

ANDE – ASPEN NETWORK FOR DEVELOPMENT ENTREPRENEURS

A CALL TO ACTION

What's the world's greatest moral challenge, as judged by its capacity to inflict human tragedy?...the most urgent present moral challenge, I submit, is the most obvious: global poverty.

There are roughly 6 billion people on the planet; in 2004, perhaps 2.5 billion survived on \$2 a day or less, says the World Bank. By 2050, the world may have 3 billion more people; many will be similarly impoverished. What's baffling and frustrating about extreme poverty is that much of the world has eliminated it. In 1800, almost everyone was desperately poor. But the developed world has essentially abolished starvation, homelessness and material deprivation.

The solution to being poor is getting rich. It's economic growth. We know this. The mystery is why all societies have not adopted the obvious remedies.

Robert Samuelson, [RX for Global Poverty](#), Washington Post, 5/28/2008

In reality, we must expand our moral imagination and understand that the struggle against extreme poverty and disease on the one hand and the climate crisis on the other are linked -- we cannot solve one without simultaneously solving the other.

Al Gore, blog entry, 2/15/2008

The Aspen Network for Development Entrepreneurs (ANDE) is an emerging network of entrepreneurial leaders who collectively plan to manage over \$750M in funds over the next 5 years and provide management assistance to small and growing businesses, as well as the foundations and investors who fund and support these efforts. We believe that the creation and development of competitive businesses is one of the most fundamental challenges and a critically important response to the stubborn fact of global poverty. Without wealth creation that drives benefits to the majority, there will be no end to poverty; nor will there be a sustainable way to protect the ecosystems so endangered by the consequences of global poverty.

We believe that ending poverty starts with the entrepreneur who builds a business that serves customers, creates jobs, and raises incomes, often addressing critical social problems to complement the efforts of government and aid organizations. These emerging heroes own and operate what we refer to as Small and Growing Businesses (SGBs) and we believe they are the primary hope to turn the tide in the battle against global poverty.

Imagine if Steve Jobs or Bill Gates had been born in Ghana instead of the United States. Apple Computer and Microsoft would likely never have existed. Most entrepreneurs in the developing world can't pursue their ideas because they can't raise the capital they need, they can't find qualified people or they lack a reliable way to get products to customers. Or they run into red tape, corruption, labor disputes, infrastructure in disrepair or lack of reliable energy services. Right now there are millions of individuals getting \$50 and \$100 microcredit loans each year, but we want to work with entrepreneurs one level up—those who have business ideas that could employ or serve 500 or 5000 people someday.

ANDE is a coalition of organizations that work to help these entrepreneurial men and women grow their companies more effectively and in so doing alleviate poverty and improve lives in developing countries. The organizations within the ANDE network work to provide the critical elements required to build a healthy and growing business in environments that are often not conducive to entrepreneurial activity:

- Access to **capital** that will enable firms to grow;
- Access to the talented **people** needed to do the hard work of running a successful business;
- Creation of the **knowledge** needed to enter new markets, create new products, or effectively manage difficult environments.

In an ideal world, local governments would have created the conditions for strong financial markets to provide the capital needed to fuel growth. Local universities, lawyers, accountants, and consultants would create a market for talent, knowledge and insight to enable new firms to compete effectively. But in much of the world, this hasn't happened.

We do believe global poverty is one of the greatest moral challenges facing our generation, and we intend to do something about it. We do not claim to have the only answer. We are very mindful of the fact that where corruption is prevalent, capital markets will not be effective. Where disease is prevalent, the people needed to create the wealth will not be able to work. Where education systems are in shambles and there is no funding or market for the creation of specialized knowledge, it will be difficult to create the needed expertise for these businesses to compete and win in the global marketplace. There are many pieces to the global development puzzle and we celebrate those dedicated to healthcare, education, judicial reform, and macroeconomic stability. Yet we also know that without companies that can serve as the engines of growth, none of these other social measures are sustainable over time. Our passion is business and our challenge is to help create businesses that can make a positive difference in the world.

Even though ANDE is made up of some tremendously capable, committed, and innovative individuals and organizations, it has become increasingly apparent that any single organization's effort to make a lasting difference is quite limited. The problems are just too great and the resources currently too few to make a dramatic impact. This was also the case for micro-finance in the early years, and we believe now is the time to organize ourselves for greater impact.

By drawing in the leading practitioners and investors interested in the challenge of creating business solutions to the global poverty crisis, ANDE intends to build a network of practitioners that can pool their resources and efforts to have greater impact. In doing so, ANDE is intended to catalyze a movement that will unleash the resources needed to start, grow, and finance hundreds of thousands of small businesses in the most challenging environments in the world. The overall aim of ANDE is to:

- Increase the amount of **capital** available to entrepreneurs with the potential to make a difference in their countries
- Increase the amount of training and development available to the **people** who manage growing businesses throughout the developing world
- Create more **knowledge** needed to create sustainable and competitive companies

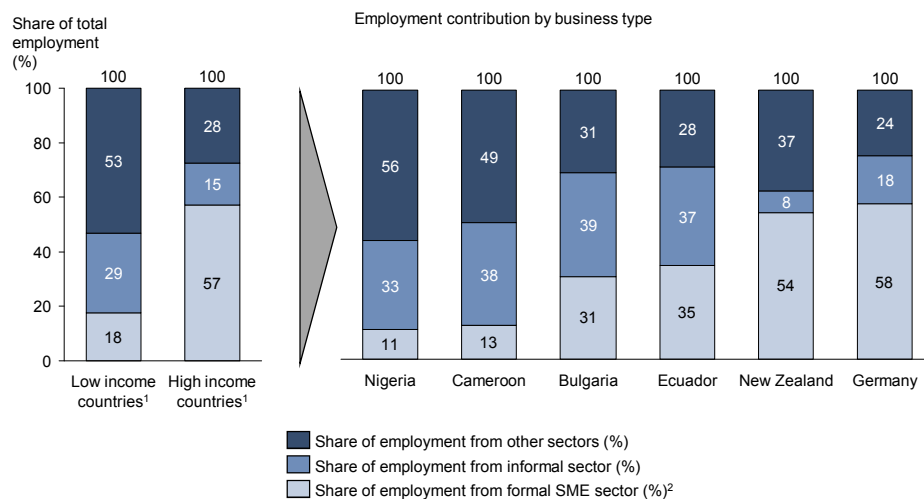
We dream of a world where our members can help create thousands of small and growing businesses that provide meaningful jobs, generate reasonable incomes, create socially beneficial goods and services, and build the wealth of poor nations. If successful, we believe we will have “primed the pump” in such a way that the local markets begin to provide the capital, talent, knowledge resources and government reforms to enable these firms to thrive. In short, our dream is that it will not matter where the next Steve Jobs or Bill Gates is born – wherever that next great entrepreneur shows up, the conditions will be in place to increase her or his odds of success.

WHAT WE BELIEVE

1. SMALL BUSINESSES ARE CRITICAL TO ECONOMIC GROWTH AND POVERTY REDUCTION

Small businesses are a powerful and necessary vehicle to economic growth and poverty reduction. In ‘high income’ developed countries, small businesses provide approximately 60% of employment opportunities and are the engine of economic growth. In ‘low-income’ developing countries, formal small businesses often comprise less than 20% of employment.

Figure 1: Formal Small and Medium businesses are missing in developing countries



Source: Ayyagari, Beck and Demircuc-Kunt, “Small and Medium Enterprises across the Globe: A New Database”, World Bank 2003

Without the productivity enhancements, jobs and tax base created by a vibrant small business community, it is challenging for countries to stimulate sustained economic growth and poverty reduction.

The members of ANDE aim to foster a new wave of entrepreneurial activity that creates not just incomes for individuals, but also thousands of new entrepreneurs and companies that can provide hundreds of thousands of jobs. These dynamic businesses create engines of growth that can actually have impact on economies as a whole. We refer to these high impact, high growth businesses as “Small and Growing Businesses” (SGBs). While the definition will vary from country to country, ANDE defines SGBs as commercially viable businesses, likely with 5 to 250 employees, that have significant potential for growth but lack access to finance and knowledge resources. SGBs are different from the more traditional characterizations of small and medium enterprises (SMEs) in two fundamental ways. First, many medium size companies do have access to the financial and knowledge resources necessary to sustain themselves. Second, we distinguish these companies from the “livelihood sustaining” small businesses that are started and remain quite small. We are focused on entrepreneurs and companies that have the ambition and potential to significantly grow both their business and their impact on local communities.

2. SMALL AND GROWING BUSINESSES FACE DIFFICULT CHALLENGES

Starting, running and growing a business is a tremendously challenging task. Even in economies such as the United States, with well-developed capital markets and supportive environments, the majority of new companies fail. The challenges faced by entrepreneurs in emerging markets are even greater, but at the core, they boil down to enabling three critical ingredients to come together to create new companies: good ideas, people to develop them, and capital to invest in building them. For many companies in the developing world, however, there are some fundamental hurdles to access these key ingredients:

- **KNOWLEDGE AND INFORMATION**

While there are an abundance of entrepreneurial ideas out there, it can be quite difficult to know how to best turn the ideas into winning businesses. The challenge may lie in the idea itself, the technology required, the market research to identify the most attractive opportunities, or the network of relationships to enable strategic partnerships to take place. To make matters worse, these specialized knowledge resources are often not available in small economies or too expensive. As a result, most SGBs are not creating the knowledge, insights, and unique skill sets required to enable them to compete locally, regionally or globally. In developed markets, supportive government policies and dedicated agencies provide this kind of market access information and support for SGBs. While international organizations provide these services in many regions, we believe that there is certainly room for further expansion of these sorts of programs.

- **PEOPLE**

There is no lack of entrepreneurial spirit and innovation in the emerging markets. However, in many markets, skilled professionals tend to be drawn towards opportunities to work in larger companies or abroad. In many countries the educational infrastructure is simply not in place to generate enough talent and skill sets at the right levels to meet the needs of growing companies. Those who actually do start businesses often find it quite challenging to build a qualified management team to help them grow their business. In developed markets, education systems, small business consulting and specialized government programs provide business training.

While “enterprise development” is not new to the international development space, we believe that there are opportunities to expand such efforts, especially the more targeted forms of training and mentoring that help entrepreneurs address the specific challenges they are facing on a day to day basis.

- **CAPITAL**

As entrepreneurs ourselves, we understand that capital doesn’t solve all of the problems a business faces. But it sure helps. For most small and growing businesses in the developing world there are two distinct gaps: access to debt and access to equity.

Debt: Debt capital is often difficult for small and growing businesses to secure for several reasons:

- It is too expensive and/or comes with onerous collateral requirements of up to 200%;
- The companies are perceived as too risky and often lack audited financials to give the banks comfort; and
- There is a lack of competition and innovation in the local banking industry itself, leading to a lack of incentives for banks to create new offerings for SGBs.

In the United States and other developed countries, it took significant publicly backed loan guarantee programs to help push commercial banks to start lending to SGBs. Such programs are evolving in emerging markets, particularly through the leadership of bilateral development efforts, but there is still considerable room for growth.

Equity: Equity is simply not an option for many small and growing businesses. Their capital needs are typically much less than would be of interest to a private equity firm (i.e., <\$2MM). This is because:

- The revenue (management fees and carry) from the smaller investment sizes is often not substantial enough to attract traditional private equity firms;
- Private equity firms often face high costs when investing in these smaller, less formal companies. Compared to larger deals, costs on a per deal basis are similar – and sometimes higher – for investments under \$2M. Small investments require significant time to source deals, conduct due diligence and complete transactions. The investees often lack audited financial statements and/or business plans. They frequently require pre-investment capacity building services to make the requisite preparations for an equity investor
- Subsequent to the investment, SGBs require closer monitoring and management post-investment. While these challenges are often faced by entrepreneurs in developed markets, the ‘friends and family’ angel investor markets that often fill these needs are not as robust in emerging markets.

These market gaps are not unique to small and growing businesses in the developing world. Other investment markets have faced similar hurdles before. Emerging market private equity, microfinance, and the US venture capital industry, did not develop until risk capital was made available to enable practitioners to try new investment models, understand which approaches worked and which didn’t work, and eventually create a demonstrable track record for others to evaluate. Emerging market private equity received below-market financing from the international financial institutions; microfinance received grants to capitalize balance sheets; and, the US venture capital industry was the beneficiary of subsidized public investment programs and significant defense research and development spending. Ultimately, these markets created track records and reached sufficient scale to enable the local markets to thrive on their own.

At some point, all three of these gaps in emerging markets will be bridged by the creative efforts of government leaders, innovative entrepreneurs, bankers and educators. But in the meantime, every day we wait for these markets to emerge is a day that new companies are not being created, managed or funded properly. Some would urge us to wait patiently for these markets to develop, but we are reminded of Martin Luther King, Jr.'s words in his Letter from a Birmingham Jail:

We must come to see that human progress never rolls in on heels of inevitability... We must use time creatively, and forever realize that the time is always ripe to do right.

3. THERE IS A GROWING NETWORK OF INDIVIDUALS AND ORGANIZATIONS THAT ARE HELPING SGBS TO OVERCOME THESE CHALLENGES

In light of the challenges laid out above, what gives us the confidence that our collective efforts can make a difference? The members of ANDE are organizations that invest capital and provide technical assistance to SGBs, those businesses that are often referred to as the “missing middle” not served by their local commercial financial institutions or microfinance programs.

While some ANDE member organizations focus exclusively on entrepreneurs who can generate economic growth, others target more specific forms of social entrepreneurs who have businesses that also create beneficial goods and services for their communities. The work of the ANDE members has demonstrated that we can, in fact, make a difference if we focus on two aspects of the problems highlighted above:

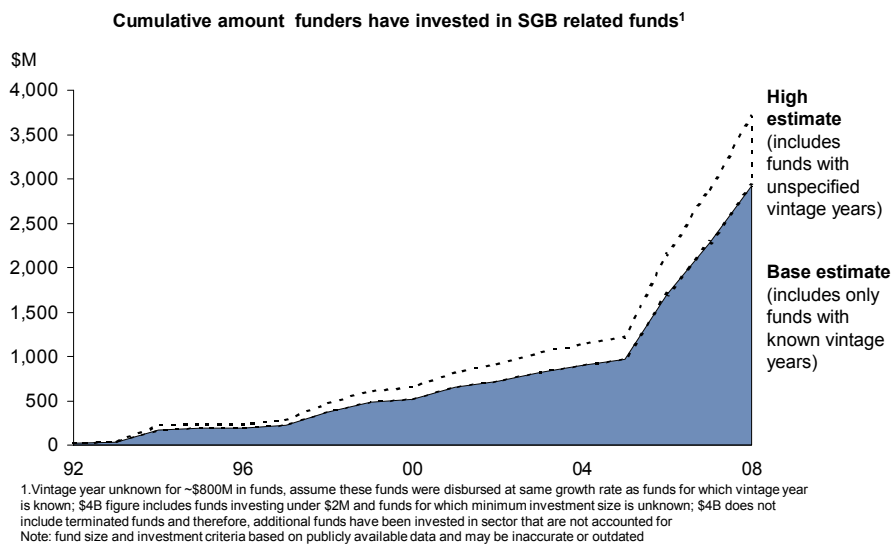
- **HELP SMALL AND GROWING BUSINESSES SUCCEED**
We work closely with entrepreneurs to help them build their companies. We believe this will, in turn, stimulate and create a more dynamic market for the local capital and service providers, as well as create a constituency to demand improvements in the overall business environment. We do this by, among other things, training entrepreneurs and managers, developing business plans, creating market entry strategies, providing capital, establishing good governance standards, launching joint ventures or creating new global distribution and supply chain partnerships for our portfolio companies, in much the same way traditional venture capital, or private equity investors would. By helping create and build successful SGBs, we believe ANDE members will demonstrate that small and growing businesses can be an attractive market for local commercial banks to serve profitably.
- **CREATE THE CONDITIONS FOR LOCAL MARKETS TO WORK**
Ultimately for small and growing businesses to succeed, they need to have access to locally generated products and services for their business needs. We believe our work is helping create this market. We are committed to working with local commercial banks to develop profitable products to serve SGBs, creating networks of angel investors to invest in SGBs, working with educational institutions to improve their ability to train the next generation of managers, or working with local technical assistance providers on product selection or processing, to name but a few of our activities. We further believe that, like in many other parts of the world, the successful entrepreneurs will in turn be able to play the role of angel investors to provide the informal business mentoring and equity to start and grow new companies, analogous to the growth of the US venture capital industry. In addition, we believe that providing business development services, technical assistance or specialized research and consulting will demonstrate that a complementary market exists for business

services. In fact, we believe the work we are doing is helping to create a viable pipeline of vetted opportunities that should entice local players to more actively serve this currently underserved segment of the market. The growing class of entrepreneurs and small business owners, in turn, will become the constituency to demand an improved business enabling environment.

4. THERE IS NO SHORTAGE OF OPPORTUNITY; THERE IS NO SHORTAGE OF CAPITAL

The amount of capital and technical assistance made available to SGBs has grown rapidly. We have identified an estimated 150 organizations providing approximately \$4 billion in capital and services to small and growing businesses in developing countries.

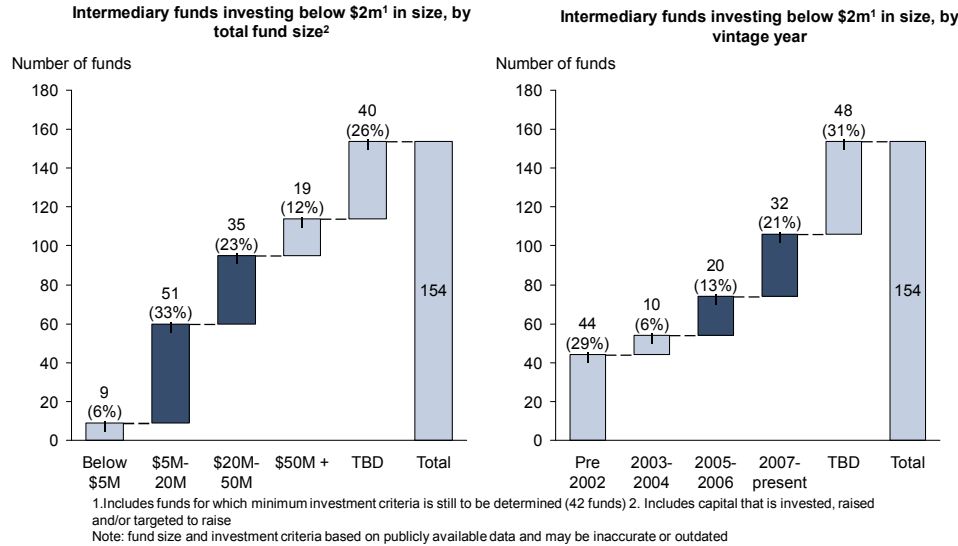
Figure 2: Significant growth in capital invested in SGB-focused funds



Source: Fund websites and publications, “On the Frontiers of Finance: Investing in Sustainable SGBs in Emerging Markets”, “Transatlantic Innovations in Affordable Capital for Small and Medium Sized Enterprises”, DFI websites, Technoserve “Final Report on the Development of an East Africa Agribusiness Financing Facility”

The funders who have been most active in the space to date include foundations, development finance institutions and private investors. In recent interviews, funders have indicated that there is more capital waiting in the wings for investment-worthy opportunities. Their concern is that the sector to date is mostly composed of small, young funds that are only starting to generate track records. Of the 150 funds that we identified, 55% of funds are between \$5M and \$50M and 35% are less than 3 years old. As a result, funders cite a shortage of funds with the demonstrated track record and institutional capacity to absorb significant increases in funding. While success stories are emerging from some of the earlier movers, the majority of these funds are still in the process of developing and testing innovative approaches to supporting businesses.

Figure 3: SGB Sector is composed of many young and relatively small funds



Source: Fund websites and publications, “On the Frontiers of Finance: Investing in Sustainable SGBs in Emerging Markets”, “Transatlantic Innovations in Affordable Capital for Small and Medium Sized Enterprises”, DFI websites, Technoserve “Final Report on the Development of an East Africa Agribusiness Financing Facility”

5. OUR CHALLENGE IS TO BETTER CONNECT CAPITAL WITH OPPORTUNITY

The true constraint to growth of capital and assistance for SGBs is the gap between investors with capital and funding for technical assistance and the opportunities on the ground in emerging markets. ANDE is, in part, a collective effort to bridge the gap. Through interviews with leading funders and intermediaries, we have identified four major strategic challenges that contribute to this gap:

- **LACK OF AWARENESS AND SUPPORT AMONG FUNDERS**

The amount of capital and technical assistance provided to small and growing businesses has grown to date due to the vision and leadership of some leading foundations, development finance institutions and high net worth individuals (and the tireless efforts of the investment funds and non profit organizations working on behalf of small businesses). However, considerable opportunities remain to educate and provide more compelling evidence to investors about the potential of these investment funds and nonprofit organizations.

These funds and nonprofit organizations must do a better job of defining common measures of success, clearly articulating their scope of activities, and demonstrating the value they bring to small and growing businesses. For example, Acumen Fund and google.org have been working with ANDE for the past two years to develop standard metrics and the technology infrastructure to aggregate and benchmark performance for those actively involved in helping build small and growing businesses. They have collaborated on a portfolio data management system that tracks the financial, social and environmental metrics of their portfolios of investments. With additional support from Salesforce.com, the system has been beta tested by over 50 funds and foundations investing in small and growing businesses.

- **INCREASING THE EFFICIENCY OF THE “SGB CAPITAL MARKET”**

Both funders and intermediaries face high search costs when looking to secure and deploy capital for funds that invest in small businesses or to finance the technical or business advisory services required to help them grow. Intermediaries face a very fragmented market for capital that is suitable for the risks inherent in this type of investment activity. This capital often comes with specific conditions and extensive reporting requirements. The sources of capital, or funders themselves, are often looking for different types of return – often referred to as “different colors of money”. These include private capital, philanthropic capital, mission related investment capital, program related investment capital, “patient” capital, and public capital. Each source of capital is looking for a unique combination of financial return and social impact. Individual intermediaries must often develop multiple vehicles and programmatic objectives to qualify for these very diverse sources of funding. Funders who are accustomed to dealing with larger transactions are constrained by the smaller size of current intermediaries and their funds.
- **HIGH TRANSACTION COSTS INCURRED BY INTERMEDIARIES THAT INVEST IN SMALL AND GROWING BUSINESSES IN EMERGING MARKETS**

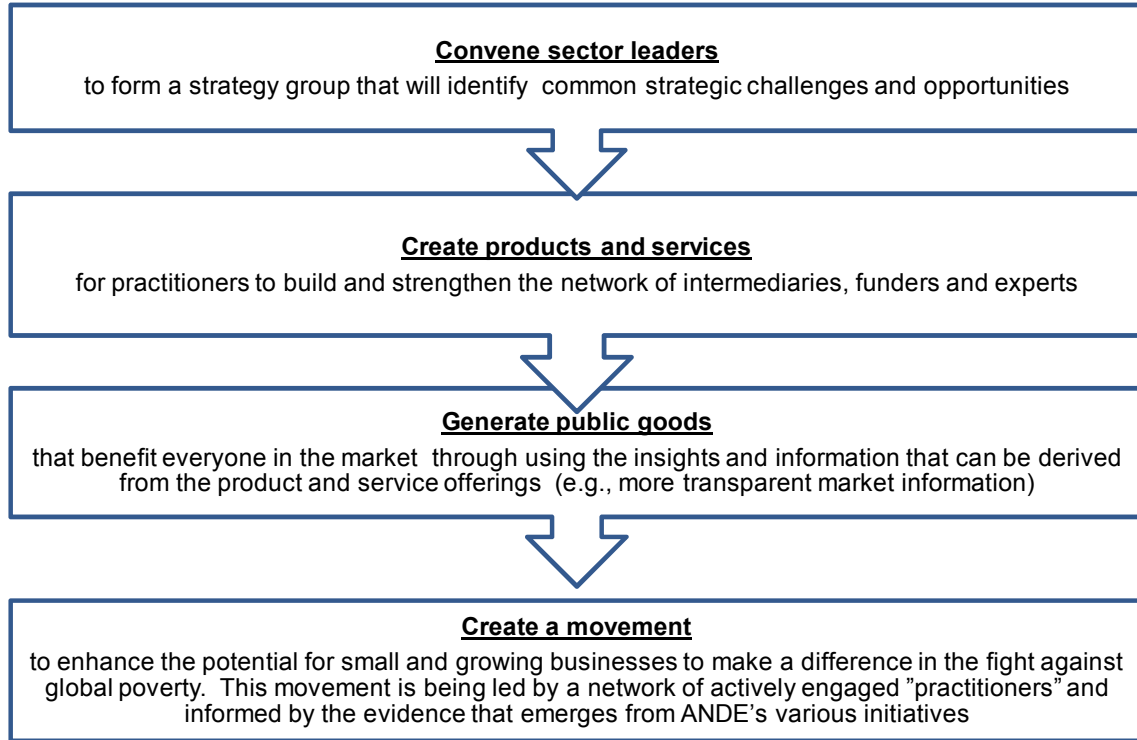
Relative to traditional private equity funds, intermediaries investing in small and growing businesses face additional investment costs. While a number of organizations are making progress on innovative debt offerings for SGBs, there are fewer who have found ways to make equity more efficient and cost effective. There is a growing recognition of the need for what the Shell Foundation has labeled “Growth finance”, which are innovative forms of quasi-equity that can provide entrepreneurs with the capital they require in forms that are responsive to their needs. A number of funds are creating innovative ways to reduce the costs of generating deal flow and conducting due diligence, yet there is no systematic way of capturing and disseminating the knowledge that would permit the replication of such approaches. Likewise, there are opportunities to make the provision of pre and post investment technical assistance more efficient and effective.
- **NEED FOR MORE TALENT AT ALL LEVELS**

Not only do small and growing businesses face a gap in finding qualified management, many intermediaries do as well. Finding and retaining investment and business professionals is difficult for all intermediaries. In many geographies the sector is young and therefore, there is a limited supply of local investment professionals. Investing in teams on the ground that can deliver the quality business advice or deal structuring needed to ensure the success of these businesses is an expensive proposition, and one whose costs can have negative impact on return on investment. Yet building these qualified local teams is essential, not only for the success of the intermediaries, but also to create the pool of talented people who can lead these efforts locally in the years to come.

6. NOW IS THE TIME TO COME TOGETHER

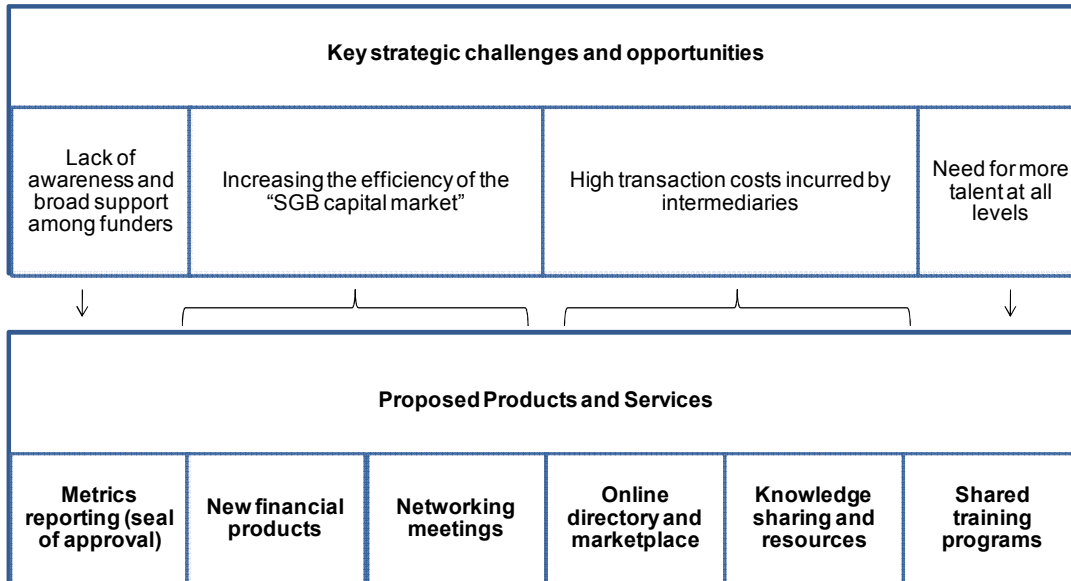
ANDE is being created for those who share a common goal and vision: to dramatically increase the amount and effectiveness of capital and technical/business assistance for entrepreneurs in developing countries. There are system-wide challenges that can only be addressed through collective action. The

founding members of ANDE are launching an organization that will promote the development of this “community of practitioners” through the following approach:



7. ANDE HAS AN IMPORTANT ROLE AS A PROVIDER OF SERVICES TO ITS MEMBERS

The ANDE organization will only be as strong as the members who make up its core. In order to promote excellence and support its members in successfully growing small businesses, ANDE will work to provide high impact programs for its members. A lightly-staffed organization will coordinate the design and delivery of products and services that address major strategic issues facing members. Illustrated below are the major strategic issues that have been articulated to date, and a proposed set of products and services that ANDE will offer through a network of implementing partners. These initiatives have been identified through interviews with over 25 stakeholders and a quantitative survey of ANDE conference participants.



- **METRICS REPORTING AND SEAL OF APPROVAL** through creating a common vocabulary and standards for measuring and comparing performance. This service will also include individualized benchmark reports for members based on consolidated performance information. ANDE will collaborate closely in this area on efforts underway by Acumen Fund, Google and the Rockefeller Impact Investing Collaborative
- **NEW FINANCIAL PRODUCTS** to serve members that could include various forms of capital aggregation such as an "Equity Challenge Fund" that would aggregate capital to allow continued innovation in service delivery
- **NETWORKING MEETINGS** with intermediaries, funders, investment managers and corporate executives and supply chain managers
- **ONLINE DIRECTORY AND MARKETPLACE** to connect funders and intermediaries and to increase co-investment opportunities and business development collaboration
- **KNOWLEDGE SHARING AND RESOURCES** on topics such as replicable low-cost models, ways to streamline operations, and standard templates and tools through an online library of research and case studies
- **SHARED TRAINING PROGRAMS** such as annual courses for members' leaders, investment staff and/or investees to provide best-in-class training at reduced costs

8. MORE IMPORTANTLY, ANDE WILL CREATE PUBLIC INFORMATION AND SERVICES THAT CAN BENEFIT THE GLOBAL COMMUNITY OF PRACTITIONERS AS A WHOLE

Through its role as a provider of member product and services, ANDE will be uniquely positioned to translate some of the "byproducts" of these activities into public information and services that can benefit everyone interested in small and growing businesses. These include:

- **SECTOR WIDE BENCHMARKS AND PERFORMANCE INFORMATION** derived by compiling individual metrics from members
- **EVIDENCE TO SUPPORT ADVOCACY** resulting from aggregated performance data and sector-wide knowledge sharing
- **A MORE EFFICIENT MARKET PLACE** enabled by initiatives such as increasing the transparency of performance data, creating capital aggregation instruments, and connecting more funders with intermediaries
- **IDENTIFICATION OF EFFECTIVE AND SCALABLE APPROACHES** to permit more widespread replication of successful approaches by current and new players
- **HIGHLY SKILLED WORK FORCE** of investment professionals, technical assistance providers and leaders who can successfully help small and growing businesses reach their full potential

9. IT IS TIME TO BUILD A MOVEMENT

United in common goals and equipped with critical insights and information, ANDE will aspire to create a movement of support for small and growing businesses. This will be achieved through:

- **RAISING AWARENESS** about the importance of small and growing businesses as a critical solution to global poverty and social crises, creating opportunities for additional funders, intermediaries and technical assistance providers to become involved
- **ADVOCATING** to policy makers, potential funders and financial sector leaders to elevate the prioritization of SGB investing on the policy agenda
- **BUILDING PARTNERSHIPS** to increase the amount of support available to help entrepreneurs grow their businesses through partnerships with organizations such as:
 - Global and regional corporations that will increase market access for SGBs by incorporating these businesses into their supply or distribution chains
 - Local commercial banks that will increase available debt capital for SGBs by co-investing with SGB funds and making individual loans
 - Emerging market private equity funds that will increase available equity and quasi-equity capital for SGBs by co-investing with SGB funds and increase market liquidity by serving as exit opportunities for SGB investments
 - Successful entrepreneurs in developing countries who will generate demand for SGB funders, intermediaries and service providers and increase available capital and talent by acting as angel investors and mentors to new SGBs

10. OUR NEXT STEPS ARE TO FORMALIZE OUR NETWORK AND LAUNCH KEY INITIATIVES

To translate this concept into reality, the ANDE steering committee will work over the next 18 months towards:

- Formalizing the ANDE members organization
- Launching member-serving initiatives and services

The most critical tasks in the first six months will be:

- Governance: Setting up the board and establishing a legal entity
- Organizational: Hiring an Executive Director, securing key implementing partnerships, and identifying an interim “host” for the fledgling organization
- Outreach: conducting member drive, especially outside of the U.S. including a potential European convention
- Product development: Launching 2 – 3 products/services through implementation partners
- Advocacy: Establishing an advocacy and awareness raising agenda for 2008/2009

In order to see this activity through, we will obtain financing through a combination of membership fees, fees for some services and, potentially, through a major sponsoring institution.