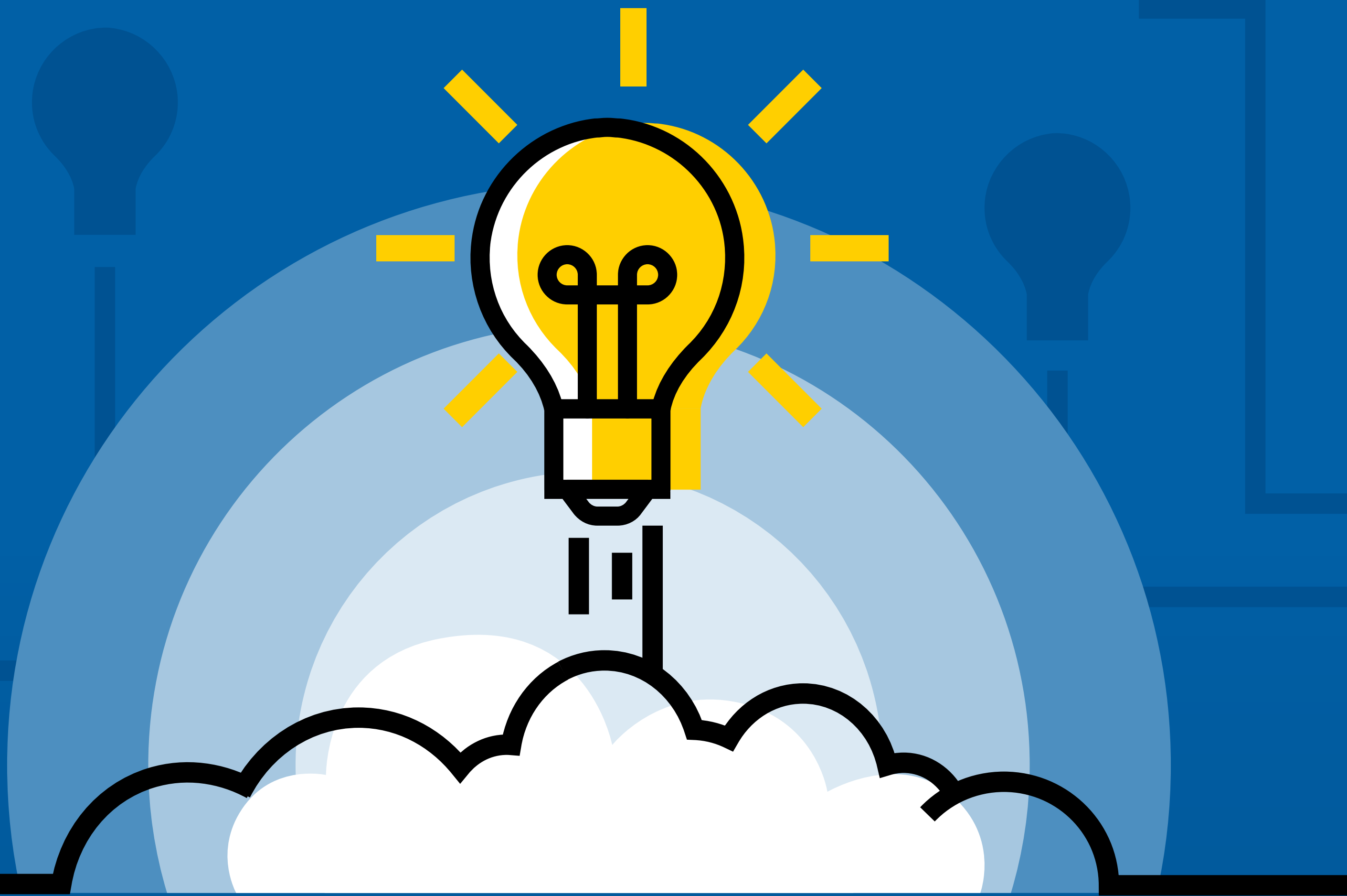
Fueling Entrepreneurship in Emerging Markets:

How 20 Major Funders are Supporting Small & Growing Businesses



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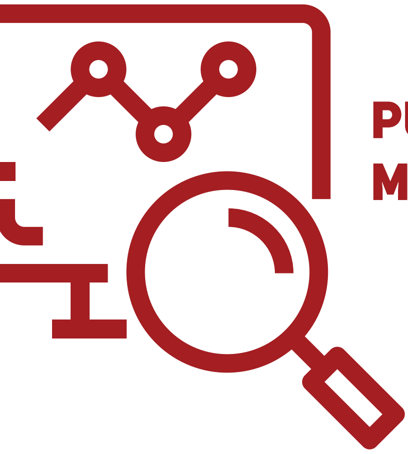
Executive Summary



PURPOSE & METHODOLOGY

This report analyzes how twenty different donors and development finance institutions (DFIs) engage with the entrepreneurship and small & growing business (SGB) sector in emerging markets. The goal of this study is to provide an overview of the main channels through which these institutions provide funding to entrepreneurs and small and growing businesses in emerging markets, reveal key statistics around this funding (such as investment size and horizon), highlight trends to look out for over the course of the next few years, and discuss implications for how ANDE should engage with each institution moving forward. These institutions were selected primarily because they have either given to the entrepreneurship and SGB sector in the past or have expressed interest in doing so. For simplicity, the abbreviation "SGB" will be used to refer to both entrepreneurs and small and growing businesses throughout this document; the term itself refers to commercially viable businesses with five to 250 employees that have significant potential and ambition for growth.

The information included in this report was gathered primarily through desk research and interviews with staff at each institution. To the greatest extent possible, we standardized data collection and analysis processes in order to enable robust, valid comparisons of the size and nature of donors' varying commitments to SGBs. A detailed description of our methodology and data sources, along with the interview guide we utilized during discussions with each institution can be found in the appendix. Here follows a brief overview.

To make quantitative comparisons between each institution's funding commitments to SGBs, we collected data on each agency's SGB-related "activities" or "investments" in the calendar year 2017. Our primary data source was activity data from the International Aid Transparency Initiative (IATI). 17 of the 20 institutions analyzed contribute data to IATI on at least an annual basis and had 2017 data available. Each agency uses IATI data standards differently, and so cleaning and analysis of each donors' data included changes particular to that agency. The most important steps in data-cleaning were as follows:

Ensuring that the activity took place during 2017 and determining the total duration of the activity. Most activities included start and end dates which were used to filter out non-2017 activities and calculate the duration.

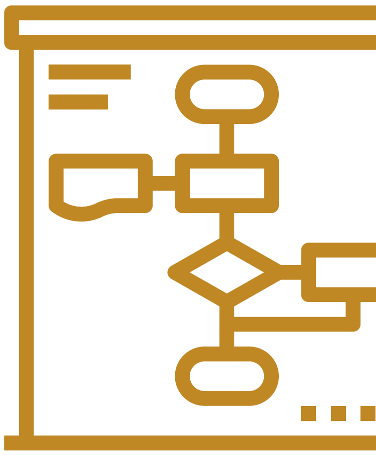
Calculating the likely annual funding commitment to each activity in 2017. IATI data includes a "total commitment" for the full life of the activity. We divide this by the duration to get an estimate of the annual commitment to the activity.

Filtering for only activities related to SGBs. Most IATI-contributing donors tag their activities data with sectors from the OECD DAC CRS 5-digit sector classification framework. The sector from this framework most relevant to SGBs is "32130: small and medium-sized (SME) business development." Activities without a tag for this sector are filtered out, and the remaining activities are kept. It should be noted that because data coding can only be done with regard to SMEs, and SGBs comprise only a subset of SMEs, the results will tend to somewhat overestimate the true funding situation for SGBs.

Gaps in the IATI data were filled either through desk research - for instance, to find the missing duration of an investment or to look up its missing geographical focus. In cases where desk research failed, we would make reasonable assumptions around the tenor of an investment based on information about other investments made by that particular donor. The team also conducted desk research and interviews to identify any other funding flows that may have been missing from the IATI data.

Some donors capture all their relevant activity in IATI, while some capture very little. For that reason, there is significant variability in what information is available across each of the profiles included in this study. Where we were not able to locate the relevant information, we have marked the data as "not available." This methodology has several simplifying assumptions and is prone to human error, and conclusions drawn from our quantitative data should keep these limitations in mind. See the appendix for more details.

TOTAL FUNDING FLOWS



Collectively, these twenty agencies gave over $7.4 billion towards SGBs in 2017. On average, multilaterals and selected DFIs contributed larger amounts of funding compared to bilaterals, as shown in the table below. There are multiple instruments used to channel funding to SGBs across this cohort, with the most common being debt, equity, investments in funds, and technical assistance.

#	INSTITUTION	TYPE	2017 SGB FUNDING	PRIMARY INSTRUMENTS USED
1	European Investment Bank (EIB)	Multilateral	$2,121,691,488	Equity Loans Loan Guarantees Investments in Funds
2	Overseas Private Investment Corporation (OPIC)	National DFI	$945,382,917	Loans Loan Guarantees Investments in Funds Risk Insurance Framework Agreements
3	Netherlands Development Finance Company (FMO)	National DFI	$861,326,066	Equity Loans Grants Investments in Funds
4	World Bank - International Bank for Reconstruction & Development (IBRD)	Multilateral	$795,872,609	Loans Loan Guarantees Grants Technical Assistance
5	World Bank - International Finance Corporation (IFC)	Multilateral	$494,261,667	Equity Loans Loan Guarantees Investments in Funds Technical Assistance
6	French Development Agency (AFD) / Proparco	National DFI	$347,127,826	Loans Loan Guarantees Grants Technical Assistance Investments in Funds
7	UK CDC Group	National DFI	$298,040,000	Equity Investments in Funds

#	INSTITUTION	TYPE	2017 SGB FUNDING	PRIMARY INSTRUMENTS USED
8	UK Department for International Development (DfID)	Bilateral	$267,486,871	Loans Grants
9	Inter-American Development Bank (IDB)	Multilateral	$203,261,154	Equity Loans Loan Guarantees
10	African Development Bank (AfDB)	Multilateral	$151,836,491	Equity Loans Grants Technical Assistance
11	Finnish Ministry of Foreign Affairs	Bilateral	$150,242,762	Equity Loans Grants Investment in Funds
12	Norwegian Ministry of Foreign Affairs	Bilateral	$144,951,966	Grants Technical Assistance
13	Japanese International Cooperation Agency (JICA)	Bilateral	$128,069,815	Loans Grants Technical Assistance
14	Norfund	National DFI	$118,630,634	Equity Loans Investment in Funds
15	United States Agency for International Development (USAID)	Bilateral	$93,928,858	Grants Loan Guarantees Technical Assistance

#	INSTITUTION	TYPE	2017 SGB FUNDING	PRIMARY INSTRUMENTS USED
16	Global Affairs Canada	Bilateral	$86,891,739	Loans Grants Technical Assistance Investments in Funds
17	Australian Department of Foreign Affairs and Trade (DFAT)	Bilateral	$76,821,003	Grants Technical Assistance Investments in Funds
18	Swedish International Development Agency (Sida)	National DFI	$63,086,714	Loan Guarantees Grants Technical Assistance Framework Agreements
19	Swiss Agency for Development and Cooperation (SDC)	Bilateral	$45,510,746	Loans Grants Technical Assistance
20	German Federal Ministry of Economic Cooperation & Development (BMZ)	Bilateral	$9,304,646	Loans Loan Guarantees Grants Technical Assistance
	TOTAL		**$7,403,725,972**	

KEY TAKEAWAYS

Each institution profiled in this report is unique in its approach to supporting SGBs. Some agencies explicitly mention that they do not consider SGBs to be a strategic priority at this point in time, and their funding levels reflect this; others have 10+ different initiatives or facilities devoted to supporting SGBs of different sizes and risk profiles. Amidst these differences, however, there were several common themes that emerged when looking across this cohort of institutions:

1

Entrepreneurship and SGB development is most often viewed as a means to achieving development outcomes in other sectors (e.g., agriculture, energy, health) rather than an outcome in and of itself.

The African Development Bank's Jobs for Youth in Africa initiative illustrates this common donor approach to entrepreneurship and SGBs very well. The initiative aims to address youth unemployment and underemployment across Africa. JfYA is a bank-wide program, where the team implementing it works across all departments and countries of the AfDB. They work with other teams to design programming that will serve both the objectives of JfYA and of that team. For example, several of its flagship programmes are focused not only on job creation and economic development, but on agriculture and agribusiness outcomes. In this way, many components of JfYA serve as means for achieving types of development outcomes.

DFID's Transforming Energy Access programme is another strong example of how SGBs are used to achieve a development outcome in another sector – in this case, energy. It provides catalytic funding for early-stage business ideas and innovations that will address energy access challenges. SGBs in the energy sector thus receive funding and support, but with the intent of scaling a solution to energy access.

For many of the donors we spoke to, this tendency to view entrepreneurship and SGBs as a "means" rather than an "end" is reflected in their organizational structures. Few donors have teams or departments explicitly focused on providing funding, technical assistance, or capacity development to SGBs in emerging markets. As a result, there is often inadequate sharing of knowledge and coordination around disparate work on SGBs that is happening in a single agency. DFIs seem to manage this challenge better than bilateral or multilateral agencies, as they are exclusively focused on private sector investment: for example, the CDC Group has a cross-department working group on these themes to share knowledge and practices within the organization.

That said: SGB programming is not always a means to development outcomes in other sectors. Even within JfYA, for example, there is the Youth Entrepreneurship and Innovation Fund, the sole purpose of which is to provide grant funding to innovative, youth-owned SGBs irrespective of their sector or business model. Many DFIs invest in SGBs with less regard to other development outcomes, so long as there will be a positive social impact from the investment - be it job creation or better off-grid energy access. Many DFIs also lend to developing country financial institutions and investment funds that then go on to lend to or invest in a variety of SGBs, usually without sector focuses.

2

Though DFI target investees are usually larger or more mature than SGBs, many DFIs are building new mechanisms for reaching smaller, riskier investees.

DFIs channel enormous amounts of funding towards SGBs in developing countries when compared to their domestic, bilateral agency peers. For example, in 2017 OPIC channeled $945 million in funding to SGBs, while USAID channeled $93 million. Similarly, CDC Group channeled $298 million in funding while DFID channeled $267 million.[1]

However, for the most part DFIs will not make direct investments in SGBs. Their minimum direct investments are often around $5 million, whereas the largest SGB will require at most $2 million. DFIs do, however, use indirect channels to reach SGBs, and many are designing new mechanisms for reaching these same ventures.

The two traditional, indirect channels used by DFIs are investments in developing country financial institutions, and investments in investment funds focused on developing countries. In the first, a DFI invests debt or equity in a bank or microfinance institution in a developing country, so that the investee can lend those funds onward to SGBs or entrepreneurs in their market. These investments may also be guarantees or subordinated debt, and sometimes go to other types of financial institutions. In the second,

[1] As explained in the methodology section above – note that some of this funding may be going to traditional SMEs rather than the growth-oriented subset of SGBs that this report is focused on.

a DFI invests in a fund, be it a private equity, venture capital, or other type of fund, that in turn invests in SGBs in developing countries. Examples include the Africa-focused funds managed by Partech Partners and GroFin, which figured frequently in DFI portfolios.

Several DFIs we spoke to are working on designing new mechanisms for reaching smaller investees such as SGBs in developing countries. CDC Group, Finnfund, and OPIC were among those already taking steps in this direction. For instance, OPIC's recent creation of the Portfolio for Impact and Innovative Financial Intermediaries Program are two recent examples of new efforts to reach smaller, riskier investees.

3

Decision-making around SGB support varies among donors depending on their level of centralization.

The exact entity that has power to set priorities within a donor institution varies significantly. Some donors are decentralized, with country or regional offices empowered to determine a strategy, make decisions, and set budgets. Many bilateral agencies fit this mold, including USAID, DfID, and the Australian DFAT. Other institutions retain these powers centrally. Centralized donors, including many DFIs, use local offices - if they have them - to implement projects or oversee investments.

Both models have advantages and disadvantages. Decentralized institutions have a strong on-the-ground presence, networks, and knowledge. However, these donors often lack formal mechanisms for sharing knowledge and information about work on entrepreneurship and SGBs across their organizations. On the other side, centralized institutions have clear strategies and budgets and can more easily pivot to focus on new themes as an entire organization; but they can lack the local knowledge needed to best implement their projects once a strategy and budget is set. This is one important reason why we see many bilateral agency / national DFI pairs collaborating extensively to combine bilateral knowledge with DFI unity of purpose.

Understanding this distinction is important for SGB sector organizations . If sector leaders wish to establish scalable partnerships with donors that are independent of geographies or sectors of focus, engaging with centralized donors may be the best course of action. On the other hand, if SGB organizations wish to work with donors that are active in a certain country, region, or sector, working with the local offices of decentralized donors with regional chapters will be faster and more effective, though smaller in scale.

4

There is a growing focus on disruptive technology across different sectors as an important component of investment in SGBs.

Investments in SGBs with a technology-for-development bent (primarily agtech, fintech, and edtech) are on the rise, as demonstrated by the following examples:

- In 2017, the **FMO (Netherlands)** indirectly invested in a number of fintech-related firms and capacity development initiatives, with the goal of connecting existing financial institution investees to the innovative fintech sector. Further, the FMO's new Venture Capital program has a special focus on investing in technology firms.
- While most **AfDB** spending on SGB enablement in 2017 was not sector-specific, many of the funding commitments that did mention a specific sector focused on technology or ICT-related industries.
- The **EIB** has recently shifted its focus towards "innovation" as a sought-after factor in investees, which has led to some tech companies receiving direct funding from the bank. One example of an SGB that received a direct investment from the EIB is the fintech company M-Birr, an Ethiopian mobile money service.
- While **JICA** is just beginning to explore the SGB space in emerging markets, the agency is in general supportive of projects in the technology or ICT connectivity space, as these are industries where Japanese firms are highly competent and may be able to build new markets in developing regions while also supporting development objectives.
- The **CDC**'s investments are mostly sector agnostic, since so many of its 2017 investments go through intermediary investment funds. However, conversations with the agency indicate that there is interest in potential fintech and agtech investments in sub-Saharan Africa, and social enterprises in India.

Given this growing focus on technology and innovation, ANDE may want to consider developing programming to help donors provide more effective support for SGBs in these newer sectors, which may be less familiar to some donors and DFIs.

5

An emphasis on supporting disadvantaged groups – women and youth – is part and parcel of investment in SGBs, and viewed as a way for donors to contribute towards Sustainable Development Goal (SDG) 8, which aims to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all people.

Many donors and DFIs have specifics programs and facilities focused on investing in women-led small and growing businesses.

For example:

- **DFAT**'s Pacific Women is an initiative to improve political, social, and economic opportunities of women in 14 Pacific island countries, while Investing in Women is a Southeast Asia program focused on gender equality through engagement with public and private sector organizations. Components of the program focus on coalitions of female-led businesses, as well as impact investors seeking to encourage gender equality with their asset allocation.
- The **EIB** and **World Bank**'s Boost MENA initiative supports first time entrepreneurs, particularly young people and women, through an investment facility for countries in the Middle East and North Africa that combines financing for innovative start-ups and early-stage growth companies with significant technical assistance.
- To advance women's economic empowerment, **Global Affairs Canada** supports the G20 Women Entrepreneurs Finance Initiative, which aims to achieve results for women-owned and women-led small and medium-sized enterprises in developing countries.
- 2X, a multi-stakeholder initiative of which **OPIC** is a member, is an initiative to mobilize $1 billion for women entrepreneurs and business owners. It is largely being realized through loans to local banks - for instance, in 2017, two loans to banks in India and Mongolia worth $124 million were made under the program.
- The Massif Fund is a government-owned fund managed by the Netherland's **FMO** that focuses on financial inclusion of the unbanked, particularly for women-owned businesses, rural and agricultural businesses, and social enterprises.
- **IFC** launched the Women Entrepreneurs Opportunity Facility, which will provide up to $600 million to improve access to capital for approximately 100,000 women entrepreneurs. In June 2018, for example, the IFC invested $75 million in a bond issued by Turkish Garanti Bank to boost loans for women entrepreneurs in Turkey; this was the first private sector bond in emerging markets dedicated to financing enterprises owned or managed by women.

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