owned businesses face both financial and non-financial constraints. Indeed, the IFC found that 57-71 percent of women-owned small and medium-sized enterprises in developing economies are either unserved or underserved by the financial sector.<sup>2</sup> Furthermore, women face cultural barriers and discrimination. A Dahlberg report found that male-owned businesses in Southeast Asia, for example, preferred to deal with male suppliers and customers, or that male relatives would take over a women’s business once it had grown.<sup>3</sup> Successfully integrating women-owned businesses into the mainstream economy will require a comprehensive approach addressing issues of gender bias, constrained access to finance, skill deficits, among others.

### »»» Accelerators



**Advocacy:** At a national level, anti-female laws around asset ownership should be repealed and major efforts to encourage women’s entrepreneurship launched. Gender screening tools and preferred procurement tools that are the result of these advocacy efforts can help facilitate female access to additional market opportunities.



**Research:** In the SGB sector, investors and capacity development organizations should embrace gender-smart practices internally and seek to develop programming aimed at women-owned and women-managed clients. One particularly valuable area for additional research is the role of ICT in facilitating solutions to some embedded challenges to female entrepreneurship, for example, using e-commerce as a means to mask the seller’s gender or virtual mentoring to reduce mobility and time issues for women business owners.<sup>4</sup>



**Strategic Communications:** With gender equality and women’s empowerment a core focus of the SDGs, the sector can support a campaign highlighting female contributions to small business growth, jobs creation, and local prosperity. While it is important to note the supply-side constraints (e.g., lack of access to capital, training), the campaign needs to also showcase demand-side programming, where “bankers, investors, and other resource providers need to examine the extent to which stereotypes or biases are applied in funding decisions or whether policies such as credit scoring or collateral requirements affect women unfairly.”<sup>5</sup>



SGB ROADMAP PILLAR FOUR

# Improving the Enabling Environment

# Key Actions

E1. **Measure** and communicate the impact of SGBs at all levels – locally, nationally, and globally.

E2. **Expand** global advocacy efforts to encourage greater funding of and investment in the SGB sector by philanthropic organizations and Development Finance Institutions.

E3. **Revise** national level business regulations to support SGB growth.

E4. **Strengthen** entrepreneurial support organizations in emerging markets.

**E1. Measure and communicate the impact of SGBs at all levels – locally, nationally, and globally.** Quantifying the benefits and contributions of SGBs to a particular set of social, economic, and environmental outcomes to donors, investors, and other sector support organizations is critical in sustaining momentum and interest in the sector. A sector tool that can be used by stakeholders at all levels – local, national, and global – to visualize and communicate the impact of SGBs in those particular communities would help facilitate donor interest. However, while the knowledge base is increasing, still too little is known about the impacts of SGBs on economies. Other challenges to impact measurement include a lack of clear direction on the desired outcomes of policies supportive of SGBs, and how impact is traced back; lack of robust data infrastructure or incentives to share data with evaluators; and the inability to draw broad conclusions of “what works” across different regions, sectors, and customer segments, given the immense diversity of the SGB sector.<sup>1</sup>

## Accelerators



**Research:** More research is needed into the impact of SGBs on key sustainable development goals like high quality job growth, impact on gender equality and poverty reduction, and specifically on the sector-level supports (programmatic, financial, or otherwise) that can be offered to help SGBs close gaps and further their positive impact. Generally, the sector could benefit from a set of key performance measures customized by region or program that tracks similar outcomes regardless of SGB traits. These measures could include firm-level performance indicators (e.g., order-to-delivery time, capacity utilization, labor productivity) or their contribution to economic development targets (e.g., a regional cluster of SGBs contributing to reduction in unemployment rate, labor participation rate, or poverty rate).<sup>2</sup>



**Strategic Communications:** To continue to drive interest to the sector, there should be a major effort to understand and communicate the impacts of SGBs on building prosperity in emerging markets, a finding that was echoed by sector stakeholders in workshop. One obvious value of SGBs is their role and contribution in the achievement of the UN Sustainable Development Goals. A third party impact measurement entity, like the Impact Measurement Project – which is currently supporting impact measurement for the SDG impact project – could help the sector identify specific impact outcomes associated with a certain level of investment and communicate that impact through various media.<sup>3</sup>



**E2. Expand global advocacy efforts to encourage greater funding of and investment in the SGB sector by philanthropic organizations and Development Finance Institutions (DFIs).** Today, overseas development assistance that targets the SME sector represents approximately 2% of total development assistance by OECD countries. The percentage targeted specifically at entrepreneurship or small and growing businesses is much lower. DFIs and major private sector players tend to shy away from making investments at the level needed by most SGBs (\$20,000 to \$2M USD) because of the relative cost of making small investments. Grant-making foundations and corporations rarely consider entrepreneurs and entrepreneurship as a direct mechanism for impact, and thus little philanthropic funding flows. The sector would benefit from increased efforts by major SGB support organizations and sector organizations to drive philanthropic and investment dollars to the SGBs and SGB support organizations.

## ➤➤➤ Accelerators



**Evaluation:** An oft-cited issue in the SGB investment community has been the challenge of measuring results, both financial but also particularly enterprise and development outcomes. There is room to expand on early best practices, disseminate learnings, and promote a standard of practice for measuring SGB investment results. This will require further evaluative analysis/research into the SGB investing field, along with close engagement of the donor and foundation community to promote the findings into future investment activities and to catalyze additional interest. Evaluation of development outcomes should be closely linked to performance against the Sustainable Development Goals, since SGBs “have a leading role to play in meeting the SDGs,”<sup>1</sup> and to ‘make the case’ for SGB investing.



**Partnerships and Networks:** There are opportunities to promote SGB investing to new networks and communities of investors, including through disruptive technology-based platforms (e.g., crowdsourcing); through non-traditional communities (i.e. diaspora networks); and to a new generation of foundations and non-profits. Similar to trends in blended finance, a challenge has been to find effective ways to engage, attract, and mobilize these new networks. Additional attention, pilots, and learning through proofs of concept, are needed in this area.



**Innovation:** For SGBs to realize their full development potential, and attract additional support from the donor/philanthropic community, it will be important for them to catalyze and demonstrate their social and socioeconomic benefits. Early research has begun on tools to support SGBs in aligning to different SDG areas, however much more can be done. Particularly with the vantage point of sustainable and scalable solutions with a business lens, there are opportunities to build out supporting frameworks and tools that enable entrepreneurs and SGBs to identify opportunities at the base of the pyramid that promote their development impacts.<sup>2</sup> Doing so, combined with effective tools for communicating these development alignments, will help make the SGB sector more attractive to a wider range of philanthropic actors, including impact investors, mission aligned private sector foundations, family offices, and others.





**E3. Revise national level business regulations to support SGB growth.** National governments should review national business and tax laws with a specific lens toward improving the business environment for SGBs. Presently, in many countries, there are tax and regulatory disincentives for small companies to grow. SGBs are also crowded out by state-owned enterprises, which may maintain a monopoly on specific functions that could be filled by SGBs. There are “cliffs” after which significant tax burdens are imposed on growing firms and they may be subject to other non-competitive regulation. Additionally, bankruptcy regulations in many emerging markets tend to excessively penalize or stigmatize failure, resulting in less efficient firms opting to reallocate resources to more productive uses rather than to exit the market entirely.<sup>1</sup> In a general sense, these regulations (and improvements thereof) could be tracked by the East of Doing Business ranking or some other comparable globally accepted and leading standard.

### »»» Accelerators



**Advocacy:** Cultivating local private sector capacity can facilitate the improvement of the business enabling environment. Industry associations, trade guilds, and networks of investors of SGBs can convene to educate and advocate for policies conducive to SGB growth needs. For example, private sector coalitions helped broaden opportunities for smaller businesses in countries like Malawi, where industry in partnership with the Ministry of Industry and Trade helped to remove restrictions that ensured wholesalers and distributors in the sugar supply chain operated under the same rules, “contributing significantly to the process of opening up the sugar sector.”<sup>2</sup>



**Evaluation:** An evaluation effort could result in an SGB-specific index that focuses on the business enabling environment. The index would include the most salient measures including the cost of starting up a local business, level of public programs and support, etc., and award points by locality, as business regulations at a local level may actually be more conducive than national level ones. Vietnam’s Provincial Competitiveness Index is one example of such an effort to place accountability for competitiveness at the provincial level and to promote the attractiveness of the local business environment to investors, both domestic and international. The index examines 10 factors for competitiveness, including low entry costs for business start up, less state intervention in market activity, and developed and high-quality business support services.<sup>3</sup>

**E4. Strengthen entrepreneurial support organizations in emerging markets.** There is a clear need to increase the quantity and quality of entrepreneurial support organizations (ESOs) / business development services (BDS) that provide training, technical assistance, peer-learning platforms, and investment guidance to SGBs. While there has been a significant increase in the number of BDS organizations, especially incubators and accelerators, in recent years, many of these organizations are still focused primarily on the largest, and mostly urban, areas in developing countries. The effectiveness of ESOs varies widely, as there is typically an underinvestment in staff training and continuous learning about what works and what doesn't in providing their services. These organizations are further stretched when asked to support entrepreneurs in smaller cities, peri-urban, and rural areas, as they too face legal and regulatory constraints, information asymmetries, unfamiliarity with the local context, and SGB lack of awareness of their services.<sup>1</sup> The sector would benefit from more research about, and support to, the impact of specific support strategies, along with better dissemination (and adoption) of best practices for this field.

## ➤➤➤ Accelerators



**Research:** While private equity activities in emerging markets are benefitting from growing transparency and data availability, overall investment and financing activity to SMEs in these geographies remains opaque. Particularly missing from the data is the impact had by ESO / BDS organizations and/or technical assistance (TA). Research and analysis into the role played by BDS and TA in promoting more successful and resilient SGBs is needed; ultimately, the sector could benefit from a suite of best business development practices for supporting SGBs in a specific region or sector.<sup>2</sup>



**Partnerships and Networks:** Closer proximity between BDS providers and investors should be encouraged, as it helps facilitate the development of local service provider capacity. Up to now, the two fields often operate in silos, with limited exceptions when donors or foundations are involved. Yet the two fields share similar objectives: both want entrepreneurs and SGBs to thrive, grow, and return positive firm and financial performance. Novel partnerships could promote new models of investment and incent faster growth of entrepreneurial talent attracted by the promise of future investment.



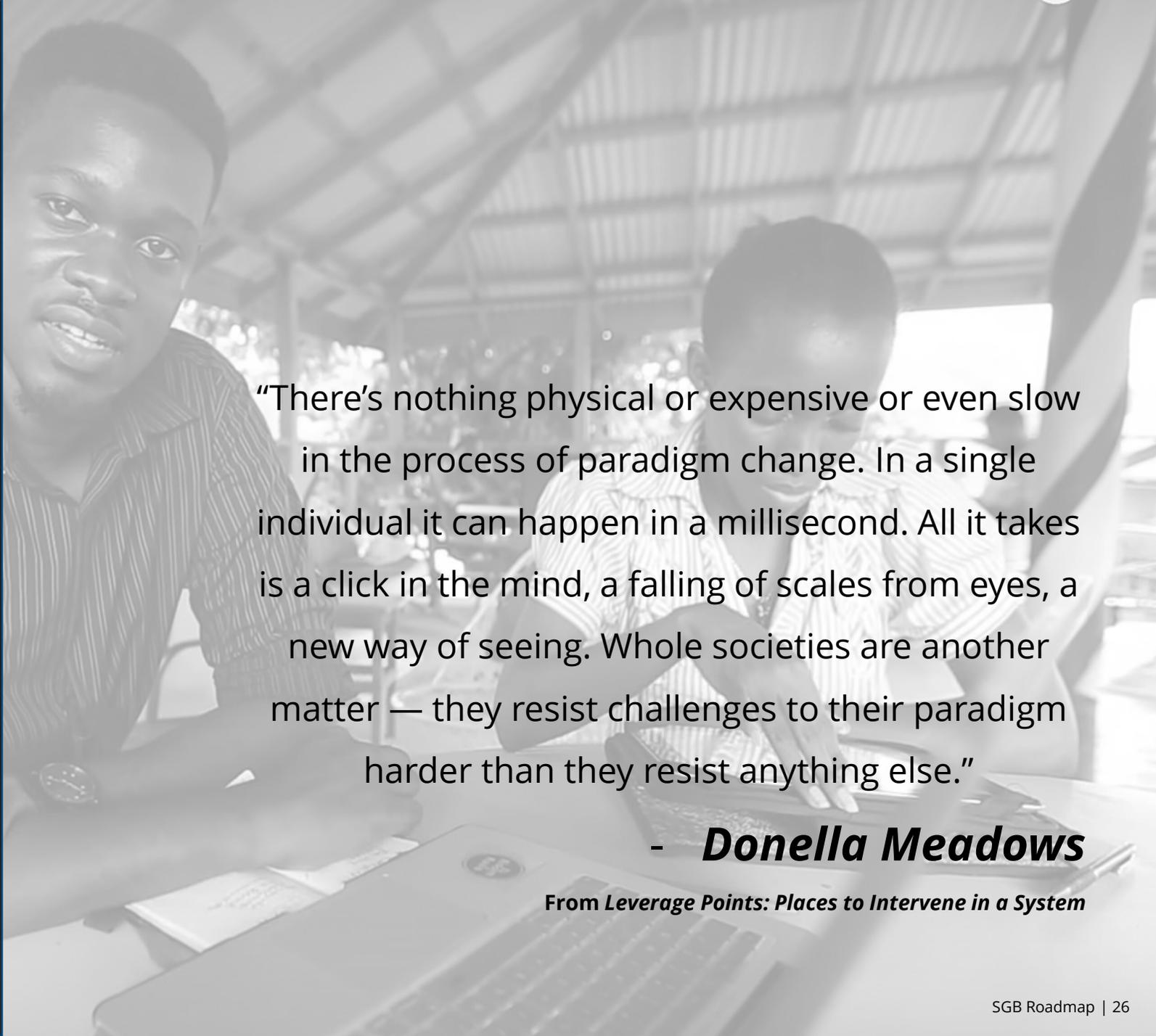
**Advocacy:** For years, many foundations have been reluctant to invest in “build” capital (investments focused on operating capacity) of their partner organizations, instead opting for “buy” capital (investments focused primarily on programmatic outcomes).<sup>3</sup> However, many service providers – including ESOs and BDS organizations – are often operating at capacity, with little bandwidth to invest in strengthening their own abilities and quality of services. To grow this field, ensure its sustainability, and maximize its benefit to SGBs, a sustained advocacy campaign is needed to draw attention to the value and multiplier effect of BDS organizations, as well as strategies to strengthen this part of the broader SGB sector. Donors, foundations, and even parts of the investor community will all have roles to play in promoting BDS providers / ESOs.



Paradigms are powerful because they are familiar. They scratch the itch for stability. They contain chaos and make sense of the abstract and fluid.

For SGBs, the global development paradigm of the last 20 years is undergoing some profound shifts, but has yet to fully put SGBs at the front and center of economic development and highly localized, place-based change. Still, positive changes are favoring SGBs: how the sector thinks of and measures “impact”; how funders and investors evaluate investments that go beyond simply a positive market return; how eager global development institutions and governments are seeking local solutions to local problems. These are the opportunities on which SGBs are poised to capitalize.

However, generating the momentum and interest in this critical segment will depend on the “village” – support organizations that comprise an ecosystem of like-minded transcending geographies, sectors, or even identities. Together, this ecosystem must enable the flourishing of the Sector through disseminating knowledge, forging linkages, and anticipating and mitigating disruptions. Until every SGB has the resources they need to thrive and create positive economic and social impact, the work is not done. The paradigm holds firm.



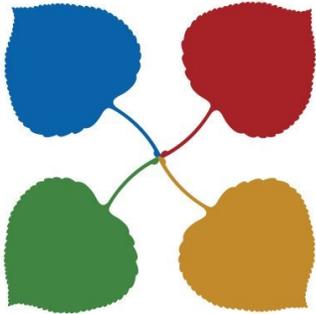
“There’s nothing physical or expensive or even slow in the process of paradigm change. In a single individual it can happen in a millisecond. All it takes is a click in the mind, a falling of scales from eyes, a new way of seeing. Whole societies are another matter — they resist challenges to their paradigm harder than they resist anything else.”

- ***Donella Meadows***

*From Leverage Points: Places to Intervene in a System*

# Appendix

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