

Sustain Impact

*Donor practices to grow
enterprise support organizations*

REPORT BY

SNOWMELT.

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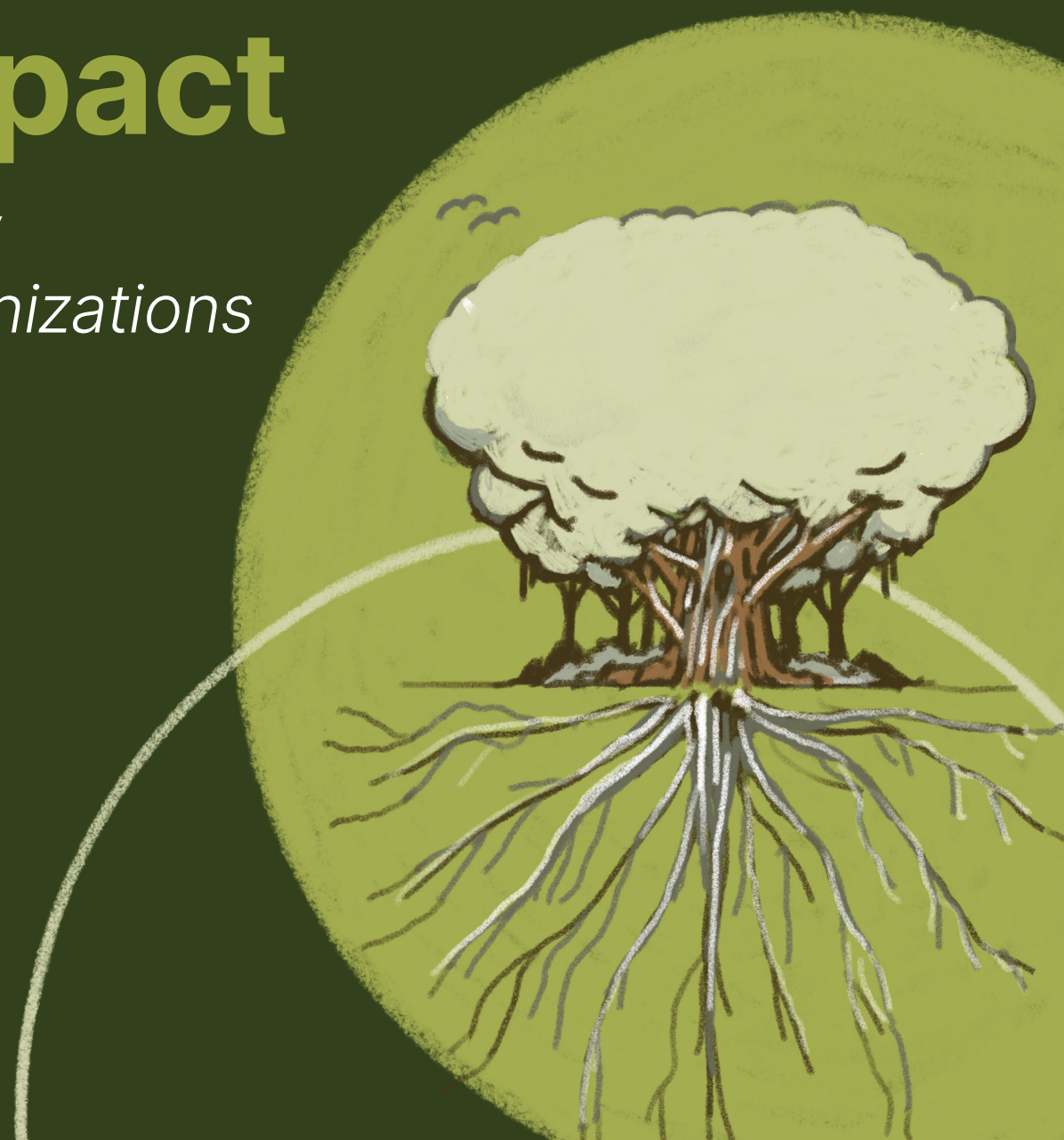


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Foreword

Dear reader,

As you may know, good quality Business Development Services (BDS) accelerate enterprise growth in emerging markets, increasing employment, incomes, and resilience. You can read more about what good quality BDS looks like in our SCALE Report¹. This role is vital to precarious enterprises in our present tumultuous times. Though considerable funding goes towards BDS, it is too often concerned with quantity in the short-term over quality in the long term. To address both, donors must engage differently with the Enterprise Support Organizations (ESOs) that typically deliver BDS.

With that, it is my pleasure to introduce this examination of the growth pathways of ESOs, and the role donors play in enhancing the BDS they deliver. In addition to highlighting the outstanding achievements of some leading ESOs, the report focuses on the crucial role that donors have played. This perspective builds on the ESO practices outlined in our SCALE report¹, to now explore the crucial donor-ESO relationship. The recommendations in this report unpack how donors can more effectively engage with ESOs in any context. Most importantly, it illustrates that

changing how BDS is funded could enormously impact entrepreneurship and resilience in communities worldwide.

This report is the outcome of the generous contributions of 40+ participants ranging from ESOs to donors and other ecosystem players, all with a keen interest in SME development. Sincere thanks go to everyone involved.

ESOs are not a panacea - their variability is a well-known, enduring challenge - but those that have grown, and improved their performance, demonstrate what is possible and what is needed to realize it. They effectively mobilize expertise, resources, and networks to support growing enterprises and leverage diverse funding sources and partnerships. They exist in various forms - from recognizable incubators and accelerators to more specialized consulting firms, mentorship programs, government-mandated agencies, and investment networks, each offering unique value to the enterprises and economies they serve.

However, as the report illustrates, the robustness of ESOs largely depends on donor support focused on organizational

development. As a foundation deeply committed to harnessing entrepreneurship for impact, Argidius has long recognized the critical role donors can play in strengthening ecosystems. Through the research that led to this report, we aimed to deepen our own understanding of how this works and to share this with a broader audience. Thus, the report offers practical recommendations for donors and a wide range of illustrative examples. The potential of ESOs is not widely recognized, and we intend to change this.

The findings of this report show that ESO development can be a driver of sustained impact at scale. But to thrive, most ESOs need support focused on organizational development. Unfortunately, few receive this support, as funding is too often prescriptive and narrowly programmatic - it is how BDS is funded and partnerships structured that makes the difference. This report delves into these complex dimensions, examining what is needed and how donors can support it.

We welcome your thoughts and questions and hope this report generates new conversations within and between donors. We also invite you to engage,

as we recognize more efforts is needed, and we hope to make these next steps collaborative. Together, we can enhance the support for entrepreneurs, enabling them to deliver transformative social and economic impact.

Though ESOs are the focus of this report, it is growing enterprises in emerging markets that benefit from more effective BDS, and their work will only be more crucial in the decades to come. On behalf of Argidius, I express our sincere gratitude for your interest and invite you to join us to do more to sustain and scale organizations with every engagement we have.




Nicholas Colloff
CEO, Argidius Foundation

EXECUTIVE SUMMARY

Why donors should support ESO development

CONTEXT

ESOs are drivers of impact at scale

Small and Medium Enterprises (SMEs) play a pivotal role in spurring economic growth, especially in emerging markets. They bring innovation, job opportunities, and diversity to the economic landscape. To thrive, these businesses draw on Business Development Services (BDS), provided by a wide range of Enterprise Support Organizations (ESOs). These include incubators and accelerators to government mandated agencies, networks, and education providers.

BDS funding can constrain ESOs

Donor engagement with BDS providers like ESOs is dominated by prescriptive program funding, with little scope for those engaged to deliver services to grow through the process. Helping ESOs develop is a means to improving their services and sustainability. This is an opportunity to scale and sustain the impact of BDS funding.

Support ESO development

This report - commissioned by Argidius and created by Snowmelt - engaged with 40+ participants including many prominent ESOs and donors to bring organizational development (OD) into focus. Findings suggest that investing in ESOs supports the development of robust, enduring support for SMEs and their ecosystems.

FINDINGS

With adjustments to program funding, engagements can create stronger delivery organizations and ecosystems

The way donors connect with ESOs can greatly influence the efficacy of SME support in emerging markets. When OD is integrated into BDS funding, engagements support the growth of ESOs. However, when funding is prescriptive, it shifts focus to compliance and hinders the growth of important capabilities. Therefore, donor engagement modes create either **virtuous** or **vicious** cycles of ESO development, helping or hindering their growth as organizations.

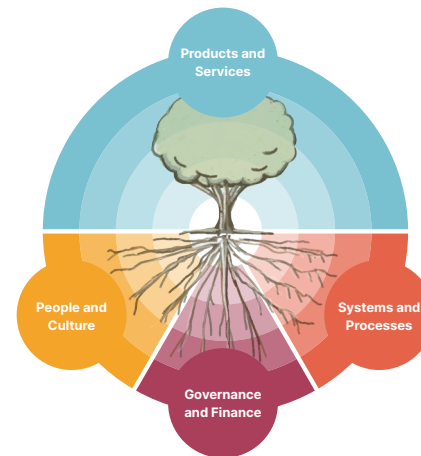
Program funding is valuable, but the prescriptive nature of it can be counter-productive. As examples in this report illustrate, there are many other ways to engage, and by shifting their practices donors can help to build more robust and effective ESOs. There are three complementary engagement modes to reflect on:



With adjustments, Program Funding can support Organizational Development, and Ecosystem Strengthening.

ESO growth is underpinned by four dimensions that need support

By harnessing the interconnectedness of ESO development - where support in one area reinforces others - donors can improve the outcomes of BDS funding and increase ESO financial sustainability.



Shifts in donor practice can drive growth

Small changes to donor practices can help ESOs to grow into more robust and effective organizations, and amplify their impact. From the participants engaged in the development of this report, one message is clear:

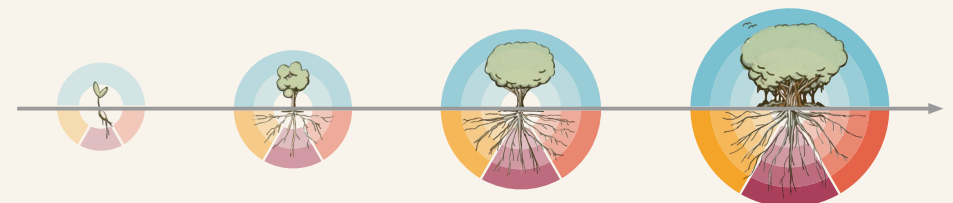
To make the most of your BDS funding, support ESOs to grow, not just deliver programs.

With the right backing from donors, ESOs can not only offer more impactful and enduring services but also bolster entrepreneurial ecosystems.

The tree metaphor

The growth of a tree offers a helpful metaphor for thinking about the process of ESO development - there are important dimensions 'above ground' that are visible, as well as 'below ground' that

are less so. At each stage the different OD dimensions are more and less important. An ESO needs to grow in even ways across the dimensions for them to have sustainable impact.

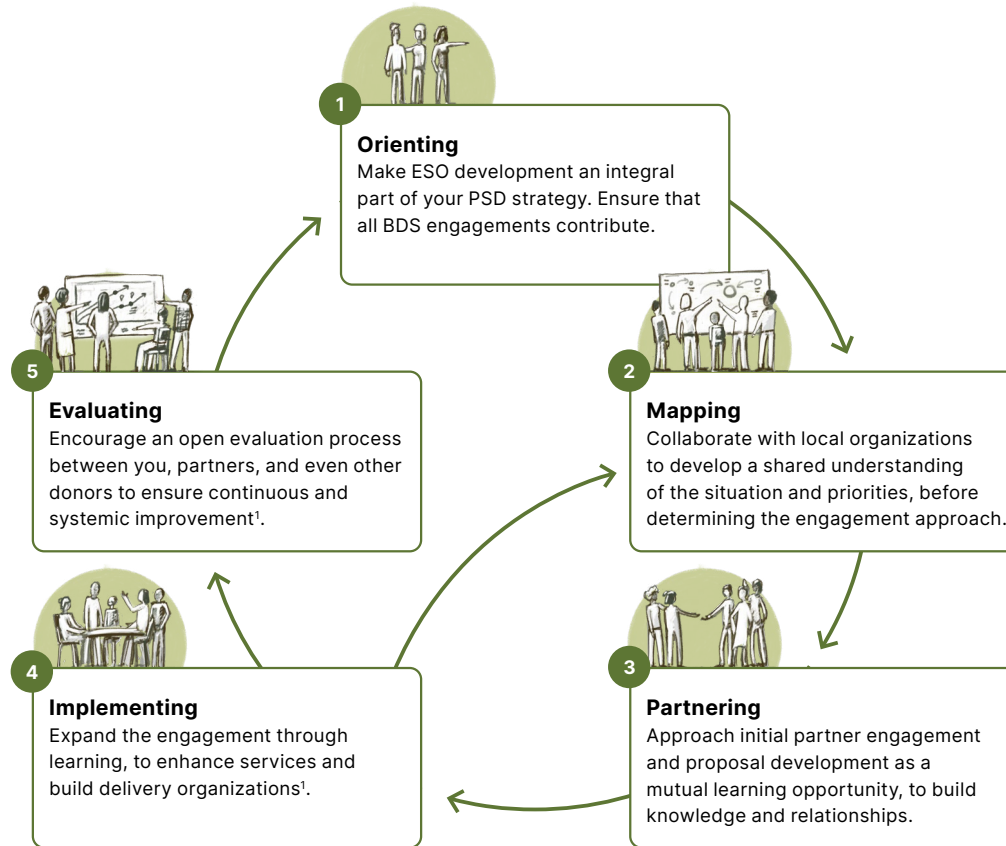


EXECUTIVE SUMMARY

How donors can support ESO development

RECOMMENDATIONS

Change your practices



The recommendations (expanded in Section 7) outline how donors can shift their practices to enable ESO growth. They range from small changes to how program funding is deployed, to drive OD alongside BDS delivery, through to large transformations of funding practices. They complement Argidius' SCALE toolkit - but specifically focus on donor practices.

The recommendations represent a thematic shift towards more open dialogue, responsive support, collaborative strategizing, and flexible funding. This leads to mutually beneficial partnerships and more sustainable capacity in ESOs, increasing the impact of these organizations and the efficacy of donor resources.

CASE STUDIES

Learn from examples

The cases (outlined in Section 3) show the phenomenal growth in impact of ESOs when donors support their growth. For example, in just a decade, **Alterna** grew from a US\$100k budget, to a multi-million dollar per year budget, generating US\$200mn in incremental revenue, while creating more than 16,000 full time jobs, and mobilizing US\$250mn in finance. Starting in 2010, **Open Capital** has grown rapidly raise more than US\$1.3bn in impact capital for SMEs, creating jobs and addressing gaps in skills and knowledge across Africa. **TechnoServe** is rapidly multiplying the impact of their entrepreneurship work. In 2022 alone, SMEs participating in their programs increased their income by an average of US\$6 for every US\$1 invested in their programs. **Fundap**, **Impact Hub**, **LightCastle Partners**, and **Villgro** also showcase the impact that can be achieved with donor support.

This report also tells the stories of donors who are already putting the recommendations into practice (Sections 3 and 7). These include the practices of **ACTEC**, **Anglo American Foundation**, **Argidius**, **DFAT**, **Dutch Good Growth Fund**, **The European Commission**, **FCDO**, **IDB**, **ITC**, **Lemelson Foundation**, **Small Foundation**, **Swisscontact**, **Target Foundation**, **USAID** and many others.

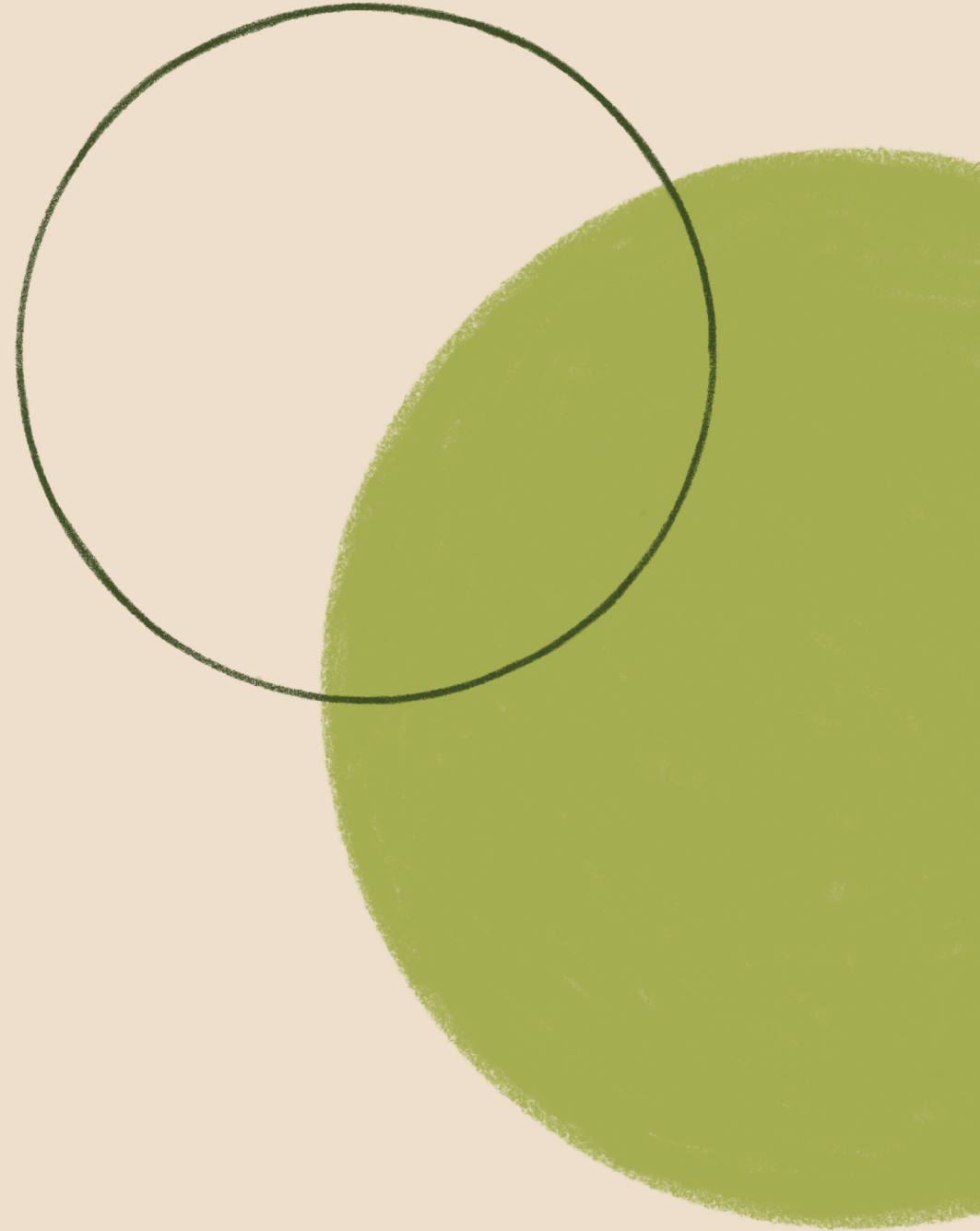
Actions to take now

1. Share this report with others, either inside or outside your organization, and invite discussion
2. Reflect on how you currently engage ESOs, how this could be improved, and the case for change
3. Identify recommendations that you could take in your work with ESOs, and explore what would be required to make those changes
4. Reach out to any organizations mentioned in this report for more information

This report provides a springboard for practical action, urging donors to implement its recommendations. As time unfolds, more data will emerge, showcasing the significance of ESO development in SME growth. The journey doesn't end here - the report is an invitation for deeper, sustained collaborations, beckoning a brighter future for SMEs in emerging markets. For more information on what you can do now, refer to Section 7 and 8.

SECTION 1

Introduction



Why we created this report

In the long-term, this report aims to:

1. Improve Business Development Services for entrepreneurs;
2. Increase the assistance given to organizations offering these services; and,
3. Amplify and extend the positive impacts of funding dedicated to the growth of enterprises.

These aims provided the grounding for this question, which focused research: **“How can donors understand and support the development of Enterprise Support Organizations (ESOs)?”**

This question responds to a significant issue facing donor-ESO relationships. Noting, that while numerous donors collaborate with ESOs in Low- and Middle-Income Countries (LMICs), it is primarily in funding the delivery of BDS. These efforts typically embody prescriptive, programmatic funding. These approaches can give ESOs what they need to operate, while constraining them from growing their organizations.

The constraints linked with such approaches limit ESOs' capacity to add value to and growth through engagements. When ESOs are effectively engaged they:

- **Add value**, for instance by tailoring products and services using local knowledge or adjusting them to suit specific needs; and,
- **Grow**, for instance by channeling resources towards retaining and cultivating talent, improving processes and systems, and governance.

While program funding is integral for the majority of ESOs, it can inadvertently promote dependency and hinder attempts to construct the necessary capabilities, networks, and resources essential for prosperity.

This report offers an initial contribution to this question, by drawing attention to the emerging ESO and donor practices that are providing examples of more productive and effectual engagements.

The primary audience for this report are donors, offering a robust and

multi-dimensional exploration of how donors can enhance the impact of their contributions. However, others working on enterprise growth will undoubtedly find value in the report, whether this is with, inside, or around ESOs.

The argument unfolds through the grounded stories about ESOs, including their crucial role in nurturing SMEs in LMICs. Through the exploration of seven cases of robust and mature ESOs and numerous supporting stories, the report reflects on the role of donors in the ESO journeys, and notes recommendations and next steps for further research and community building.

Readers are encouraged to explore the report in its entirety, as each section builds on the previous ones to present a comprehensive view of the subject matter. However, each part is also designed to provide standalone insights into specific aspects of ESOs' role, their challenges, and how to unlock their potential. The ultimate goal is to provide a roadmap towards enhancing ESO development and ensuring more sustainable and scalable impacts on enterprise growth.

This is a journey of discovery to untangle the intricate dynamics of ESOs, SMEs, and donor engagement. Ultimately, it explores how donor-ESO partnerships can create sustainable impact at scale.



Framing

Key definitions

This report uses some terms that may be new to you, or may be used in a different way to what you are used to.

- **Business Development Services (BDS)** are non-financial services and products offered to entrepreneurs at various stages to support enterprise growth. These can include services like capability building, coaching, targeted consulting, marketing, and product development.
- **Entrepreneurial ecosystems** are the interconnected network of entrepreneurs, companies, investors, universities, government agencies, and other stakeholders that collectively create and sustain the conditions for entrepreneurship within a specific geographical region.
- **Enterprise Support Organizations (ESOs)** are focused on the provision of non-financial (and sometimes also financial) support to enterprises. Though there are discernible segments, this report highlights the commonalities between them, so therefore uses a broad categorization. Note that these organizations are also sometimes

referred to as CDOs or Business Support Organizations (BSOs).

- **Low- and Middle-Income Countries (LMICs)** refer to nations with a Gross National Income (GNI) per capita significantly lower than high-income countries, as defined by international bodies like the World Bank.
- **Private Sector Development (PSD)** refers to the use of foreign aid or assistance to promote the growth of businesses and supporting ecosystems in emerging markets.
- **Small and Medium Enterprises (SMEs)** are businesses that maintain revenues, assets, or a number of employees below a certain threshold, offering a range of products or services, which varies by country. In this report, the focus is on growth-oriented SMEs (and startups), which are the target of many donor and ESO efforts because of their impact potential.

What this report asks of you

As you embark on the journey of understanding ESO pathways and the critical roles that donors can play in empowering them, the report asks that you:

- **Engage** from a place of curiosity about what you might learn, being mindful of any biases that could influence your reading. There are some pervasive and destructive narratives about ESOs that need to be counteracted.
- **Reflect** on your own experiences and practices, and how these relate to the examples provided. Feedback is welcomed, but it is also encouraged that you share reflections and discuss with your peers and network.
- **Explore** the opportunities for making change, to better support enterprise growth, and reach out to us if you would like support in this process. There are many options, and not all of these made it into the report.

- **Commit** to action. This could be changing how you engage ESOs, or advocating for them with your peers/network. Every engagement with an ESO can support its development, and improve the BDS it offers.

It is hoped that this report acts as a call to action, mobilizing a broader group of actors, and catalyzing more collaborative efforts to improve enterprise support.

This report contributes to research on inclusive growth

This report builds on evidence that demonstrates effective BDS increases the productivity of SMEs - improving their products/services, increasing revenue, creating jobs, and driving innovation¹. However, it also recognizes that the effectiveness of BDS, and the stability of ESOs that deliver it, varies considerably. By looking at wide-ranging examples of mature and robust ESOs delivering impact at scale, the report identifies the internal and external factors that enabled their development, and creates recommendations for donors to better support growing enterprises.

As noted in Figure 1, research is intended to amplify drivers of change that in turn generate outcomes in LMICs through SME development.

The research complements an adjacent and growing body of resources and tools defining BDS and ESO best practices (e.g., Village Capital's Abaca for ESOs², Argidius' SCALE¹, and the ITC Benchmarking for Trade³). While they focus on evidence-based approaches to SME growth, and the capabilities ESOs need, this focuses on the role that donors can play in ESO development.

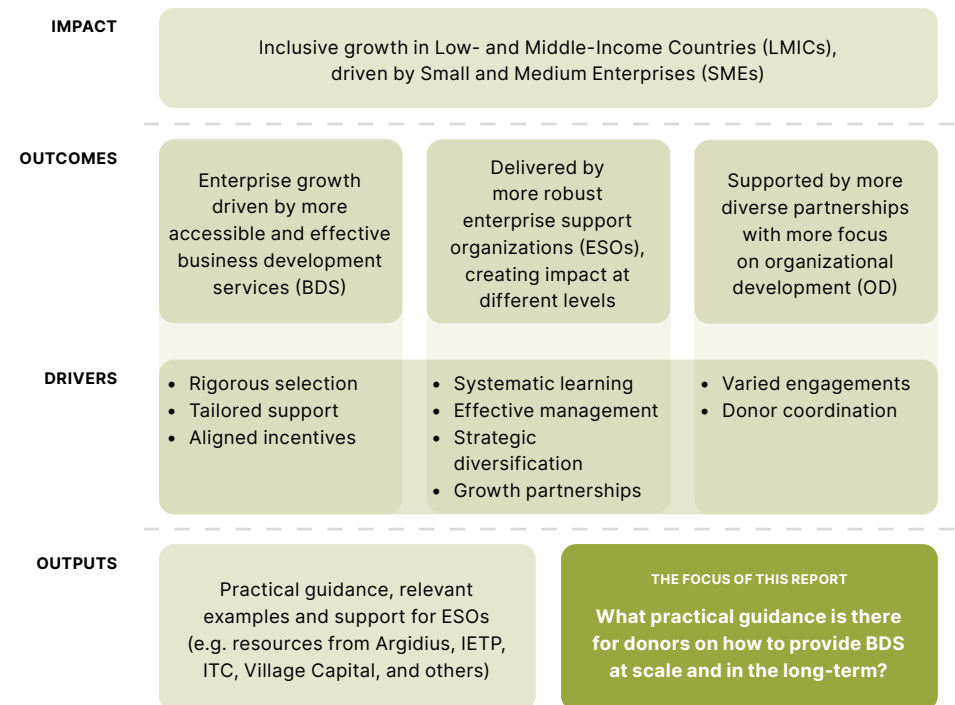


Figure 1: the logic model for where this research and report sits in affecting impact in LMICs driven by SMEs

The structure of this report

The research focused on case analysis, and the report presents findings from this process, organized around a case for change (i.e., why and how donor engagement of ESOs can be enhanced). The report also includes frameworks and recommendations for making changes, and references to resources and tools that can support these efforts.

This is an overview of the report structure, with a brief outline of what is contained in each section.

Section 1 - Introduction (p.6) is concluding on this page. This Section has outlined the framing, contribution, and structure.

Section 2 - Gaps in the canopy: The potential of ESOs (p.11) sets the scene by looking at ESOs in the broader landscape of PSD, unpacking their levels of impact and their systemic roles. It is demonstrated that donor engagements typically focus on a small subset of an ESOs total activities.

Section 3 - Towering giants: Seven ESO cases creating impact at scale (p.16) grounds the concepts in seven cases of mature and robust ESOs that are revisited throughout the report. This section shows that it is not only possible for ESOs to create sustainable impact at scale, but that it is already happening with the close support of donors.

Section 4 - Above and below ground: How ESOs grow (p.33) reflects on the seven cases. Four OD Dimensions are proposed to clarify the different and interconnected aspects of growth. These OD Dimensions are then placed along an ESO maturity model to show what's needed at each stage of ESO development.

Section 5 - Nourishing the core: Dimensions of ESO development unpacked (p.41) elaborates on the The OD Dimensions. This section cites examples of how ESOs have developed these aspects of their organization over time. Also noted are how donors can support ESOs with each OD Dimension.

Section 6 - The forest for the trees: Reframing donor-ESO funding (p.47) challenges the dominance of programmatic funding, citing some of the efforts now being made to address these shortcomings. The report introduces frameworks for understanding the dynamics of donor-ESO relationships (a) their vicious and virtuous cycles; and, (b) three engagement modes characterized as: (I) Program Funding, (II) Organizational Development and (III) Ecosystem Strengthening.

Section 7 - Standing tall: Practical recommendations for donors to explore ESO development (p.53) translates insight into action. Recommendations are made for donors to integrate OD funding practices, based on examples of changing donor practice. This section also notes examples of several donors that are already putting these recommendations into practice.

Section 8 - A transforming ecology: A summary and opportunities (p.60) concludes the report. The frameworks are revisited with a call to action for donors to understand ESO development, know their influence and take action. It also includes potential opportunities for the practices to be further explored.

Section 9 - Appendix (p.65) includes information about the contributors, authors, an index of organizations mentioned, and resources for further reading, and references.

SECTION 2

Gaps in the canopy

The potential of ESOs

This Section sets the scene by looking at ESOs in the broader landscape of PSD, unpacking their levels of impact and their systemic roles. It is demonstrated that where donors usually engage with ESOs is a small subset of their total activities.

ESOs can be significant in supporting SMEs but they only receive a fraction of available donor support

Despite the substantial evidence demonstrating the efficacy of Business Development Services (BDS)^{1, 4}, it represents a mere 13.3% of the over US\$10 billion in Private Sector Development (PSD) funding directed towards bolstering SMEs in LMICs³ (Figure 2). The majority of these funds are used to facilitate access to finance.

At a time of stringent development budgets and escalating emphasis on capital mobilization, it is crucial to examine how both PSD and BDS funding is utilized. A significant portion of this funding is allocated to Enterprise Support Organizations (ESOs) via contracts for program implementation, serving as a crucial part of the ESO revenue model across markets, regardless of an organization's maturity⁶. These funds empower ESOs to deliver BDS, thereby enhancing the capacity of emerging SMEs to secure finance. When effective, the services delivered increase the productivity of SMEs, working in concert with the financing to scale their impact. In essence, these are interdependent catalysts for transformation.

However, inconsistencies in BDS and the ESOs that deliver them have led to skepticism that is compounded by tightening budgets among many donors. This has the potential to jeopardize the crucial work of ESOs, which - as we illustrate in following sections - often extends far beyond the delivery of BDS.

In response to this issue, the research set out to examine a range of mature and resilient ESOs delivering effective BDS and achieving large-scale impact, in order to understand how they have developed and what roles donors have played in this process.

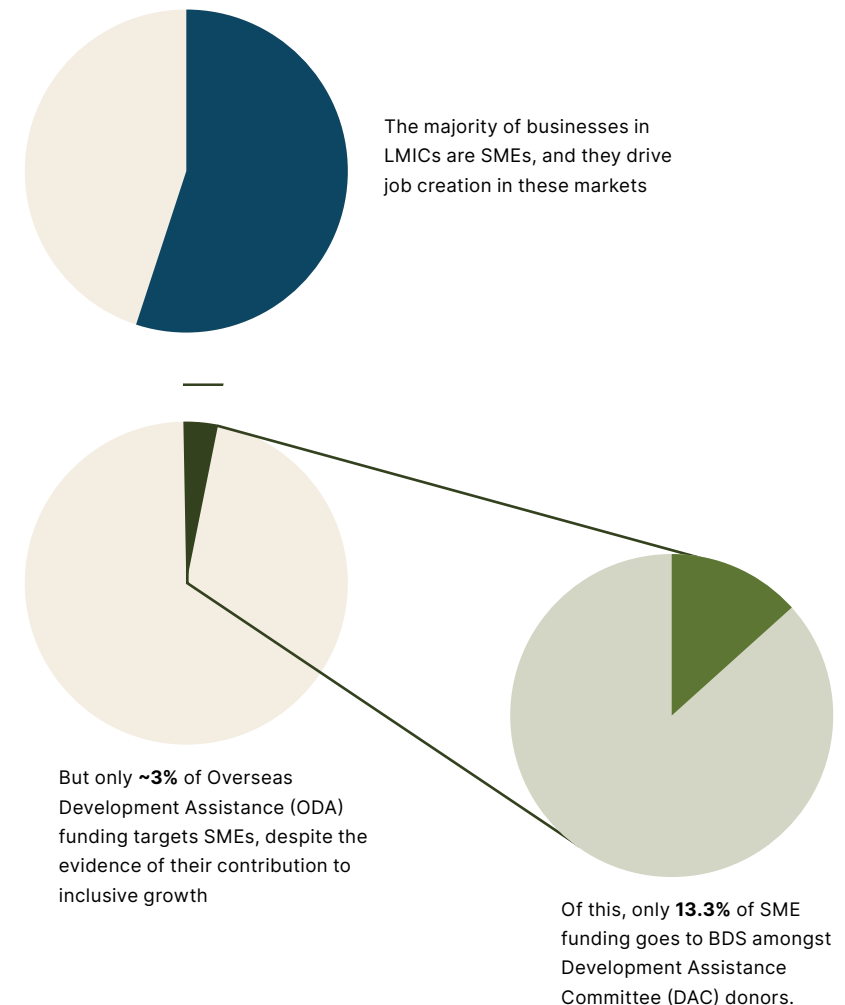


Figure 2. Donor tracker statistics⁵, 2022

ESO development can create sustained impact at scale, but they are often held back

The work of ESOs

ESOs come in many forms and deliver a wide range of services. Despite the common tendency to narrow them down as either incubators or accelerators, the term ESO also includes consultancies and specialized advisory firms. Even institutional entities like trade or investment promotion offices, government-mandated agencies, and chambers of commerce can be considered ESOs. While many ESOs concentrate on cohort-based programs, there are a growing number that exclusively deliver tailored services. All provide some form of non-financial support, but some also advise on, mediate, or even directly provide financing. Their work impacts enterprises, but also the individuals within and systems around them.

For the purpose of this report, a broad definition of ESO is used, acknowledging the significant commonalities that exist amongst these diverse organizations: They deliver enterprise support, the effectiveness of which is a product of how support is designed and delivered¹. Furthermore, their ability to innovate effectively relies on their team's quality and stability, governance and financial foundations, and systems and processes (Figure 3).

These organizational dimensions are broadly applicable, but are rarely considered in BDS funding. While most donors take into account these dimensions when assessing ESO funding applications, only a handful allocate funding to address the identified gaps (or opportunities) during the evaluation. This results in little attention being given or resources invested in building the organizations that deliver BDS. This suggests that ESO development is being overlooked or disregarded, or that they are viewed as replaceable or interchangeable tools rather than integral parts of the ecosystems that support growing enterprises. In any case, the result is the same: ESOs struggle to grow as organizations.

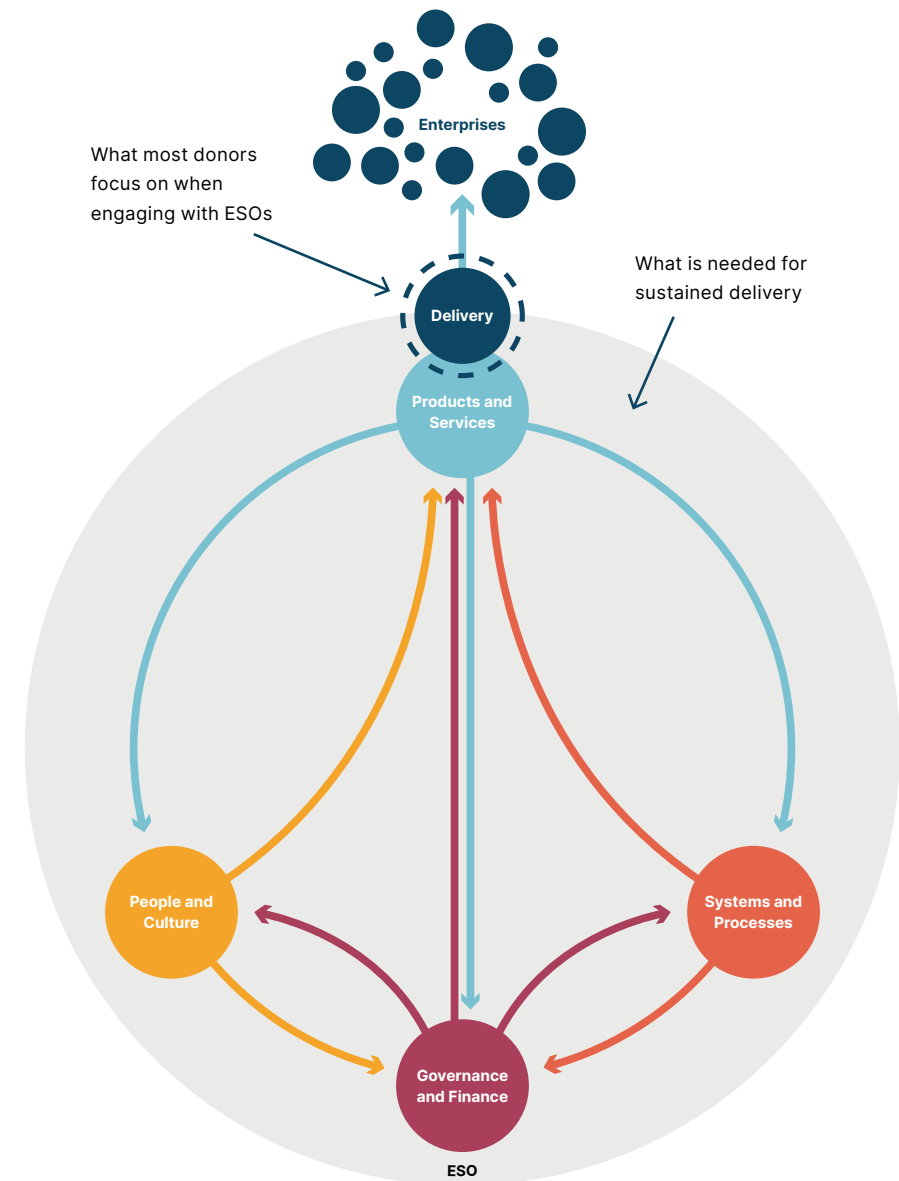


Figure 3: Four key dimensions of ESO development (all needed to sustain delivery), and where donors usually focus their engagements. The delivery side of ESO activities is also outlined in SCALE¹



Interconnected challenges

The current landscape underscores the formidable challenges confronting ESOs: persistently seeking short-term program funding with narrow margins, often leaving them in a precarious state. They are compelled to redirect their efforts from aiding enterprises, towards appeasing donors. Rather than formulating and enacting long-term strategies, their focus fluctuates according to funding priorities. Governance, alongside systems and processes, remain rudimentary, with a disproportionate emphasis on donor engagement. Amid this uncertainty, ESOs grapple with recruiting, retaining, and building a competent team, especially in increasingly competitive labor markets. Ultimately, they find themselves caught in a vicious cycle (this is further elaborated in section 5).

Compounding this, common internal challenges are overlooked: ESO teams often consist largely of individuals with limited relevant experience. Instead of concentrating on comprehending enterprise needs and developing bespoke services to cater to these, these teams can resort to generic cohort program designs and support frameworks. These methodologies are familiar to

donors, and enable ESOs to serve larger numbers within shorter time frames using less experienced team members. Moreover, these approaches deliver a convincing impact narrative, making it an alluring strategy. Nonetheless, it is the entrepreneurs, the ultimate recipients of these efforts, who are left wanting.

Despite these adversities, there exist commendable examples of ESOs growing and delivering impact at scale. A closer look at these models reveals critical patterns, most notably, the presence of a group of donors who prioritize organizational development alongside service delivery in their engagements. The following section explores cases of exemplary ESOs, revealing their growth trajectories and the role of donors in supporting these. But first, it is worth unpacking the diversity and levels of ESO impact.

Levels of impact

It is common for donors to perceive Enterprise Support Organizations (ESOs) primarily as providers of Business Development Services (BDS). However, this view fails to capture the full scope of their contributions.

ESO impact can be understood at the levels of individuals, organizations, and ecosystems. For example, BDS provision enhances the capabilities of individuals within both the beneficiary enterprises and the ESO itself, facilitating a diffusion of talent across organizations and the broader ecosystem. But in addition to providing services to support enterprise growth, ESOs also play a crucial role in engaging others in the process, from investors to governments⁷. They do this by conducting research, convening stakeholders, highlighting challenges and opportunities, and coordinating efforts to address them. Through these types of activities, ESOs bridge gaps in knowledge, support, and networks, strengthening the ecosystems in which they operate.



Figure 4: Levels of ESO impact and their flows

While this work may be intricate, indirect, and challenging to evaluate, its importance cannot be understated, especially in emerging markets where these capability and information flows may lack formalization.

Evaluating ESO impact is not a straightforward process. Even when evaluating the effectiveness of BDS, the requisite time frames required and diverse outcomes in focus are difficult to measure. At the same time, while key enterprise growth metrics such as job creation and increased revenue may provide a clear-cut analysis, they leave other significant impacts of ESOs unexplored.

Section 2 snapshot

The story so far

1 There are clear patterns in what ESOs need in order to build robust operations and deliver effective BDS. These reflect a pathway to achieving and sustaining impact at scale. However, donor engagements rarely consider these OD needs, and this continues to hinder the growth of ESOs and improvement of BDS.

4

2

5

3

6

Key insights from this section

- ESOs are underrepresented in PSD with just a fraction of donor support going to ESOs: Only ~3% of ODA funding is allocated to SME support, and of this, just 13.3% goes to BDS¹.
- A narrow focus on service delivery, and a prescriptive funding approach, are common in donor engagements of ESOs, but this neglects the delivery organization's needs, and misses an opportunity to build more effective and enduring BDS partners.
- This has broader implications, as intermediaries like ESOs are interconnected and thus co-evolve, strengthening the entrepreneurial ecosystems.
- Despite this, there are many great examples of ESO growing, securing diverse funding sources, and achieving impact at scale.
- The impact of mature ESOs spans multiple levels, and can be difficult to evaluate, as they support individuals, enterprises and the broader ecosystem through adaptive work.
- To enhance the impact of PSD funding, donors should be prioritizing ESO development alongside service delivery in BDS funding.

What's next

Building on this, the next section will draw outline the growth pathways of seven different ESOs, each achieving impact at scale. Their stories illustrate how crucial donor support focused on organizational development (OD) is for growth, and what can be achieved by mature ESOs. They also illustrate how OD support not only improves BDS, but also increases the ability of ESOs to fundraise successfully, diversify partnerships, and grow their operations.

SECTION 3

Towering giants

Seven ESO cases creating impact at scale

This Section grounds the concepts in seven cases of mature and robust ESOs that are revisited throughout the report. This section shows that it is not only possible for ESOs to create sustainable impact at scale, but that it is already happening with the close support of donors.

Introduction to the cases

This section presents various ESO models via case exploration, outlining their impact, their organizational growth patterns, and certain donor partnerships that have significantly influenced their evolution. The organizations selected have increased their impact by an order of magnitude in recent years, and each has emphasized different aspects of OD in their development that are worthy of examination. These instances underscore the integral link between the efficacy of BDS, ESO development, and donor engagement.

Although some of these organizations may already be known, the aim is to deepen the understanding of the strategies and practices that have enabled these organizations to have an impact.

The stories of these organizations are outlined in the following pages, with each case explored through four stages of growth – beginning, emerging, solidifying and flourishing – an ESO development maturity model (further defined in Section 4).



The emergence of a Central American institution

Alterna is a social innovation platform headquartered in Guatemala, operating across Central America and Mexico. They have grown to reach underserved communities by focusing on their talent and measurement. In 10 years, they have grown from 12 to 1680 entrepreneurs supported annually.



Creating high quality consulting services in Africa

Open Capital Advisors is a management consulting and financial advisory firm based in Africa. They open up new opportunities for the region by focusing on talent and preparing companies for external financing. They have unlocked \$US1.3bn in impact capital for SMEs.



Deepening support in Guatemala

Fundap is a non-profit operating in South-Western Guatemala. They have grown their impact through their community-centric and cross-subsidized approach. They have tripled job creation per enterprise supported in six years and developed a cross subsidy model that can sustain SME support in perpetuity.



Scaling proven impact around the world

TechnoServe is a non-profit headquartered in the USA that designs and delivers business- development programs globally. They have scaled their impact by investing in systems and continuous improvement. TechnoServe support over 14,000 entrepreneurs annually.



Scaling a social enterprise with global reach

Impact Hub is a networked organization supporting ESOs around the world. Their success and scalability has been enabled by their adaptability, resilience, and decentralized governance. They have grown to reach over 65 countries in 20 years.



Expanding the leading Indian social enterprise incubator

Villgro is a social enterprise incubator from India, now with global operations. Their development has been spurred by investing in specialization and learning to support local economies. Villgro's work has created over 5600 jobs and improved 20mn lives.



Making it easier to do business with Bangladesh

LightCastle Partners is a management consultancy based in Bangladesh, reaching across South Asia. They have grown their impact through a data-driven approach and by taking unique roles in their ecosystem. They have mobilized more than \$150mn in investment in SMEs.

CASE A

The emergence of a Central American institution

Growing from 12 to 1680 entrepreneurs supported annually in 10 years

Overview

Alternativa is a social innovation platform headquartered in Guatemala. They cultivate impact driven businesses and a range of services including finance. They have grown significantly over the last decade; from supporting 12 enterprises with a US\$100k budget in 2012 to become of the largest ESOs and ecosystem players in Mexico and Central America supporting more than 1000 entrepreneurs annually. They support entrepreneurs and SMEs through cultivation programs and contribute to the growth of an inclusive, local impact ecosystem. Over their short history, they have generated more than US\$200mn in incremental revenue, created 16,000+ full time jobs, and mobilized US\$250mn in finance⁸.

Operations

Through program delivery, advisory, and advocacy, Alternativa fosters impact-driven enterprises, promoting sustainable development, job creation, and innovation.

Revenue model

Alternativa's funding comes from multiple sources, including program fees, partnerships, donations, and grants from individuals, foundations, governments, corporations, non-governmental organizations, and self-generated income.

Location:
Central America, Mexico

Founded:
2010

People:
60+

Products and services:

Program delivery, fellowship, access to markets, access to finance, investment, technology advisory, and policy advocacy

alternativa

Their growth pathway

Beginning (2010-2013)

Alterna was established in 2010, borne out of the founder's experiences of various rural technology ventures. These experiences generated pivotal insights which informed the design of their services, and their underlying 'cultivation' methodology. Their early success hinged on their 'Impact Fellowship' program, which attracted talent from major corporations and consultancies, offering practical experience working with social enterprises. This increased team capacity, generated revenue and built a powerful support network.

Emerging (2014-2016)

In 2014, they supported 12 entrepreneurs. This was the same year Alterna adopted an 'ecosystem nurturing' approach to their work and introduced additional services, events, and initiatives to compliment their existing offerings. The result was their 'Cultivation Alliance' program, launched in 2016 - a strategic bundling of various services aimed at assisting other ESOs, enhancing their own impact and providing greater support.

Solidifying (2017-2022)

Noticing a gap in how entrepreneurs were able to successfully connect with early-stage funding processes and investment, they launched the 'Catalyzer Fund' in partnership with **IDB Lab**. During this period, they remained focused on refining their methodologies and service offerings, improving their knowledge management systems and impact management. By 2022, Alterna had added 'Acceso', another early stage impact investment fund with a regional focus. The same year, they supported 1620 entrepreneurs.

Flourishing (2023+)

Today Alterna are established and widely recognized. They hold lead contractor status for donors like **the European Union** and **IDB**. Alterna will continue to consolidate its value proposition in the impact sector at regional and international levels. They will do this through innovative services that attend to impact-driven SMEs key needs in data, collaborative action and learning, and strategic alliances. Alterna expects to continue its needs-based innovation with new services in a range of impact sectors.



The role of donors

Support from donors and partners allows Alterna to innovate and accelerate the development of their key services, initiatives and continue to nurture the ecosystem. They have many enduring partnerships that have helped them grow.

Partnerships with organizations like IDB Lab have supported strategic programs that have expanded Alterna's scope, acting as key players in the launching of both of Alterna's impact investment funds.

Long-term strategic partnerships with donors like **Argidius**, **ADA** and **Target Foundation** have helped to accelerate Alterna's impact, and meet the needs of increasingly different entrepreneurs. Argidius helped to improve MEL and internal systems for staff retention, bringing awareness of existing benchmarks and providing intentional costs of employment generators.

Alterna has grown their impact substantially, from supporting 12 entrepreneurs in 2014, to 1620 in 2022.

CASE B

Deepening support in Guatemala

Tripling job creation per enterprise supported in 6 years

Overview

Fundap is a non-profit operating in south-west Guatemala, dedicated to developing sustainable solutions for low-income areas. In recent years, they have sustainably doubled the scale of their operation and deepened support for their communities. They focus on education, healthcare, vocational training, small business development, and environmental conservation with a gender focus. Fundap has supported over 64,500 entrepreneurs and businesses through their BDS focused programs⁹.

Operations

Fundap develops programs and initiatives for entrepreneurs and the wider community to promote the sustainable development of low-income sectors. By addressing challenges holistically with a community-centered lens, Fundap creates multidimensional offerings that lead to sustainable improvements in the communities they serve.

Revenue model

Fundap receives funding from a mix of sources, including private donations, grants from foundations, and generating profit from their services such as their Microcredit program.

Location:
South-west Guatemala

Founded:
1981

People:
500+

Products and services:

Microcredit, education, healthcare, agriculture, and enterprise development programs



Their growth pathway

Beginning (1981-1986)

Fundap was established to better respond to the people and communities in poverty in Guatemala. Understanding the value in instilling capacity within the community and building resilient ecosystems, they launched their first program in 1986, the 'Momostenango' project. This project focused on fostering local capacity and artisans' cooperation, reflecting Fundap's commitment to sustainable development from the outset.

Emerging (1987-2004)

Recognizing the importance of their staff and workers as integral parts of the community, Fundap started providing employee benefits such as leave and health insurance. In 1988, the organization launched its 'Microcredit' program, relying on capital provided by donors rather than traditional borrowing. This sustainable capital source enabled Fundap to expand into new areas, including education and healthcare, and successfully enter new markets.

Solidifying (2005-2022)

Developing a Monitoring, Evaluation, and Learning (MEL) system, enabled them to utilize their collected data effectively. Leveraging these insights, Fundap redesigned its 'Business School' to cater to the needs of three different population segments, thereby deepening its impact and expanding its reach. Additionally, with funding support for its BDS, Fundap assisted 280 enterprises and facilitated the creation of 103 full-time jobs.

Flourishing (2023+)

Fundap provide a wide range of services to support the communities they serve, and they continue to improve the quality and depth of their offerings. Fundap are using their MEL system to identify gaps and areas of improvements for their services, as well as new market opportunities. They also continue to work actively on their succession plan, supporting and developing new generations and levels of leadership within the organization. They have prepared 40+ staff members for leadership roles thus far.



The role of donors

Donors have played a pivotal role in Fundap's organizational development. By providing capital for the Microcredit program, donors help to achieve more sustainable growth and entry into new markets. Partnerships with organizations such as **ACTEC** and **Argidius** have strengthened Fundap's operations, enabling the expansion of programs and fostering institutional capacity building. Argidius' first engagement led to a robust MEL system to allow evidence-based decisions and optimization of resources.

Fundap has embarked on a second partnership with Argidius, currently in implementation. This collaboration will further Fundap's impact and create opportunities for sustained success. Notably, the ongoing partnership has already resulted in supporting 713 entrepreneurs, creating 646 full-time jobs⁹, up from 364 enterprises supported, creating 119 full-time jobs from the first partnership. Moreover, increasing the endowment from CHF375k to CHF531k, allowing Fundap to continue staffing their SME support work without requiring external funding.

CASE C

Scaling a social enterprise with global reach

Growing to reach over 65 countries in 20 years

Overview

Impact Hub is a global network focused on building entrepreneurial communities for impact at scale. With more than 110 Hubs across the globe, they provide collaborative workspaces, programs, and events that inspire and connect impact-driven individuals and organizations. Impact Hub fosters a global community of entrepreneurs, innovators, and changemakers. Across their network, they have cultivated over 13,000 startups and social enterprises since 2012, leading to the creation of over 47,000 jobs¹⁰.

Operations

Impact Hub is one of the world's largest communities dedicated to impact-driven entrepreneurship. Local Impact Hubs are locally owned and run and there is a small global team that promotes knowledge sharing, collaboration in the network, and performance improvement.

Revenue model

Each Impact Hub is independently funded, often through membership fees, space rentals, partnerships, grants, and event fees. The global network is financed by membership fees paid by Impact Hubs, partnerships, programs, and grants. Their local and international programs generated €13.4mn in 2021.

Location:
Global (60+ countries)

Founded:
2005

People:
30+ core staff

Products and services:

Coworking space, accelerator programs, knowledge sharing, networking and research

**IMPACT
HUB**

Their growth pathway

Beginning (2000-2005)

The first Impact Hub was founded in London in 2005 by a group of young entrepreneurs and innovators who were looking for a space to work, collaborate, and learn. Some of the members of the original Hub moved back to their home countries and founded new Hubs in their cities, adapting the model to their context and setting a foundation of the future network.

Emerging (2006-2012)

Impact Hub continued to expand, opening new locations in cities around the world. By 2010, there were 18 Hubs in operation. This growth necessitated a focus on network development, to support coordination and collaboration between the different Hubs. In 2010 the Hubs began to restructure and develop a bottom-up democratic governance model. This was established late 2011 and marked their transformation into a genuine collective.

Solidifying (2013-2020)

In 2013, their network was 54 hubs, with 7611 members. In the mid-2010s they narrowed their focus to an impact agenda, becoming Impact Hub. This was also a period of rapid expansion of the network. They launched new programs and initiatives aimed at supporting social entrepreneurs and innovators, and also began working more closely with governments and businesses to promote social innovation. Their total number of enterprises supported and program revenues more than doubled between 2018 and 2021.

Flourishing (2021-2023+)

In 2021 their network was over 100 Hubs, with 25,000 members. In 2023, their network is over 110 Hubs in 68 countries. They are one of the few truly global ESOs that enable organizations like **IKEA** to run programs at scale, like the 'IKEA Glue Programme'. Impact Hub are focused on deepening their offers and impact by increasing effectiveness and accessibility of entrepreneurial support services. They are growing the capacity of Hubs and other business support organizations to better support and deliver programs.



The role of donors

Partnerships and engagements with donors have been critical for Impact Hub's successful geographic expansion. During 2014-2017, Impact Hub ran several programs that promoted the Impact Hub model in key regions, and provided additional support to the local founding teams. This growth of the network was enabled and supported by key partners such as the **BMW Foundation**, **Siemens Stiftung**, **Argidius**, **DOEN Foundation** and the **IDB**.

Impact Hub entered a strategic partnership with Argidius in 2019 with the objective to deepen Impact Hub's offering and its impact. This engagement had the aim of increasing effectiveness and accessibility of entrepreneurial support services and by growing capacity of Impact Hubs and other business support organizations. They have expanded their capacity to support more entrepreneurs each year, reach underrepresented entrepreneurs, and collaborate with influential organizations in thought leadership and policy input.

CASE D

Making it easier to do business with Bangladesh

\$150mn in investment mobilized

Overview

LightCastle Partners takes a systemic and data-driven approach to create opportunities for growth and impact for Bangladesh businesses. While only a decade old, they are one of the foremost ESOs in Bangladesh. They consult and collaborate with development partners, the public sector and private organizations to promote sustainable and inclusive economic growth that positively changes the lives of people at scale. LightCastle has commercial and development focus, and have worked with over 150 clients and partners, mobilized US\$150mn+ worth of investments, including 60+ development and impact partners, to support 1200+ SMEs and startups¹¹.

Operations

While operating primarily as a consultancy, they also offer entrepreneurship ecosystem and investment advisory, market entry strategy, and digital transformation services, as well as data products and open access market reports.

Revenue model

LightCastle has a blended revenue model. They generate revenue through service delivery, consulting, technical assistance, and investment advisory.

Location:

Bangladesh

Founded:

2013

People:

50+

Products and services:

Management and development consulting, advisory, digital transformation services, program delivery, and data products



Their growth pathway

Beginning (2013)

Established in 2013, LightCastle's vision was to inspire businesses in Bangladesh to advance the economy. They commenced as a management consultancy with a standard consulting model, focused on helping established and emerging businesses to advance the Bangladesh economy. LightCastle wanted to make it easier to do business with, and in, Bangladesh, so the emphasis from the beginning has been on making information and data available to encourage participation.

Emerging (2015-2016)

Over time, LightCastle continued to increase their capacity to take on larger and more complex projects for local and international clients. During this period they began running incubation and acceleration programs for corporate partners, and then donors like **USAID**, and running free support sessions for entrepreneurs. In parallel, they began collecting data from these engagements and integrating these with their analysis to provide a unique market data platform.

Solidifying (2018-2022)

Identifying a need in the market, they launched their first investment facility in 2018, and began reinvesting consulting profits in portfolio companies to catalyze deals. Networks built through free support sessions began yielding data, investment opportunities, and contracts. During this time they expanded their partnerships to include government and multi- and bi-lateral initiatives. They maintained focus on strengthening the brand and market position, investment management strategy, and diversity efforts.

Flourishing (2023+)

Today they are working across nine countries, stepping beyond their initial Bangladesh focus. They remain focused on developing sustainable systems and ecosystem change in core focus areas and sectors, including agriculture and food security, decarbonization and circularity, financial inclusion, water, sanitation and hygiene, catalytic and blended finance, investment climate, and entrepreneurship development.



The role of donors

Funders and partners of LightCastle support their work in various ways. By providing funding and data for their research, training and consulting services, they can inform and give access to policymakers and networks.

EKN-based projects support strengthening the poultry and aquaculture value chains through public-private partnerships, technology and knowledge transfer, capacity building, and investment and partnerships facilitation in partnership with **Larive International**.

LightCastle was part of **DFAT's** 'Frontier Incubators Program' and provided services in the 'Frontier Innovators Program'. These programs helped develop capacity, long-term strategic partnerships, and form growth roadmaps.

B-Bridhhi is a multi-year partnership between the **Embassy of Switzerland** in Bangladesh, **Roots of Impact**, LightCastle, and other stakeholders. It supports impact enterprises to have better access to innovative financing options and be better equipped to attract investors. This partnership supported LightCastle through funding, access to networks and capacity building.

CASE E

Creating high quality consulting services in Africa

Unlocking over US\$1.3bn in impact capital for SMEs

Overview

Open Capital Advisors is a management consulting and financial advisory firm that drives growth, enables investment, and builds markets across Africa. They bring a commercial and development lens to their consulting services to advance African economies and build future generations of business leaders. Open Capital has grown rapidly to over 170 full time staff. They have completed over 1400 client engagements, raised more than US\$1.3bn in impact capital for SMEs, and facilitated over 200 placements¹².

Operations

Open Capital develops deep local knowledge and expertise to work with African businesses, from seven offices on the continent, providing tailored support to focus on growth. More than 50% of their work is directly with businesses; they use this experience to inform work with development partners, investors, and donors.

Revenue model

Open Capital charges for services, delivering products and offerings to businesses primarily at growth stage. They seek grant funding to enable new service development and to extend existing services to early stage businesses that have less capacity to pay commercial rates.

Location:

Africa

Founded:

2010

People:

170+

Products and services:

Consulting, financial advisory, program delivery, diagnostics, and reporting



Their growth pathway

Beginning (2010-2013)

Open Capital was founded in 2010 with the aim of advancing African economies and building future generations of business leaders. They started in Africa for Africa. In 2011, they took a novel approach to growing their team, recruiting directly from universities through career fairs at Kenyan universities. Despite skepticism from others, Open Capital persevered with this approach and have since built a reliable and effective recruitment mechanism. They are one of the top employers across campuses in Africa.

Emerging (2014-2017)

As they grew, Open Capital increasingly partnered with donors to bring quality strategy, investment readiness, and talent services to early-stage businesses at subsidized rates. Their work with **USAID PACE** exemplified this, demonstrating successful methods to catalyze private investment into early-stage enterprises and foster financially sustainable acceleration in Kenya, Tanzania, Uganda, and Rwanda¹³. Throughout this period they generated significant sector knowledge and collaborated on a number of reports.

Solidifying (2018-2022)

In 2018, Open Capital launched 'Arcadia' as a service to build capability in Africa. Open Capital identifies top university-graduate talent, trains them to become high-quality analysts, and embeds them into organizations on rotation. To enable early-stage businesses to access 'Arcadia', Open Capital brought together four funders in a unique multi-donor collaboration, called 'Talent to Transform Africa' (TTA). As Arcadia developed, they further accelerated career pathways by rotating Analysts through the program their own consulting teams.

Flourishing (2023+)

Now a leading consulting firm in the region, Open Capital is trusted to deliver programs at scale with organizations such as the **World Bank**. In the coming years, they will continue their geographic expansion into new countries in Africa, building from their current seven country footprint, and expanding services and practice areas. While they expand, Open Capital will stay true to their founding Theory of Change. They will continue to advance African economies and build future generations of business leaders, with local talent and high-growth businesses.



The role of donors

Open Capital receives predominantly non-grant funding and support from their partnerships. For example, in 2017 **Small Foundation, Dalhap Foundation, and DOEN Foundation** made an equity investment into Open Capital. Most of their work with donors and multi-laterals like **USAID**, the World Bank and others are on a contract-for-services basis. This creates accountability and only results in payment after milestones are achieved.

Open Capital's partners help them bring in a global perspective to their work, helping them apply international learnings into Africa.

Open Capital has always been willing to experiment and take big risks to create a bigger impact. But as a growing firm these risks need to be considered and intelligent. One way they continue to take risks is to work in multi-donor collaborations. Their work with **Argidius, Blue Haven Initiative, Vitof Foundation** and **Pace Able Foundation**, led to the development and incredibly successful launch of 'Arcadia' and 'TTA', which saw 20x growth from their first year to the second.

CASE F

Scaling proven impact around the world

Supporting over 14,000 entrepreneurs a year

Overview

TechnoServe is a non-profit organization that helps people lift themselves out of poverty by harnessing the power of the private sector. They are significant in scale and global impact, and operate in a sustainable manner. TechnoServe help people build regenerative farms and competitive businesses and markets and increase incomes in almost 30 LMICs. They operate mainly within Latin America, Africa, and India, connecting people to information, capital, and markets. In 2022 alone, TechnoServe's work improved the lives of 3.1 million people, and participants in its programs increased their income by an average of US\$5 for every US\$1 invested in its projects¹⁴.

Operations

TechnoServe develops programs and initiatives that empower entrepreneurs through business development services, improving access to finance, providing training on regenerative practices, strengthening markets and ecosystems, and harnessing technology solutions.

Revenue model

TechnoServe primarily relies on project funding and non-restricted donations. They also receive support from philanthropic foundations.

Location:

Latin American, Africa, India

Founded:

1968

People:

1,500+

Products and services:

Program development, Business services, access to markets, access to finance, technology advisory, and policy advisory



Their growth pathway

Beginning (1968-2007)

TechnoServe was founded in 1968 on the belief that the best way to fight poverty was to help people help themselves. From their early days they were focused on cost-effectiveness in their projects, publishing a significant report on this topic in 1989¹⁵. In the 2000s, they experienced significant growth in their operations, with funding increasing from US\$15mn to US\$60mn between 2000 and 2010. They learned through experience of expanding quickly that systems and processes were critical enablers of scale.

Emerging (2008-2014)

TechnoServe grew with a new generation of entrepreneurship work. In this period they commenced their landmark 'ITE accelerator' that ultimately led to TechnoServe being rated the number one NGO in cost-effectiveness generating US\$36 in additional income for every US\$1 invested¹⁶. Throughout this period they increasingly focused on building robust measurement systems, and continued to improve processes and support to keep pace with the organization's rapid growth.

Solidifying (2015-2018)

As they matured, their expansion continued. They restructured the organization and shifted away from being highly decentralized to develop a centralized entrepreneurship practice. This centralized approach gathered and integrated best practices in enterprise development across their global operations, giving vision, leadership, and guidance to their portfolio of entrepreneurship programs. In this time, TechnoServe also contributed significantly to sector knowledge base through participation in academic impact evaluations¹⁷.

Flourishing (2023+)

The entrepreneurship practice grew from \$10mn in annual income for programs to \$40mn, and almost doubled the average impact return on investment for projects from US\$3.9 to US\$6.5 additional income per US\$1 invested. Their programs continue to innovate around the use of technology and market-systems development (MSD) approaches in order to scale impact and reach entrepreneurs more efficiently. They are currently exploring regenerative business solutions, transforming food systems, and economic opportunities for youth.



The role of donors

Argidius catalyzed the development of TechnoServe's entrepreneurship practice. This allowed them to scale the impact of their work by improving knowledge systems and ROI of programs, increasing funds raised, and proactively contributing to new knowledge for the broader entrepreneur-development community and ecosystem.

To create economic opportunities and jobs for thousands of women micro-entrepreneurs, **the Swedish International Development Cooperation Agency (Sida)** worked

with TechnoServe to pilot and scale their market-systems development approaches in Mozambique.

The Anglo American Foundation has also partnered with TechnoServe since 2011 to help micro-enterprises and SMEs increase their sales by US\$200mn cumulatively. What began with a single project and one model to supporting entrepreneurs, has evolved to become a portfolio across six countries, utilizing a broad toolkit of approaches based on geography and context.

CASE G

Expanding the leading Indian social enterprise incubator

5,600+ jobs created and 20mn lives improved

Overview

Villgro is India's oldest and foremost social enterprise incubator, dedicated to supporting innovations with scalable social impact. Villgro offers seed funding, mentorship, networking opportunities, and business consulting to early-stage, innovation-based social enterprises. They have significantly impacted the Indian entrepreneurship ecosystem, and their impact is now expanding across Africa and Asia, and deepening in their focus sectors. To date, they have incubated over 340 enterprises, created more than 5,600 jobs, and improved over 20 million lives through its portfolio companies in sectors including healthcare, education, agriculture, and energy¹⁸.

Operations

Villgro delivers its programs, seed funding and advisory through specialized verticals. These have been developed by prolonged engagement in underserved market segments and key sectors.

Revenue model

Villgro raises funds through partnerships with corporations, foundations, and government programs dedicated to promoting social entrepreneurship and innovation. It also provides seed funding to incubated startups, in the form of equity investments.

Location:
India, Africa, USA and the Philippines

Founded:
2001

People:
1,500+

Products and services:

Program development, Business services, access to markets, access to finance, technology advisory, and policy advisory



Their growth pathway

Beginning (2001-2009)

Villgro was originally known as the Rural Innovations Network (RIN), founded to focus on incubating early-stage social enterprises in rural India. They quickly added seed-investing to their services after recognizing the need in the enterprises they served. In 2006, RIN rebranded as Villgro, and expanded its focus to include social enterprises in urban areas. The establishment of partnerships with **IIT Madras** and **Lemelson Foundation** supported Villgro to develop more sector-focused practices, initially in health and energy.

Emerging (2010-2013)

Villgro mobilized its 'Social Enterprise Fund', a US\$10 million impact investment fund. They also began to form their team of experienced investors, building the capability to manage funds, and narrowing focus to key sectors in which it saw high-impact potential, namely agriculture, education, health, and climate. This was supported by long-term partnerships with funders committed to generating impact in these sectors, enabling the hiring of more technical expertise.

Solidifying (2014-2022)

Villgro's model was replicated into other markets, first with the opening of an office in Kenya, and then in the Philippines. Their unique practice of incubation was also codified into a playbook designed to support replication, and they began supporting other incubators (ESOs). They ran one of the early incubate the incubator programs, 'INVENT', which at the time was one of the world's largest¹⁹. Investment fund management was spun out into a new entity, Menterra, which then went on to raise US\$30mn.

Flourishing (2023+)

Villgro are well established, and continue to grow and validate their perspective that innovative and market-based models are powerful solutions to alleviating poverty and create social impact at scale. They are currently aiming to grow additional alternate funding instruments, focusing on blended finance and the first-loss default guarantee (FLDG) system in particular. They are also continuing their ESO support work, and exploring the viability of more decentralized models.



The role of donors

Villgro has had long-term partnerships with donors from its early years. For example, Lemelson Foundation has been a long term partner of Villgro, providing support for their operations and experimentation to identify key areas of support needed by social enterprises in an emerging ecosystem. Lemelson has also provided greater support in areas of need by providing a separate pool of funds for technical assistance to enterprises (over and above seed funding).

Villgro's partners have provided financial support to help it cover the costs of its programs and operations, and direct seed funding to enterprises. They have also provided critical in-kind support, such as office space, IT equipment, and training.

Partners have also offered mentorship and networking opportunities for Villgro's social entrepreneurs, and have advocated for policies that are supportive of the social enterprise sector.

Section 3 snapshot

The story so far

1 There are clear patterns in what ESOs need in order to build robust operations and deliver effective BDS. These reflect a pathway to achieving and sustaining impact at scale. However, donor engagements rarely consider these OD needs, and this continues to hinder the growth of ESOs and improvement of BDS.

4

2 Despite SMEs being a significant provider of economic growth and employment, only a fraction of donor support goes towards SME development and BDS. ESOs provide BDS, but also create impact at multiple levels in the organizations and ecosystems they engage with.

5

3

6

Key insights from this section

- Donor support focused on OD is critical for the growth of ESOs, but this can take many forms, as it focuses on helping them respond to challenges unique to their stage of growth and the broader context.
- Diverse examples of mature ESOs provide a counterpoint to the prevailing narrative of dysfunction, and the narrow conceptualizations that are all too common.
- ESO development is a pathway to scaling the impact of SMEs, as it improves services, increases the sustainability of key supporters, and strengthens the broader ecosystem.
- Though there are a range of different modes of engagement that donors take in working with ESOs, OD can be integrated into each.
- To enable this, donors must move beyond the prescriptive funding for program delivery that is currently dominant.
- Stories of ESO growth like these offer both strategic options and organizational development practices, with relevance for both growing ESOs, and for donors that engage them in BDS delivery.

What's next

With a view to supporting donors to make change, the next section synthesizes the findings from research into a set of frameworks. These can help donors think more systematically and to act more strategically, in all of their BDS engagements and partnerships.

SECTION 4

Above and below ground

How ESOs grow

This Section reflects on the seven cases. Four OD Dimensions are proposed to clarify the different and interconnected aspects of growth. These OD Dimensions are then placed along an ESO maturity model to show what's needed at each stage of ESO development.

ESO growth is a multiplier of impact

ESO growth, when healthy and balanced, builds more responsive and resilient BDS infrastructure. This translates into improvements in the support for SMEs, who attract both talent and investment as they grow, which in turn strengthens the ecosystem. This feeds back to ESOs, if they can build the capacity to secure larger contracts and engage diverse partners, enabling their transition into more strategic intermediary roles.

Activities such as advocating, convening, and coordinating, which typically involve building and managing collaborative networks, continue to strengthen ecosystems, thereby bolstering support for growing enterprises. Further, they increase capacity and opportunities in an ecosystem by generating and disseminating knowledge, advocating for underrepresented needs and groups, brokering collaborations, and attracting new partners and investors²⁰.

Research indicates the continued importance of donor funding for the majority of ESOs. Mature ESOs use this source of finance to support innovation, leverage private capital, or to engage in targeted OD. This enables them to

extend (or expand on) their services, growing with the enterprises they support, or adapting to meet the needs of underserved entrepreneurs.

The cases demonstrate that donor funding can catalyze the growth of ESOs while concurrently enabling them to deepen, diversify, and disseminate their impact at various stages of development. For example, as **Fundap** (B) grew, enduring partnerships with key donors enabled them to both improve their services and diversify into adjacent offerings. This deepened their impact in target communities, while also increasing financial sustainability. In the case of **Open Capital** (E), donor funding has enabled them to expand the 'Arcadia' program, which met enterprise needs while also building the skills of individuals, and bringing much needed talent into the ecosystem. Accessing program funding with additional support for the development of governance and systems increased the effectiveness of **Alternia** (A), **Impact Hub** (C), and **TechnoServe** (F), while helping them to work efficiently. All of the case organizations demonstrate the ability to achieve growth in scale through OD. Growing partner organizations

through OD is “a means to multiply donor impact”, and should be recognized as “not a goal in itself, but a means to an end”²¹, as it drives improvement in BDS which contributes to SME growth.



There are four OD Dimensions of ESO growth

How ESOs grow

The cases show that the expansion of ESOs goes beyond merely quantitative increases, such as the number of programs, enterprises, or team members. They also show the importance of deepening engagement, broadening operations, and disseminating skills and knowledge. Common output metrics, often centered around service delivery quantification, inadequately capture these dimensions of growth. Thus, understanding the complexity and intricacies of ESO growth is essential to recognizing how they can be best supported.

Four OD dimensions

ESO growth relies on improvement across multiple dimensions. These dimensions can be classified into four central areas of organizational development. This approach builds on existing models such as Abaca for ESOs and Argidius' SCALE for the purposes of understanding how growth works in practice.

The OD Dimensions	What's involved in each	Examples from the cases
Products and Services	Needs assessment, improving and expanding offerings, analysis of market, regionalization, IP development, diversification, deepening impact, pipeline quality, and network utilization.	• Open Capital's and Alterna's development initiatives that attract, build and mobilize talent for SME support • Villgro's development of sector-focused practices • Fundap's community-centric approach to developing financial and non-financial services • LightCastle's data-driven approach to supporting SMEs
People and Culture	Nurturing and developing a skilled team, recruitment, creating key roles, and fostering a positive work culture to meet the needs of the ESO, its enterprises and various partners.	• Fundap's training of middle management, and provision of employee services to increase retention • Impact Hub's community-driven skills development, which leverages their capabilities from around the world • Open Capital's rotation of new team members between consulting and placements in SMEs to rapidly build their capabilities
Governance and Finance	Improving policies and financial resources to ensure effective decision-making, compliance, financial stability, revenue diversification, and ability to take on grant funding and unrestricted funding.	• Impact Hub's business development team and governance model enables them to raise funds and deliver at scale • Fundap's cross-subsidization across products and services • Open Capital's emphasis on fee-for-service consulting to growing SMEs at a sliding subsidy, rather than program delivery • The shift (common across these cases) from short-term program delivery, to long-term partnerships
Systems and Processes	Monitoring, Evaluation and Learning (MEL), digitalization, project management, software, managing knowledge and workflows to streamline operations, and enhancing productivity.	• TechnoServe's, Alterna's and Fundap's focus on using rigorous MEL systems to generate, capture and then codifying knowledge in order to increase ROI on funding • Impact Hub's development of a global knowledge management system to share learning across the network • Villgro's codification of their knowledge in an incubation playbook, focused on supporting replication

The OD Dimensions are interconnected and reinforce each other to grow ESOs

How ESOs grow

Each of the OD Dimensions is connected to the others, and has the ability to either stimulate or constrain development in the other dimensions. This dynamic creates a self-reinforcing cycle, making it hugely important.

This reinforcing nature of the OD Dimensions, can be recognized in how improvements in offerings (**Products and Services**) are prompted by enhanced talent and knowledge (**People and Culture**), facilitated by the availability of flexible resources and effective strategic leadership (**Governance and Finance**), and grounded in accurate data (**Systems and Processes**).

Advancements in each Dimension are contingent upon progress made in the others, demonstrating their interconnectedness (see figure X). This can also slow down development. For example, if there is inadequate capability (**People and Culture**) to deliver services (**Products and Services**). This interconnectedness can drive a virtuous cycle of ESO development or, conversely, a vicious cycle that impedes it.

Another example seen in the cases is how the establishment of monitoring, evaluation and learning (MEL) systems (**Systems and Processes**) enables ESOs to generate insights for improving **Products and Services**. But for MEL systems to work there must be methodical service delivery (**Products and Services**), management capacity to oversee robust evaluation (**Governance and Finance**), and team capacity (**People and Culture**) to engage in longer-term data collection. These, in turn, necessitate some maturity in governance and stability in finances. **Alterna** (A), **Fundap** (B), and **TechnoServe** (F), have all made significant OD improvements in their MEL systems while balancing this **Systems and Processes** improvement with the other OD Dimensions.

Without a robust plan and concurrent activities for improving each dimension, ESO development will be constrained.

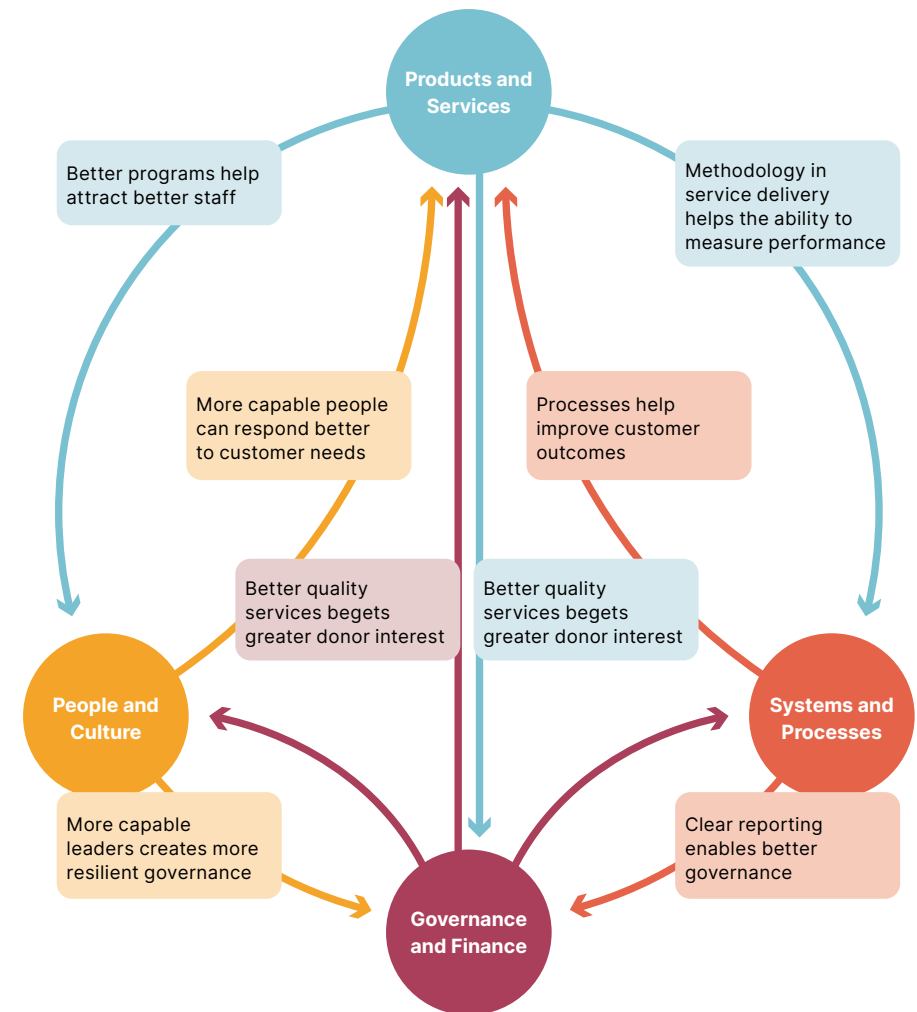


Figure 5: Some of the ways that the dimensions reinforce each other

Exploring the tree analogy

The interconnectedness of OD Dimensions emphasizes the importance of focusing on organizational development while endeavoring to improve BDS.

Hence, it is useful to draw an analogy with trees to understand ESO growth more holistically. The visible aspects of an ESO's operations-what they deliver and who they engage-are represented by the tree's branches, the public features of an ESO operation. These are underpinned by the less observable aspects, such as organizational structuring, resource management, team development, strategy, and networking, which underpin the delivery of support, can be likened to the tree's root system.

Following this analogy, an organization's above-ground activities (**Products and Services**) are mirrored by what is happening below (**People and Culture**, **Governance and Finance** and **Systems and Processes**) (see Figure 6). For stability, growth in these dimensions needs to be balanced.

This analogy will be further elaborated throughout the rest of this report due to its wide-ranging applicability.

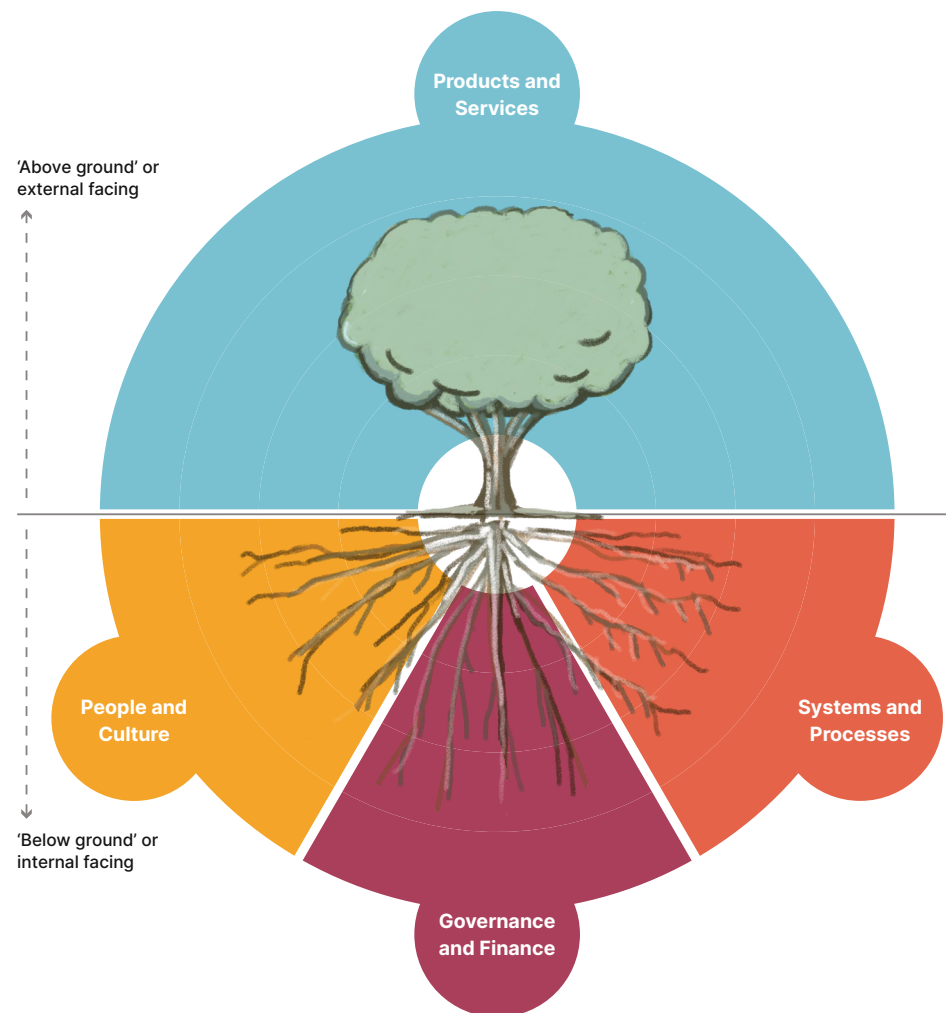


Figure 6: OD Dimensions positioned below or above ground

Progress on the OD Dimensions help an ESO mature across four stages of growth

From the case and examples explored in this research, there appear to be four distinct stages of ESO growth:

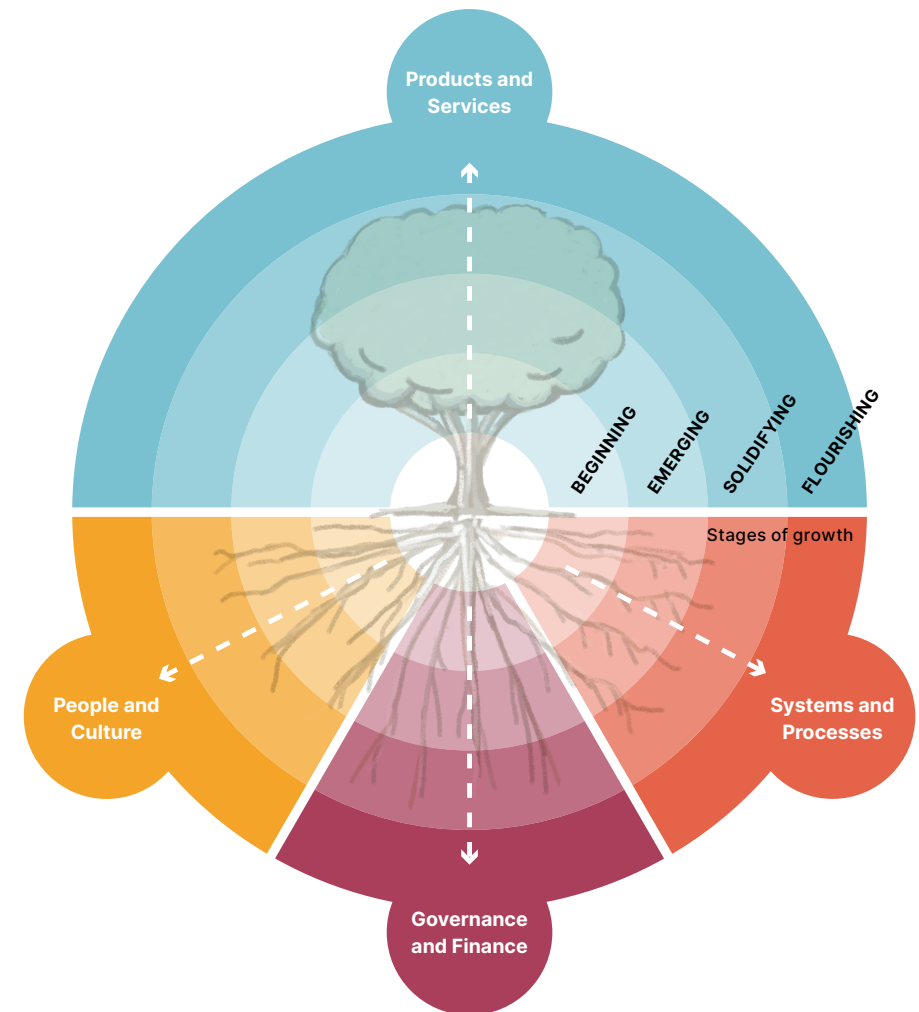
- 1. Beginning** (seedling) - When an ESO is trying to establish basic operations. This is likened to a seedling, sending out roots and leaves to find resources.
- 2. Emerging** (sapling) - When an ESO has found initial successes and is focusing on refining their operations. This is likened to a sapling, which has found some sustaining resources and is now focusing on growth.
- 3. Solidifying** (mature) - When an ESO is well established and focusing on improving, expanding and deepening their work. This is likened to a mature tree, bringing structure, knowledge, and capacity to the ecosystem.
- 4. Flourishing** (mother) - When an ESO supports the enterprises and the ecosystem around them in various ways. This is likened to a mother tree, which plays a crucial generative and stabilizing role in a forest ecology.

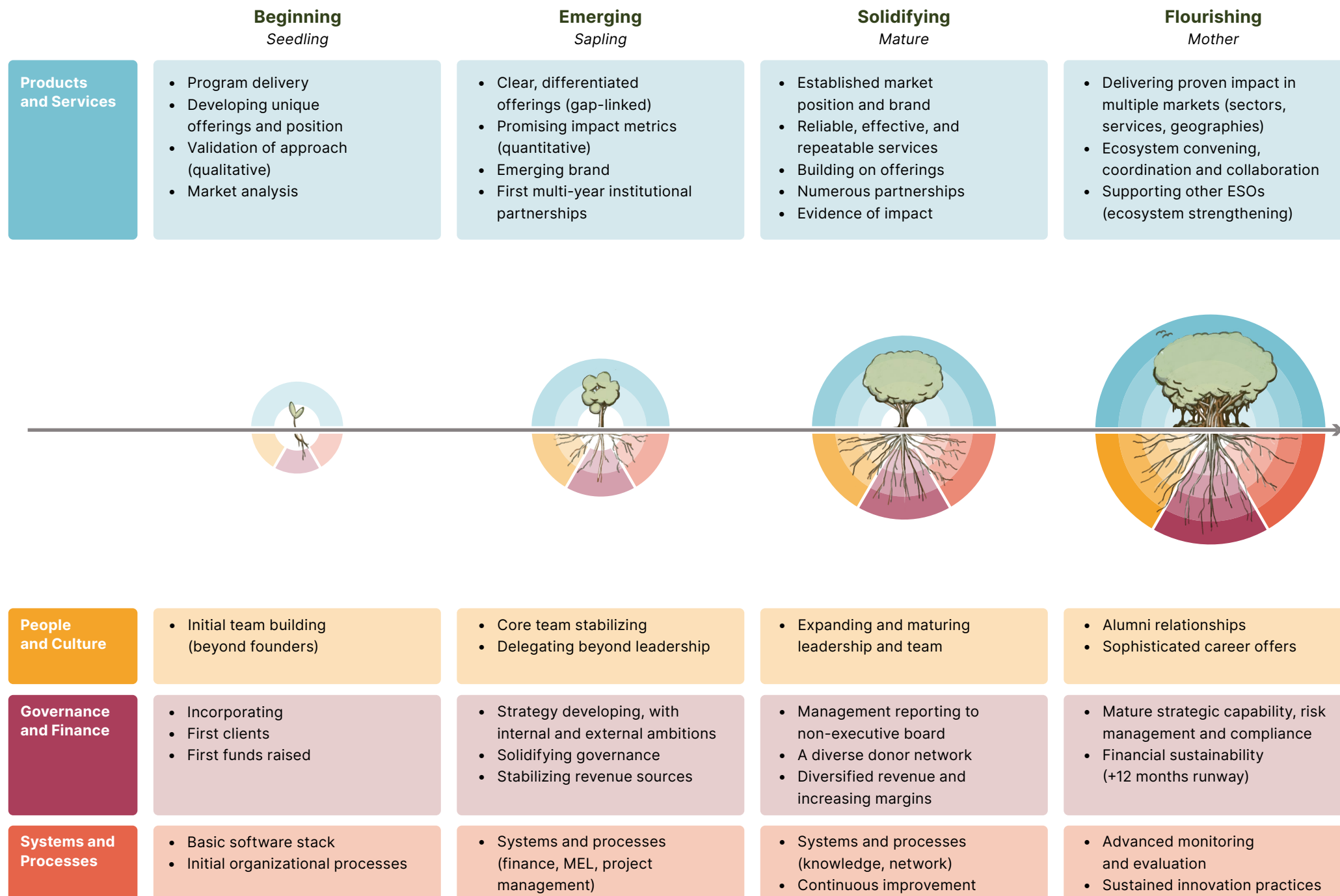
At each of these stages, there must be a balance between the above-ground branches and the below-ground roots, in order to maintain healthy growth and ensure stability. Each part of the equation has to be considered.

The research observed that ESOs might initially accentuate one dimension over the others. However, as these entities evolve towards a more robust and mature organization, they elevate the remaining dimensions to an equivalent level, advancing towards flourishing.

Examples drawn on for this report also suggest that ESO growth strengthens the ecosystems in which they operate, creating yet another feedback loop. Their success attracts other BDS providers, investors, policymakers, and more to focus on the potential for enterprise growth and impact.

Next the stages of growth are expanded against the indicative milestones achieved in an ESO's development.





Section 4 snapshot

The story so far

1 There are clear patterns in what ESOs need in order to build robust operations and deliver effective BDS. These reflect a pathway to achieving and sustaining impact at scale. However, donor engagements rarely consider these OD needs, and this continues to hinder the growth of ESOs and improvement of BDS.

2 Despite SMEs being a significant provider of economic growth and employment, only a fraction of donor support goes towards SME development and BDS. ESOs provide BDS, but also create impact at multiple levels in the organizations and ecosystems they engage with.

3 Leading ESOs demonstrate there are many different aspects of OD that help to scale impact. These shed light on the strategic options for growing ESOs, improving BDS, and creating sustainable and lasting change. Across these cases, it is clear donors play a significant role in enabling ESO development.

4

5

6

Key insights from this section

- The narrow focus on service delivery inherent in prescriptive program funding is problematic, as it focuses on the most visible dimension of an ESO growth, while neglecting the less visible but crucial dimensions that underpin their work.
- By drawing on lessons from different examples of ESO growth, donors can see the value, principles, and mechanics of engaging in OD. They offer valuable guidance for any donor looking to increase the impact of their BDS funding.
- These frameworks illustrate how long and complex the process of OD can be, as growth has to be balanced across the four dimensions. But they also offer practical guidance for how donors can support ESOs at any stage of growth, irrespective of the mode of engagement.
- Effort to support and evaluate ESO growth have to account for the interconnected dimensions, and the various external interdependencies. This suggests that a collaborative, long-term approach will be required.
- Examples of mature ESOs attest to their potential, and the value of taking a different approach.

What's next

In the next section, the dimensions of OD are unpacked, and a wider range of mature ESO examples are drawn on. From this point, the report shifts to focus more on guidance for donors, with a view to increasing understanding of the many options for how they can engage in ESO development efforts.

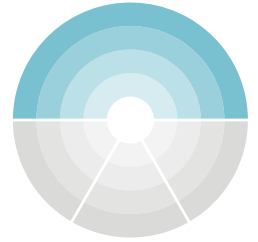
SECTION 5

Nourishing the core

Dimensions of ESO development unpacked

This Section elaborates on the the OD Dimensions.
This section cites examples of how ESOs have developed these aspects of their organization over time. Also noted are how donors can support ESOs with each OD Dimension.

Products and Services



Overview

In addition to the enterprise-facing service delivery, this covers activities such as needs assessments and market analysis undertaken to improve or expand offerings. It can also include intellectual property development and service diversification, as well as efforts to improve pipeline quality and network utilization.

Emerging ESOs concentrate on defining their initial offerings. Over time, these need to be refined through testing and learning. As ESOs mature they establish more consistent and impactful delivery processes, and systematize learning to enable continuous improvement and innovation. In parallel, many also build networks of experts, mentors, and partners to support their efforts, and begin to focus on strengthening the broader ecosystem in which they work, through convening and collaborations.

Service delivery is the most visible aspect of an ESO, but there are many factors that determine the effectiveness of their offerings, and, as these examples illustrate, many opportunities for intervening to improve them.

Examples

Alterna (A) leverages their 'Impact Fellowship' to staff programs and grow brand recognition. They also manage a 'Cultivation Alliance' which brings together other ESOs working in the region, along with NGOs, MFIs, and more, to share learnings and best practices.

Impact Hub (C) was initially established as a global coworking space, running occasional and isolated programs at specific Hub locations. Their program offerings have expanded to focus on developing services and products that the whole network could deliver successfully.

LightCastle (D) uses data gathered from local partners to inform program design and generate valuable market research, which positions them to offer a range of advisory services. This data, and the network that underpins it, also helps to ensure that services are linked to entrepreneur needs and complementary. It also feeds into due diligence and catalyzing deals.

Open Capital (E) has established multi-donor collaborations to support the development of key services. This has enabled them to expand offerings like the 'Arcadia' program, and to deepen their impact. Another example is the 'Uganda Off-grid Energy Market Accelerator' which brought together USAID, DFID, and Shell Foundation to create public-private partnerships and increase energy access by over 50%.

Viridian, an ESO and advisor based in South Africa but working across the continent - has negotiated with donors to secure permission to retain intellectual property rights over their program materials. This enabled them to refine these into products following their contracts, and to harness these for expansion and organizational development.

VC4A as a community platform was set up to connect stakeholders from across the ecosystem. As industry challenges have been identified new initiatives have emerged like the establishment of **Afrilabs** and **ABAN**.

Key takeaways

Improving ESO Products and Services through focused OD efforts can be highly impactful, as this can both improve effectiveness and increase efficiency. In turn, this builds their credibility and increases their capacity to leverage other sources of funding.

This could include helping ESOs to:

- Better understand and deliver high quality work that meets the needs of specific entrepreneurs
- Identify gaps in services, or opportunities for new products
- Increase the consistency or efficiency of service delivery

Development in this Dimension is crucial, but it is not sufficient for maturity. Progress in other dimensions enables the ongoing improvement of products and services. For example, the capacity to develop and deliver offerings is largely determined by the team (**People and Culture**). It is also dependent on having strong leadership and resources (**Governance and Finance**), and having the required systems in place to measure the effectiveness of products and services (**Systems and Processes**).

People and Culture



Overview

This extends beyond typical HR to include activities such as nurturing a talent pipeline, fostering a culture of learning, and even building a support network to meet the needs of enterprises and partners.

Emerging ESOs typically rely on a small, stable founding team. As they mature, the capacity to attract, develop, retain, and manage people becomes crucial. This can absorb significant resources and leadership attention, if not managed well. In this process, lean and rapid capability building is hugely important. As ESOs mature, they secure pipelines for talent sourcing, and utilize both external networks and internal systems to build, manage and share knowledge.

This Dimension of ESOs is often overlooked, but it is central to their success. The examples here illustrate common challenges, particularly in attracting and retaining talent. This is an enduring issue for many ESOs in emerging markets, where they face intense competition for talent, with investors, donors, and government agencies drawing from the same pool.

Examples

Alterna (A) focused on developing organizational structures, processes, and reward schemes to keep their talent. Concentrating their efforts to create an engaging culture and quick onboarding processes for a team working in a decentralized environment. These structures enabled the core team to attract new talent into Alterna early on, such as those from the 'Impact Fellowship' program, enabling them to increase capacity, generate revenue, and build a robust support network.

Open Capital (E) sources emerging talent from across Africa to build their team, and to deliver more cost-effective services. They do this by recruiting graduates directly from top universities, and then rotating them between placements in client organizations and through internal consulting teams to facilitate intensive apprenticeship. This builds top-tier local talent, who go on to leadership roles inside Open Capital and with its business, investor, and development partner clients as well as launching their own local start-ups.

Fundap (B) recognizes people as a key organizational asset, so invests in their development and offers a range of employee benefits such as flexible leave and health insurance. This also helps with retention in a competitive market.

Impact Hub (C) draws on capabilities from the 100+ member Hubs to develop their people. They have a values-based approach to sourcing new teams, and a mentor-led system for onboarding them, which helps to maintain a culture of generosity. Executive coaching, training in transitions, and crisis management are also used.

As they grow, the ability to manage leadership transitions well is crucial for ESOs. Donors have supported ESOs such as **Fundap (B)** and **Impact Hub (C)** to build the capacity of leaders (e.g., middle management). At the same time, ESOs can also be important talent builders. A donor noted during their interview: "When you train people and they improve, they leave the ESOs. They are recruited elsewhere, but they don't leave the ecosystem. The challenge is how to keep the knowledge in the ESO."

Key takeaways

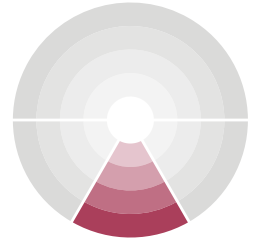
Attracting, developing, and retaining great people has a multiplier effect for an ESO and its network. However, one of the biggest challenges is finding a way to invest in the team by offering competitive salaries and benefits. Diverse and stable revenue sources are an important part of the solution, but so too are margins that enable ESOs to make investments in quality talent in advance of revenue or impact.

Strategies and systems of ESOs need to cover how talent is sourced, developed, retained, and managed. Donors can support by helping them to:

- Identify or build connections into sources of emerging talent, with skills that align with SME needs
- Develop capability building systems, and leverage networks to address gaps that can't be easily filled
- Better understand and apply good management practices

However, they also need offerings that people have the capability and interest in delivering (**Products and Services**), as well as clear accountabilities and adequate financing (**Governance and Finance**), and effective tools to manage workflows (**Systems and Processes**).

Governance and Finance



Overview

In focus here are the organizational structures and policies that determine how decisions are made and resources are managed. These affect leadership, compliance, financial stability, revenue diversity, and more. Additionally, they determine what ESOs do and how.

This OD Dimension tends to be overlooked by emerging ESOs, but as they mature the ability of leadership to delegate and oversee the development of management systems is crucial. This enables their growth, or constrains it. Then, to expand the range of potential partners, ESOs need to ensure they are compliant with different requirements. With this, non-executive boards and long-term strategic planning becomes important for oversight and stability.

Though a less visible dimension of ESOs, progress made here is a crucial enabler of growth. The examples here illustrate how effective governance and financial management builds trust and expands the scope and utility of partnerships, which in turn supports development in other dimensions.

Examples

Fundap (A) developed a diversified operating model that enables them to direct the profits from their microfinance activities to other initiatives. This cross-subsidization increases the stability and impact of their work, as it supports their efforts to experiment with new products or services to address gaps.

Impact Hub (C) invested in their business development and fundraising capabilities early on. Their governance model enabled them to successfully win, partner, and deliver large-scale global work with brands like IKEA and Adidas through their network.

LightCastle (D) took a strategic approach to working their way up the funding 'ladder', from NGOs to MNCs and then large donors, governments and multilaterals. By recognizing what was necessary to do this, and making some concessions (e.g., working at a loss), they were able to build the networks, knowledge, and credibility that enabled them to quickly secure engagements with high-profile partners. Through this process, they also identified and then established a range of revenue sources.

Open Capital (E) decided early on that they would focus on a fee-for-service revenue model. This keeps them focused on creating value for all clients, including growing enterprises. Paying clients push for high quality services. Their approach aligns with a key finding from Argidius' 'SCALE' research, which highlighted the importance of charging for services.

Other ESOs like **Viridian** saw effective governance as a key differentiator in the market, and thus an enabler of growth, so they invested in developing this early. A number of the donors interviewed made a similar point, noting that they focus on this governance with all of their ESO partners.

The UN and WTO-backed **ITC**, which works with ESOs and other BDS providers around the world, also focuses on building more effective governance, with the view that this both improves services and avoids reliance on public funding. They have developed a range of frameworks to help donors assess this dimension (see Appendix).

Key takeaways

Working with ESOs on this OD Dimension can not only reduce risk, but also increase the opportunities available to them, and improve their strategy and decision making processes. It may be difficult to address this with emerging ESOs, but regardless of their maturity, there will be possible interventions that can better position them for growth.

These could include helping ESOs to:

- Identify risks in their model and strategies for addressing them
- Refine their operating/business model and growth strategy
- Develop leadership and management structures suited to their operations, size, and context
- Better manage their resources, to ensure that contracts make financial sense, and the right investments are being made for growth

Improvements in this dimension increase an ESO's capacity to deliver effective programs for a wider range of partners (**Products and Services**), utilizing the right capabilities (**People and Culture**), while being efficient and compliant (**Systems and Processes**).

Systems and Processes



Overview

This encompasses the crucial systems of MEL, project and knowledge management, and the technology that underpins these systems, but also the guidelines that shape the broader workflows.

In the early stages, ESOs will typically build systems and processes as needed. As they develop a clearer set of offerings, and grow beyond the founding team, this dimension becomes a crucial foundation for growth. Maturing ESOs establish MEL systems to drive learning, enabling them to deliver more effective, evidence-based services. They also develop more robust project management to ensure work is consistent and efficient. Many will also focus on knowledge management, to ensure that good practice isn't dependent on key people.

When these function well, operations become more efficient, effective, and consistent, and learning becomes a driver of continuous improvement. These examples illustrate how this works in a range of different contexts.

Examples

TechnoServe (F) focused on building data-driven learning systems to improve processes and increase returns from their BDS work. This enabled them to expand the work rapidly, so revenue increased 8x in a decade. In parallel, they went from supporting around 4,000 to more than 36,000 enterprises, while ROTI almost doubled over the time. Their 'Impulsa Tu Empresa' (ITE) program in Central America resulted in income gains of over US\$10 for every US\$1 of donor funding contributed.

ESOs such as **Fundap** (B) and **Alternia** (A) have implemented better MEL systems with the help of donors like Argidius, and they point to these as crucial drivers of improvement in services, and thus impact. This reflects a point made by many donors during interviews, that, in their experience, ineffective (or even non-existent) MEL is a key issue holding back ESOs.

Efforts such as the Impact Management Project (IMP), UNDP's 'BCtA' tools, and the DFAT-backed 'Impact Measurement Principles for Entrepreneurship Support' (IMPES) all aim to improve MEL in ESOs.

However, building and implementing systems like these remains a struggle for many ESOs, because of competing priorities, limited resources, and the variability of donor requirements.

Villgro (G) has focused on building knowledge management systems since early in their journey. This enabled them to develop practices for key sectors, and to codify processes that could be replicated in new locations. With this experience, they were able to offer capacity building for other ESOs. They have now created an incubation playbook, which collates this rich practical knowledge for all impact incubators to use. Other leading ESOs like **Village Capital** have also developed playbooks, toolkits and frameworks (e.g., Abaca) that codify their knowledge, and make it accessible for others.

LightCastle (D) identified data as a potential driver of growth, for them and their enterprises, and focused on the systematic collection. Their 'databd.co' platform and reports both attract clients and inform internal strategy and external advisory work.

Key takeaways

This may be the most complicated OD Dimension, and the most specific to each different ESO context. However, there are blueprints and principles that can support the development of clear, replicable processes and robust systems for any operation. At the core, this is about building learning systems within ESOs that focus on effectiveness first, and then efficiency.

To support with these efforts, donors can help ESOs to:

- Identify key success metrics, and build efficient data collection systems for these
- Develop suitable project and knowledge management systems
- Codify knowledge into assets that support practice development

Focusing reporting on standardized measures of enterprise and ESO growth could also help, as it would direct energy and attention to the key outcomes. In turn, this would impact offerings and their delivery (**Products and Services**), staffing (**People and Culture**), and organizational decision making (**Governance and Finance**).

Section 5 snapshot

The story so far

- 1 There are clear patterns in what ESOs need in order to build robust operations and deliver effective BDS. These reflect a pathway to achieving and sustaining impact at scale. However, donor engagements rarely consider these OD needs, and this continues to hinder the growth of ESOs and improvement of BDS.
- 2 Despite SMEs being a significant provider of economic growth and employment, only a fraction of donor support goes towards SME development and BDS. ESOs provide BDS, but also create impact at multiple levels in the organizations and ecosystems they engage with.
- 3 Leading ESOs demonstrate there are many different aspects of OD that help to scale impact. These shed light on the strategic options for growing ESOs, improving BDS, and creating sustainable and lasting change. Across these cases, it is clear donors play a significant role in enabling ESO development.
- 4 OD Dimensions are interconnected, so growth or stagnation in any dimension can be self-reinforcing. A holistic approach is vital to understanding ESO growth. Viewing this through stages of maturity offers a longitudinal view, outlining key ESO development milestones.
- 5
- 6

Key insights from this section

- ESOs require different support in each OD Dimension, at each stage of their growth. This is not to say that support will always be needed, but rather, that it has to be tailored.
- Supporting ESOs to improve their Products and Services through focused OD efforts can offer short- and long-term benefits. This not only increases effectiveness, it also builds their credibility and capacity to leverage other sources of funding.
- As sourcing, building, and retaining talent is a key issue for many ESOs, support to improve their People and Culture can also have a multiplier effect as the talent and/or knowledge moves through the broader ecosystem.
- To avoid perpetuating unrealistic conceptualizations of sustainability, support for ESOs in Governance and Finance needs to build suitable, diverse revenue models.
- All OD is enabled by the effective management of knowledge and resources, so support for ESOs to improve Systems and Processes is also crucial

What's next

The next section outlines three different modes of BDS funding and engagement of ESOs. It also introduces some opportunities for donors to improve their partnerships, irrespective of how they are working with ESOs.

To emphasize the importance of donors rethinking how they engage ESOs, this section first expands on how dominant approaches create a set of issues, and how self-reinforcing dynamics exacerbate them.

SECTION 6

The forest for the trees

Reframing donor-ESO funding

This section challenges the dominance of programmatic funding, citing some of the efforts now being made to address these shortcomings. The report introduces frameworks for understanding the dynamics of donor-ESO relationships (a) their vicious and virtuous cycles; and, (b) three engagement modes characterized as: (I) Program Funding, (II) Organizational Development and (III) Ecosystem Strengthening.

Prescriptive contracts leave little scope for ESO growth, but some donors are seeing the bigger picture

Contracting issues

Funding for BDS is typically prescriptive, programmatic, and short-term. Contracts are offered to support a specific number of enterprises in predetermined ways, to achieve particular outputs, often in just a number of months and with small margins.

Though the rationale for this approach is understandable, over time it generates multiple issues because:

- It inhibits more responsive and tailored service provision, driven by real-time learning, despite the evidence base for this;
- Reporting is focused on what can be measured in short time frames (outputs), and this capacity is prioritized over learning;
- The rigidity also limits both the localization of and innovation in products and services;
- In turn, this reduces the ability of ESOs to use their knowledge to inform strategy and design, and hinders growth of these capacities;
- All of this constrains how ESOs can use contracts to grow, and directs their energy towards compliance, rather than OD and enterprise growth, building a dependency.

Returning to the tree analogy, this approach focuses on the production of a specific fruit using particular inputs, with little consideration of the tree, or the surrounding ecosystem and conditions. The resulting tree grows in a particular and constrained way, becoming more dependent on the inputs over time, and less resilient. This also neglects produce that doesn't fit the expectations, regardless of its value to the ecosystem.

As one ESO leader put it during their interview: ***“ESO start with an empathetic decision to support a problem in their local ecosystem. Then they realize funders want a particular output. ESOs end up changing what they are doing to fit funders’ mandates.”***

As this approach typically focuses solely on the delivery of BDS - and not on organizational development or ecosystem strengthening - it also affects what types of ESO partners are selected. This preferences compliance and credibility over local knowledge and networks, and negates the impact potential of building local capacity. Here, short-term risks seem to outweigh long-term benefits.

Efforts to address

To manage the risks associated with funding external partners, donors tend to adopt rigid and centralized design, contracting, management, and reporting processes. But these give rise to the dominant contracting approach and the issues associated with them.

To counteract this tendency, some of the donors interviewed are now focusing on selecting partners that can demonstrate connectedness, intrinsic motivation, clarity about local needs, and a focus on learning. But they also acknowledge that working with different partners often requires changing their own systems and processes. To support more responsive service delivery, a more flexible approach to contracting is required. This likely necessitates more localized decision making and sustained engagement of partners. Much of this presents a challenge to the dominant practices, and structures around them.

Because of the structural nature of the changes required, efforts to shift approaches to contracting which might seem minor can force donors to revisit what they are trying to achieve and how.

If the ambition is to see enterprise growth creating impact at scale, more effective services are a key part of the puzzle. When ESOs mature, they provide effective services (if they incorporate the SCALE lenses) in ways that are responsive, localized, and sustained. In light on this, some donors are moving away from solely focusing on BDS delivery; they are 'zooming out' to consider how their funding can also develop ESOs (both above and below ground) and strengthen the ecosystem within which they operate. This reflects a shift to a more long-term, systemic approach, with different modes of partner engagement, and a focus on unlocking virtuous cycles for growth.

For the donors interviewed, this was not about providing more funding to ESOs, but rather, making more strategic investments. By taking a different approach, they are focusing ESO growth and resilience, via learning and diversification, to improve BDS. They are doing this with a view to reducing risk for themselves, ESOs, and many other stakeholders in the ecosystem. In this section these emerging patterns are expanded on, to show how they differ from one another.

Every donor-ESO engagement can create vicious or virtuous cycles for ESOs

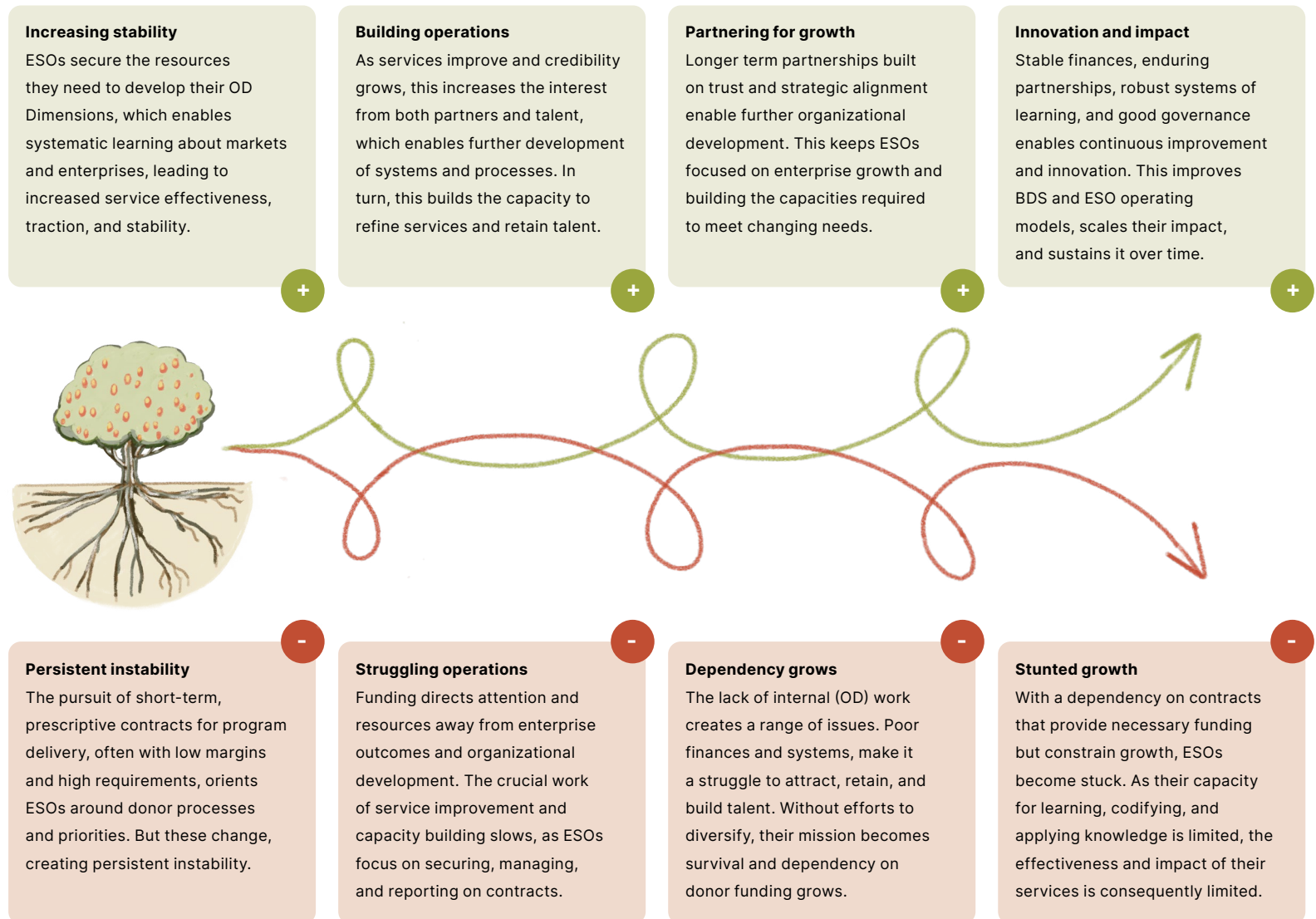
Self-reinforcing cycles

Engagement with donors can support ESO growth in numerous ways, but it can also hinder it. The notion of vicious and virtuous cycles - which arose during interviews with both donors and ESOs - is helpful for understanding how these processes work.

A **virtuous cycle** is a sequence of events and developments, where each beneficial occurrence increases the probability of another, initiating a positive, self-reinforcing cycle. For ESOs, these are key drivers of growth.

In contrast, a **vicious cycle** is a sequence of negative events and developments, each of which reduces the probability of positive changes occurring, while increasing negative probabilities. This drives a negative, self-reinforcing cycle, which for ESOs becomes a key inhibitor of growth.

This framework outlines examples of how donor approaches to engaging ESOs can create both virtuous and vicious self-reinforcing cycles.



Modes of engagement

Three engagement modes

Donors engage ESOs in many different ways, but these can be categorized into:

- I. Program Funding**
- II. Organizational Development**
- III. Ecosystem Strengthening**

These three modes are suited to achieving different outcomes, and thus require tailored metrics. Unfortunately, they are often conflated. For example, program funding does little to strengthen ecosystems, unless it also involves allocations or efforts to support organizational development. They can all be impactful, and in different circumstances, each will be an appropriate strategic choice. However, mode (I) is currently dominant, while (II) and (III) are under-represented. This reflects a critical gap.

Please note that these three modes are not mutually exclusive and can be used in combination. For example, (I) may include some funding for (II), while (III) can focus on (II). Also, importantly, each of these can be either prescriptive or flexible, and - as are illustrated - this has significant implications.



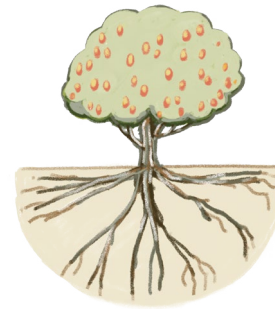
I. Program Funding

Focusing on the production of fruit with little concern for broader factors

This mode is limited to working with ESOs through the provision of program funding only, which is often short-term and prescriptive. Contracts for this work typically define the number and type of enterprises that must be supported, as well as the services and time frame of their delivery. This creates little space for differentiation, and makes narrow frames of risk and cost drive selection.

Time horizon: 1-3 years

Measures: Achievement of program-specific outputs, and potentially also immediate outcomes, while demonstrating effective and transparent utilization of funds in these efforts.



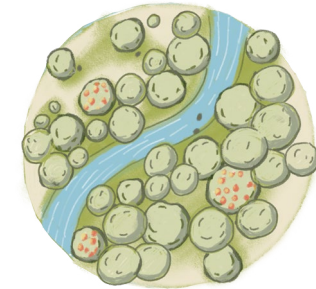
II. Organizational Development

Focusing on what the tree needs to grow and improve production

In this mode, donors intentionally support ESO development in flexible or targeted ways. This can cover any of the OD Dimensions (e.g., development of Products and Services, People and Culture, Governance and Finance, or Systems and Processes), but it typically involves assessments of strengths and weaknesses, and collaborative strategizing.

Time horizon: 1-5 years

Measures: Increased effectiveness, leverage for further funding, improved governance, staff recruitment and retention, succession planning, and revenue diversification.



III. Ecosystem Strengthening

Making an ecosystem flourish by supporting particular trees

While examples of this mode are limited, it tends to center on strategic and sustained ESO development in order to improve ecosystem dynamics and broader factors that shape them (e.g., policies and regulations). This work is underpinned by understanding the ecosystem, made evident by mapping and diagnostics, which inform the selection of partners, priorities, and intervention strategies.

Time horizon: 5-10+ years

Measures: a wider range of enterprises experiencing better growth through improvements in ecosystem productivity, coverage, diversity, specialization, and connectivity.

Opportunities for change

Diversifying for impact

I. Program Funding is a crucial driver of enterprise support (BDS delivery) in both emerging and mature markets. When effective, the services provided increase revenues, generate jobs, and contribute to inclusive growth. The case for program funding is strong, but evidence points to SCALE being the key determinant of service effectiveness and organizational maturity being the determinant of sustaining impact at scale.

In light of this, it is clear that enterprise growth would benefit from emphasis on the development of ESOs. This brings into focus the broader ecosystems and their maturity, as this is crucial for both enterprise and ESO growth.

Each of these modes can build on the previous. That is to say **I. Program Funding** can be shifted by integrating considerations of **II. Organizational Development** and **III. Ecosystem Strengthening** to improve ESOs, BDS, SME, and ecosystem outcomes over time. While good practices for each mode are still emerging, a range of opportunities for change are outlined.

I. Program Funding

This mode of engagement is dominant for many reasons, but central to this is the directness and defensibility. Programs result in predictable, visible and measurable service provision, simplifying their management. They also provide donors (and ESOs) with clear impact stories and statistics, making reporting easier. Importantly, offering prescriptive funding also reduces the risks inherent in engaging partners, and enables priorities to easily shift as political landscapes change.

But the constraints associated with this mode can have negative impacts. To mitigate these, donors should:

- Increase the flexibility of program funding, so there is more scope for ESOs to add value, learn, and grow through the delivery of responsive services aligned with their strategies
- Ensure that program funding also focuses on the development of selected ESO partners, with a focus on evidence-based strategies
- Narrow reporting to key enterprise growth metrics, to reduce the administrative burden and keep ESOs focused on learning and improving

II. Organizational Development

Connections between ESO development, BDS improvement, and sustained contributions to enterprise growth and impact are evident. However, this mode of engagement remains less common. There are many reasons for this, but friction is the key issue - This work often requires enduring or iterative partnerships, as well as closer collaboration and alignment they necessitate, which are at odds with the processes inside most donors.

It may take longer to see the impacts of this work on enterprise growth, but, like investments in infrastructure, it is what gets enabled that must be counted. That said, this approach is not easy, and there is less evidence of what good practice looks like. The research suggests that donors should:

- Focus on strategic alignment and capacity for growth in ESO selection
- Invest in understanding the strengths and weaknesses of ESOs, before engaging in collaborative strategizing and planning for OD
- Commit to longer term engagement processes with selected partners in key geographies, complementing other donors where possible

III. Ecosystem Strengthening

The sophistication and prevalence of an ecosystem approach continues to grow. From this perspective, strategic ESO development can address identified gaps or enhance an ecosystem in particular ways (e.g., in productivity, connectivity, or diversity). It also aligns with growing portfolio-based and mission-oriented approaches, which are typically geographic and/or thematic, and longer term in their scope. Connections between activities and outcomes may be more indirect, so it can be challenging for donors to engage with.

In this way, ESO development provides crucial ecosystem functions such as infrastructure, capability, knowledge management, convening, and coordinating stakeholders. Interested donors should:

- Learn from ecosystem mapping diagnostics as an input for ESO development conversations
- Help ESOs choose OD pathways that give them create value in their ecosystems
- Set a precedent in this work that can be followed by others

Section 6 snapshot

The story so far

- 1 There are clear patterns in what ESOs need in order to build robust operations and deliver effective BDS. These reflect a pathway to achieving and sustaining impact at scale. However, donor engagements rarely consider these OD needs, and this continues to hinder the growth of ESOs and improvement of BDS.
- 2 Despite SMEs being a significant provider of economic growth and employment, only a fraction of donor support goes towards SME development and BDS. ESOs provide BDS, but also create impact at multiple levels in the organizations and ecosystems they engage with.
- 3 Leading ESOs demonstrate there are many different aspects of OD that help to scale impact. These shed light on the strategic options for growing ESOs, improving BDS, and creating sustainable and lasting change. Across these cases, it is clear donors play a significant role in enabling ESO development.
- 4 OD Dimensions are interconnected, so growth or stagnation in any dimension can be self-reinforcing. A holistic approach is vital to understanding ESO growth. Viewing this through stages of maturity offers a longitudinal view, outlining key ESO development milestones.
- 5 Through examples, a closer examination of the OD Dimensions reveals how growth in one Dimension reinforces and accelerates the growth of others. OD-focused donor engagement creates outsized outcomes and reduces ESO dependency on particular donors, and the precarity that comes with it.
- 6

Key insights from this section

- The delineation between three modes of engagement helps to characterize donor-ESO relations, and to increase understanding of the options and their effects.
- Program funding is dominant for numerous reasons and this is unlikely to change. Yet this situation is not inherently problematic; rather, the issue lies with the prescriptive nature of service delivery contracts.
- Vicious and virtuous cycles - a concept from systems thinking - helps to explain how small changes in donor engagements with ESOs can lead to more negative or positive outcomes over time.
- Recognizing that there are different modes of engagement, and that each can be valuable, means opportunities can be outlined for how donors support OD irrespective of their approach to working with ESOs.
- There are many donors already on a journey to changing their practices by adopting more systemic approaches to BDS funding. This means that there is a growing body of examples, evidence, and support that others can draw on.

What's next

In the final section of this report, findings from the research are presented as a set of recommendations. These are complemented with additional examples of donors that are already taking a different approach, in recognition that many are already on a journey to changing how they fund BDS.

SECTION 7

Standing tall

Practical recommendations for donors to explore ESO development

This section translates insight into action. Recommendations are made for donors to integrate OD funding practices, based on examples of changing donor practice. This section also notes examples of several donors that are already putting these recommendations into practice.

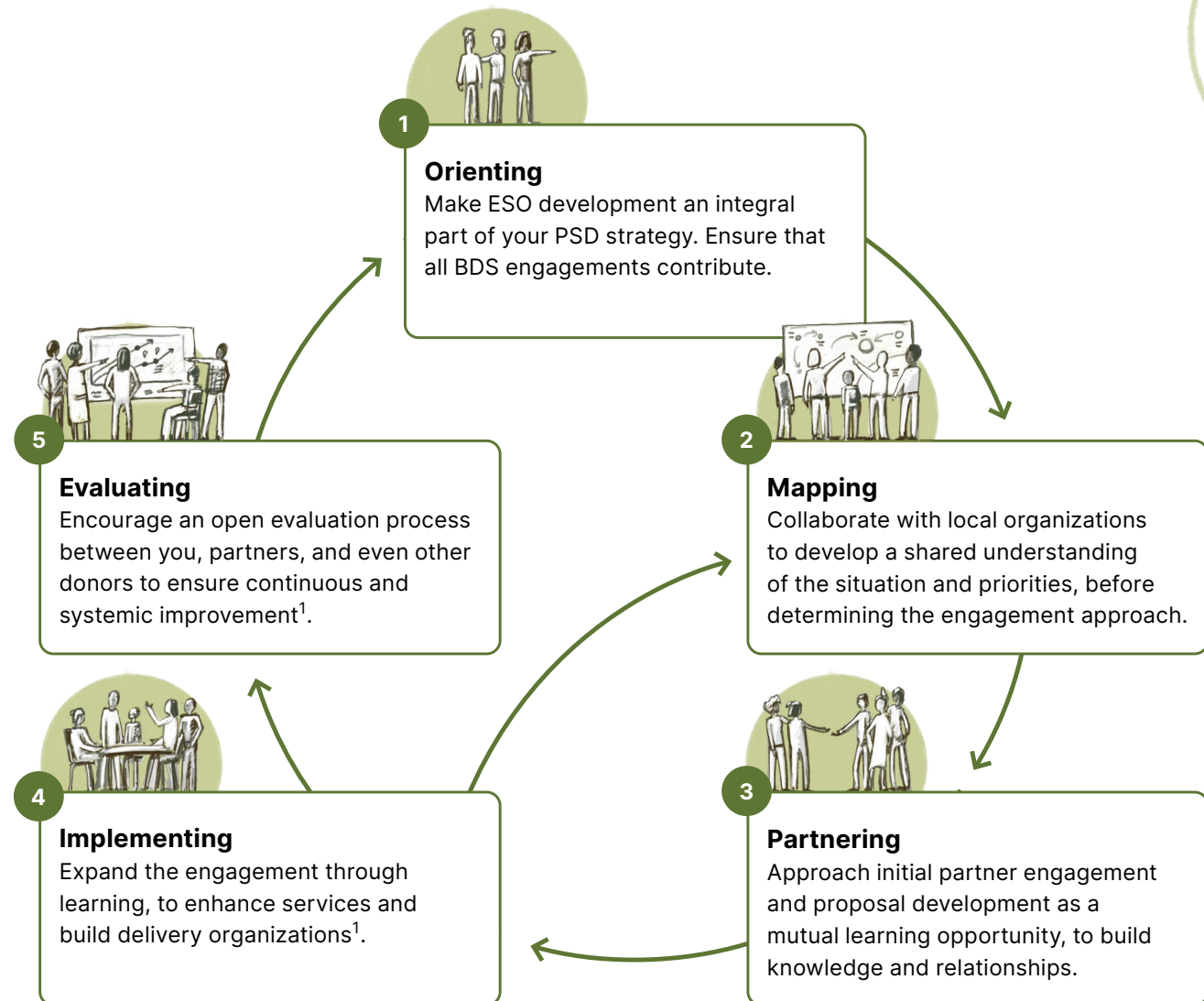
How to integrate ESO development to amplify your impact

To make the most of your BDS funding, support ESOs to grow, not just deliver programs.

This section outlines how donors can incorporate an organizational development lens into their funding practices. This can improve the impact of organizations, the efficacy of donor resources, and address ecosystem challenges in a more sustained way.

The recommendations encourage a shift towards more open dialogue, responsive support, collaborative strategizing, and flexible funding. No matter what your situation, there are many simple ways of shifting **(I) Program Funding** practices to create more scope for **(II) Organizational Development**, and to support **(III) Ecosystem Strengthening**.

This section is organized around a simple framework that reflects the five steps of donor-partner engagement. The recommendations are outlined under each step. These range from minor changes to the way programmatic funding is deployed, to larger organizational interventions.



Orienting



Make ESO development an integral part of your PSD strategy. Ensure that all BDS engagements contribute.

The orientation of donor support (i.e., what it seeks to achieve and why) reflects a vision of the future. Donor support is inevitably grounded in prevailing ideas as well as political realities, and, as such, it can be slow and difficult to change. Strategies may be periodically revised, but these changes often reflect shifting priorities more than anything else. Evidence is only one part of what is needed to make change - compelling arguments are crucial for changing orientations too. However, as the old adage goes, culture eats strategy for breakfast. In all organizations, the dominant culture shapes and then gets reinforced by systems and processes, and strategies have to contend with this.

The recommendations highlight the need for new ideas and different conversations, in order to create the foundations for better engagement practices.

Recommendations

1.1. Integrate ESO development

Adopt an approach to BDS funding and partnerships that covers both service delivery and improvement, with some focus on OD for ESOs. This will increase the effectiveness and stability of their services.

1.2. Rethink sustainability for ESOs

Even the most mature ESOs rely on grants and contracts with donors or public funds, at least for part of their operations. These often take the form of long-term partnerships. But diversified funding (i.e., multiple sources), reduces their dependence on any single donor and greatly enhances their sustainability.

1.3. Adopt a systemic, long-term perspective on ESO development

The development of ESOs is a gradual and cumulative process. No single donor needs to do it all, but a common focus on OD in engagement of ESOs will accelerate growth and improve services, scaling and sustaining their impact.

1.4. Consider the role of ESOs in achieving long-term objectives

Building ESOs that are more effective and stable will ultimately reduce dependence on donors and generate an enduring infrastructure for enterprise growth and impact. With this comes more robust partners that can be engaged in responsive strategizing, as priorities and needs inevitably shift.

1.5. Revisit your strategies and policies and set systemic objectives

More responsive approaches will require a focus on organizational and systemic outcomes, and more flexibility with project outputs. As contexts shift, partners can be engaged to help revise strategies based on what is being learned and observed.

1.6. Enhance coordination with other donors for added value

Collaborate with other donors, complementing efforts and sharing knowledge. This will multiply the impact of investments, generating considerable additional value.

Examples of changing practices

- **USAID** has been exploring alternative strategic models in their work. For example, the 'PACE initiative' leveraged private sector capital to accelerate innovation in enterprise support. It encourages funding diversification for partners, while also promoting local investment and entrepreneurship.
- **DFAT** and **USAID** have developed co-design approaches (e.g. 'BAA') that bring multiple organizations together to unpack issues and identify priorities. This means that they lead with a problem statement and initiate the search for a solution, rather than being prescriptive.
- **The European Commission's** 'IYBA' - a responsive initiative that will run for 10 years - was designed in collaboration with various government and private entities.
- There are a growing number of examples of donors encouraging or even requiring co-funding when supporting BDS or ESOs (e.g., PACE). This encourages the exploration of new partnerships and the diversification of funding sources.

Mapping



Collaborate with local organizations to develop a shared understanding of the situation and priorities, before determining the engagement approach.

All donors need to understand the system that they are intervening in. However, processes and perspective vary considerably across donors. All approaches will be informed by some data and result in a framework for decision making. They might involve collaborative analysis and prioritization with partners, be driven by predefined priorities, or rely heavily on evidence. For most, it is a combination of all of the above. Irrespective of how strategy is developed, it can be either outcome or output focused, and short or long term in scope. This will be reflected in how prescriptive or flexible it is, and in who gets to make what decisions, all of which has implications for when and how partners (like ESOs) are engaged.

The recommendations reflect the growing consensus that collaborative and responsive strategizing with local partners is key to the effectiveness of initiatives.

Recommendations

2.1. Enhance collaboration and coordination at various levels

Each effort can build on what came before, and what already exists, and this can greatly improve both funding effectiveness and efficiency. This can range from knowledge sharing, to co-funding, to collective strategizing.

2.2. Learn from, and with, partners to develop more localized strategies

Engage with existing mapping and assessments, and interview key players for qualitative perspectives. Carry out additional assessments where knowledge gaps persist with local partners, identifying needs and assets. Create shared understanding of problems, and connect the people and capacity required for intervention.

2.3. Invest in understanding both organizational and system needs

The unique contexts in which ESOs operate define their specific challenges and opportunities. A nuanced understanding of these will help you to make targeted, strategic investments in OD that will have broader impact.

2.4. Explore ESO partnerships that reflect constraints and objectives

All ESOs have unique strengths and strategies, but this sector is increasingly crowded. Taking the time to assess their capacity to benefit and grow, along with their capacity to deliver, can help you to make more strategic investments with BDS funding.

2.5. Engage ESOs as network builders and ecosystem strengtheners

Recognize and nurture the systemic potential of ESOs that you engage. This will foster mutual respect and more effective collaborations, while also building more enduring ecosystem infrastructure.

2.6. Explore complementary ESO partnerships with other donors

Opportunities to build on the programming and OD efforts of other donors are often missed. For donors winding down engagements, they can increase the potential for complementary funding and build the credibility of ESOs by profiling them in publications, websites, and conferences, as well as making direct introductions.

Examples of changing practices

- **Argidius, the European Commission, FCDO and ITC** all conduct rigorous and collaborative ecosystem mapping exercises of regions before they begin program design and build localized strategies.
- **VC4A** managed programs for the 'LEAD program' of the **Dutch Ministry of Foreign Affairs** and the 'FMO Ventures Lifecycle Program' for ESO development in parts of Africa
- **Swisscontact** through 'Swiss EP' held informal events to facilitate new connections, collaborations, and conversations, and remove a sense of competition between ESOs. In Guatemala, they have also conducted a 'bottom-up' peer-driven and reviewed ecosystem mapping. This resulted in an online tool to enable entrepreneurs to navigate available financial and non-financial services.
- **ITC** have sophisticated modeling and maturity assessment tools for ESOs incorporating elements of social and environmental responsibility.
- **Small Foundation, Dutch Good Growth Fund, and Argidius** partnered on the 'UEEI' mapping, conducting a detailed diagnostic of two ecosystems at the city level.

Partnering



Approach initial partner engagement and proposal development as a mutual learning opportunity, to build knowledge and relationships

This refers to the formalization and development of partnerships, which may involve just the sourcing, evaluation, and selection of proposals for defined programs or initiatives. In this instance, feedback can be enormously valuable. But the process might also include organizational assessments and collaborative design. In some cases, there will be opportunities to build directly on strategizing efforts, and the suitable partners might be clear. In others, the sourcing of proposals might be the first engagement, in which case it is a great opportunity to learn about local capacity and viewpoints. In any case, assessing organizations, sharing the findings, and providing some guidance can help to direct OD efforts. In all of this, bringing organizational metrics into focus is key.

The recommendations focus on integrating OD into all types of ESO engagements and partnerships.

Recommendations²²

3.1. Engage in more collaborative and iterative proposal development

Requiring detailed proposals can drain limited resources, and bias towards established providers. Consider adapting these processes to reflect contract size, and source concept notes first, before selecting the most promising ideas for full proposals. This can extend to supporting research, scoping, or even pilots.

3.2. Create impact through the process

Providing thorough feedback can greatly increase the quality of proposals, while also generating impact. This can cover the proposal itself, but also the organization, and even offer practical guidance on how these might be improved.

3.3. Explore opportunities to support ESO growth in every engagement

Invite ESOs to define both how they will achieve project objectives, and how the intervention can support their organizational development. Consider how intrinsic motivation feeds into the stability of ESOs, and what this can mean for BDS beyond the program or initiative lifecycle.

3.4. Conduct organizational assessments or support self assessments

Help ESOs identify their needs for OD. Support ESOs to identify weaknesses, strengths, and improvement strategies. Build their capability to make better assessments of their organizational capabilities in relation present or emerging challenges.

3.5. Integrate OD in contracts

There are many ways to include OD in contracts, from flexibility of funding to the OD KPIs used throughout the engagement. Define OD metrics relevant to service effectiveness and long-term provider stability and integrate these into contracts. All program funding should make accommodations for OD. These interventions can improve ESO operations and fundraising capacity, thus reducing their dependency on donors and increasing their impact.

Examples of changing practices

- **IDB** shifted their approach to ESO engagements to incorporate more flexible funding after recognizing that programmatic contracts were hindering the growth of their local partners level.
- **USAID** and **DFAT** both run programs that invest in multiple partners at once. First sourcing proposals, funding the development of the most promising ones, before moving onto pilot programs.
- **The British High Commission** enabled Viridian to create open-license content that has been scaled to, and through, ESOs. Hubs they support then use the materials to enhance their own programs.
- **Argidius** 'SCALE' diagnostic is a practical tool for funders and practitioners being used by funders such as the **Dutch Good Growth Fund**, and the **Ministry of Economy and Finance in Cambodia** to assess and develop proposing organizations against what works. 'SCALE' has been integrated into VilCap's ESO diagnostic platform and is being used by **Small Foundation**, **IKEA Foundation**, and others to assess and build the capacity of pipeline grantees.

Implementing



Expand the engagement through learning, to enhance services and build delivery organizations.

From the signing of contracts onwards, the engagement of ESOs is often limited to reporting on progress and outcomes. These can be rigid and onerous processes that absorb considerable resources, and thus are often difficult for small organizations to manage well. However, they can also be flexible, lean, and beneficial processes. By focusing reporting on key outcomes and learning, and moving from documents to dialogue, donors can remove some of the burden that absorbs ESO resources, and keep them focused on enterprise growth. This approach can also create more opportunities for programs to be refined during delivery, as ESOs identify opportunities to improve on the design or deliver new services.

The recommendations shift the focus from reporting to learning, maximizing the opportunities for both ESO and enterprise growth. Refer to Argidius' SCALE¹ for greater detail on implementation, and the considerations that can ensure ESOs success.

Recommendations²³

4.1. Bring learning into focus

Every engagement is an opportunity to either support ESO development, or to slow it down. Consider working with ESOs during contract finalization to define a process for learning (rather than simply defaulting to regular one-way reporting) during implementation. This will keep enterprise growth in focus, and help you be responsive to emerging priorities and unforeseen challenges.

4.2. Engage with ESO development

Invest in better understanding of specific and emerging needs and challenges of ESOs, and where possible, help to address these. This will involve creating space for candid discussions about issues, and collaboratively defining appropriate responses. It will also involve dedicating both resources and time, but it will create enduring benefits¹.

4.3. Offer support beyond funding

Funding for OD can be hugely beneficial, but there are many ways in which non-financial support can also help. Explore what that could look like with ESOs.

4.4. Build partnerships on trust

Encourage a culture of transparency and continuous improvement through lean reporting and respectful communication that focuses on learning. This practice will build trust, ensure alignment, and enable the proactive resolution of any emerging issues. Encouraging ESOs to develop and share their own OD plans based on their objectives will also open up a different conversation.

4.5. Adapt implementation and evaluation approaches

Focusing on key success metrics and learning questions in discussions with partners is one thing, but adapting contract requirements is another. Consider how your approaches, systems, and processes might need to change to support OD. The length of engagement should reflect the time anticipated for change to happen.

Examples of changing practices

- **Swisscontact** has reduced the program indicators to a bare minimum for reporting and governance purposes, releasing time and resources for the ESOs to focus on their own strategic and organizational development.
- **Swisscontact** (through 'SwissEP') work with every ESO partner to agree on priorities, and to define the capacity building support that will be provided. These are targeted to help the ESOs to improve the quality and impact of the services that they offer to their clients. So in this sense, each partnership is co-designed. Interestingly, no funding is provided to ESOs for OD or BDS improvement, only non-financial support. This positions 'SwissEP' more as a growth partner than a funder.
- **Argidius** include an additional 10% on top of the grant value to respond to emergent needs over the course of the engagement. This has been used in varying instances such as to pay for executive coaching during crisis; building M&E teams and processes; or increasing fundraising capacity.

Evaluating



Encourage an open evaluation process between you, partners, and even other donors to ensure continuous and systemic improvement.

All programs or initiatives have lifecycles, and evaluation comes into focus as they conclude. While the monitoring from a program aids adaptive management of implementation, it can also help provide data to inform future engagements by providing a basis to refine strategies and theories. However, many evaluations are conducted behind closed doors, and their findings overlooked. By emphasizing learnings with partners and their growth, evaluations can offer strategic value to donors and ESOs. This also provides a chance to enhance donor processes and inspire other donors to build upon these endeavors.

The recommendations are focused on rethinking evaluation processes to increase their value. Refer to Argidius' SCALE¹ for greater detail on evaluation, and the considerations that can ensure ESOs success.

Recommendations

5.1. Engage partners and other donors in reflections on evaluations

While evaluations often need to be conducted with independence (for objectivity), there is value in reflecting on what was achieved and learned with both partners and other donors. Such processes can ensure failures and successes are genuinely learned from, and applied to the design of future efforts. It can also highlight the achievements of ESOs and programs, creating more opportunities for cumulative or coordinated donor support.

5.2. Ensure that what was learned can be easily applied

Insights from past programs are all too often buried in evaluations. Translating these into practical guidance, and promoting these assets, can ensure that this doesn't happen. This practice promotes a learning culture and continuous improvement, both internally and externally. Developing this guidance with partners like ESOs would encourage them to adopt a similar practice in their organization.

5.3. Look for opportunities to contribute to the evidence base

Recognizing that learning about enterprise growth and ESO development is an ongoing process that many are interested in, explore ways for data and insights from evaluations to feed into broader processes of learning. This might also involve adapting metrics to align with shared frameworks or systems, so efforts can be more easily compared.

5.4. Strengthen the connection between evaluation and strategy

The success of longer term, systemic approaches to supporting enterprise growth depend on the establishment of different learning loops. This will require a concerted internal effort.

5.5. Evaluate your own performance

Consider how your systems, processes, and decisions impacted the program or initiative, and where there are opportunities for improvements. Invite partners to feed into this process.

Examples of changing practices

- **IDB** was largely delivering prescriptive programmatic funding with rigid requirements and minimal overhead, but evaluations showed that it wasn't helping partner organizations to grow. They have shifted their strategy and are now deploying more flexible funding, with more emphasis on OD.
- **Argidius** advocates for other donors to embrace a partnership and data-driven approach. They ensure that when they contract with ESOs, monitoring, learning, and evaluating practices are improved, thereby enhancing the data that the ESO can use, and also aiding Argidius to further improve their funding practices.
- **DFAT** supported reflective discussions on the evaluations of their 'Scaling Frontier Innovation' initiative, with the various implementing partners and other donors. They have also promoted their insights from the initiative so that other donors can learn from these more experimental and collaborative efforts.

SECTION 8

A transforming ecology

A summary and opportunities

This section concludes the report. The frameworks are revisited with a call to action for donors to understand ESO development, know their influence and take action. It also includes potential opportunities for the practices to be further explored.

The complete story

1 There are clear patterns in what ESOs need in order to build robust operations and deliver effective BDS. These reflect a pathway to achieving and sustaining impact at scale. However, donor engagements rarely consider these OD needs, and this continues to hinder the growth of ESOs and improvement of BDS.

2 Despite SMEs being a significant provider of economic growth and employment, only a fraction of donor support goes towards SME development and BDS. ESOs provide BDS, but also create impact at multiple levels in the organizations and ecosystems they engage with.

3 Leading ESOs demonstrate there are many different aspects of OD that help to scale impact. These shed light on the strategic options for growing ESOs, improving BDS, and creating sustainable and lasting change. Across these cases, it is clear donors play a significant role in enabling ESO development.

4 OD Dimensions are interconnected, so growth or stagnation in any dimension can be self-reinforcing. A holistic approach is vital to understanding ESO growth. Viewing this through stages of maturity offers a longitudinal view, outlining key ESO development milestones.

5 Through examples, a closer examination of the OD Dimensions reveals how growth in one Dimension reinforces and accelerates the growth of others. OD-focused donor engagement creates outsized outcomes and reduces ESO dependency on particular donors, and the precarity that comes with it.

6 Common donor practices and their affects on ESOs emphasize how BDS funding can (counter-intuitively) reduce the quality and stability of service provision. However, this also shows how minor changes in donor approaches to ESOs engagement can have an enduring impact on their trajectory.

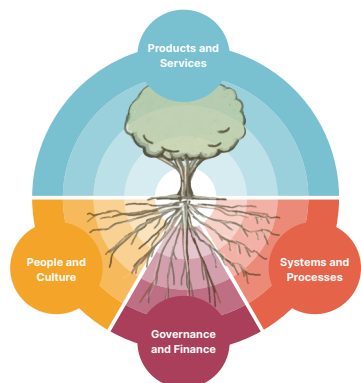
7 Recommendations show how practical action can be taken to embed ESO development into donor engagement cycles. These are complemented with additional examples of donors that are already taking a different approach, in recognition that many are already on a journey to changing how the fund BDS.



Call-to-action

1

Understand ESO development



This report has outlined organizational growth patterns for successful ESOs. There is practical guidance in here for donors working with both emerging and established ESOs. They grow as organizations through self-reinforcing, balanced development of a four key dimensions: **Products and Services**, **People and Culture**, **Governance and Finance** and **Systems and Processes**.



These models can help you to more strategically engage with ESOs, to maximize their potential to foster growth within the SME ecosystem.

2

Know your influence

You have significant influence on ESO development, as funding and support feeds into the creation of **vicious** or **virtuous** cycles that constrain or enable growth.



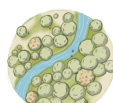
Program funding is valuable, but the prescriptive nature of it can be counter-productive. As the examples have shown, there are many other ways to engage.



I. Program Funding



II. Organizational Development



III. Ecosystem Strengthening

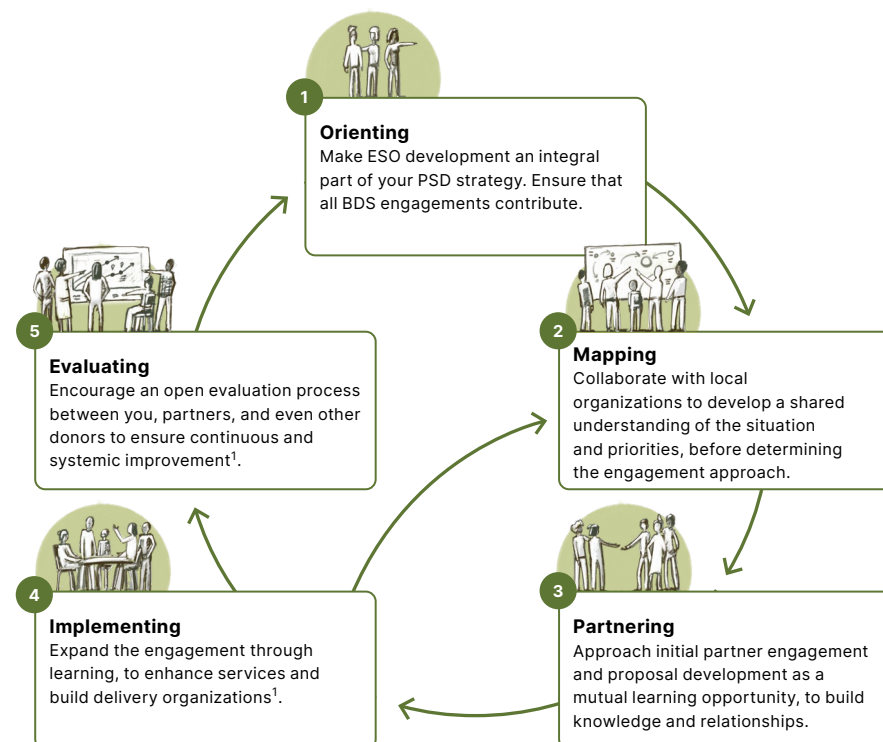
Consider the three engagement modes you can use to achieve desired outcomes, and the role of ESOs in the long-term. With small adjustments to process, all donor engagements can help ESOs to grow, fostering partners than can sustain impact at scale.

3

Take action

To make the most of your BDS funding, go beyond delivering programs and support ESOs to grow. There are many strategies you can use to enhance your support of ESOs, to generate more effective and stable BDS providers. The recommendations call for a shift towards

more open dialogue, responsive support, collaborative strategizing, and flexible funding. Many require only minor changes to engagement processes, and there are great examples that can be referenced to support your efforts.



Conclusion

Conclusion

The depth and quality of donor engagement with ESOs directly influences their success by creating conditions and support for SME impact. These connections were the focus of this research, and examples illustrated what can be achieved when they are recognized: In just a decade, **Altern** grew from a US\$100k budget, to a multi-million dollar per year budget, generating US\$200mn in incremental revenue, while creating more than 16,000 full time jobs, and mobilizing US\$250mn in finance. Starting in 2010, **Open Capital** has grown rapidly raise more than US\$1.3bn in impact capital for SMEs, creating jobs and addressing gaps in skills and knowledge across Africa. **TechnoServe** is rapidly multiplying the impact of their entrepreneurship work. In 2022 alone, SMEs participating in their programs increased their income by an average of US\$6 for every US\$1 invested in their programs.

These figures demonstrate that ESOs can achieve and sustain impact at scale. Certain ESO practices make a big difference (see the SCALE report), but donor practices make a big difference too. This study investigated the nuanced dynamics of ESO growth, and the role

of donors. The findings underscore the hugely important role that donors can play in accelerating ESO growth and improving BDS. But donor influence can extend far beyond program engagements, contributing to sustained impact over the long-term by supporting organizational development, capacity building, and strategic guidance.

This report outlined many strategies that donors can employ to better support ESOs. Examples used illustrate how this will benefit SMEs. It is a call to action for donors to embrace these findings and change their engagement practices. By doing so, they can catalyze SME growth and strengthen the ecosystems that enable this, especially within emerging markets.

ESO growth can contribute to economic development, while also fostering more innovation, inclusion, and resilience. With this potential in focus, we invite you to continue engaging, and to join a more coordinated effort. More work is needed to advance these strategies, and we are looking for aligned partners. Together, we can accelerate ESO and SME growth, contributing to the prosperity of the global economy.

Questions to reflect on

- Do we leave organizations better or worse off after our engagements?
- How do we support ESO development in our target markets?
- How do we consider ESOs in our work? What assumptions do we make about them?
- In what ways do our practices create or limit ESO growth?
- What have we learned from engaging in these OD efforts?
- What would have to be true for my organization to make ESO OD a part of our organization's strategy?
- How could we better support OD in promising ESOs?
- What changes would be easy or hard to make and why?
- How might we engage other funders in these efforts?

Actions to take

1. Share this report with others, either inside or outside your organization, and invite discussion.
2. Reflect on how you currently engage ESOs, how this could be improved, and the case for change.
3. Identify recommendations that you could take in your work with ESOs, and explore what would be required to make those changes.
4. Reach out to any organizations mentioned in this report for more information.



Opportunities to deepen the knowledge base

The insights generated through this research present a multitude of opportunities for further study and collaboration. By increasing understanding of ESO growth pathways through further analysis and action, transferable knowledge of how to support SMEs effectively can be built, alongside providers of such support.

Extend cases

While the ESO cases covered have been explored in some depth, this report represents only a fraction of the lessons and insights gathered from participants in the research, and just a small sample of ESOs. There is an opportunity to continue building this body of knowledge through the exploration of additional cases, and deeper analysis of funding and growth dynamics.

For example, this could include:

- **Deep Dives into ESO Models** - Further research could delve into specific ESO models, exploring in greater detail how they function and the factors that contribute to their success. This could include comparative analyses between different types of ESOs, such as incubators and accelerators, networks, specialist firms, and government mandated-agencies.
- **Continue building the examples of donor-ESO engagement cases** - Additional examples of ESO-donor engagement could broaden the audience and transferability of this knowledge. This would make the different relationship models, and their costs and benefits, clearer.

Gather data

Donors are typically motivated to change when data decisively shows the efficacy of one approach over another. While great examples exist, the evidence base for ESO development is still emerging. There is an opportunity for donors to contribute to this through every engagement with an ESO, and to coordinate efforts to accelerate learning. This report has been developed using largely qualitative data from a select sample of ESOs and donors. There is the opportunity to expand on this knowledge with a more quantitative analysis, to enable the evaluation of ESO development in relation to alternatives, and to build a more comprehensive understanding of different growth pathways and donor engagement modes.

For example, this could include:

- **Quantifying the efficacy of engagements** - This research has uncovered that donors are tracking the efficacy of their engagements with ESOs, and some OD terms. Collating this knowledge would have high utility for donors and ESOs.

Build momentum

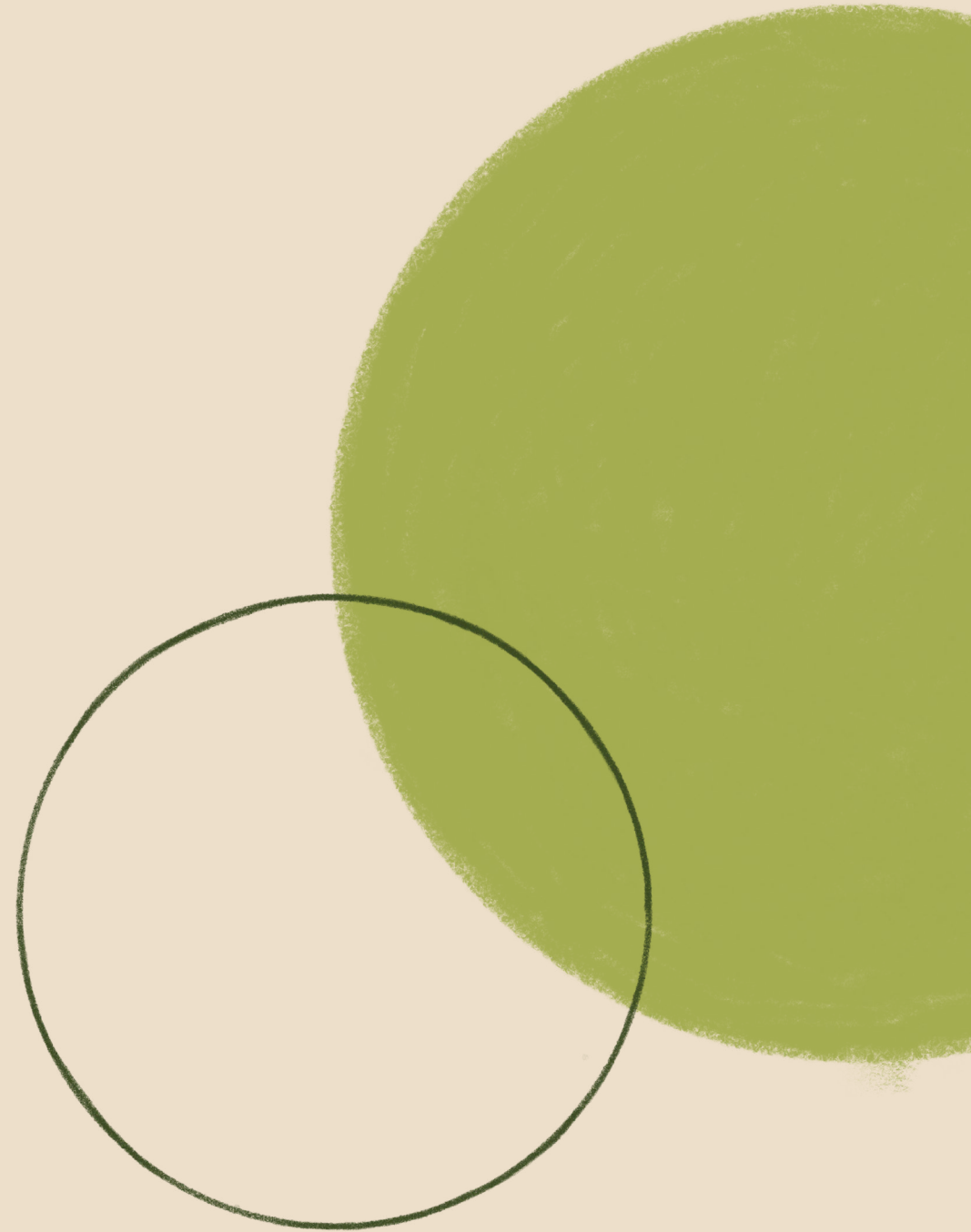
Although some donors have been highlighted in this report because of their innovative approaches to ESO engagement, they remain the exception rather than the rule. In many donor organizations, the engagement of ESOs (and other partners) remains both prescriptive and short-sighted. In recognizing that practical examples from relatable peers can be highly influential, sharing your experience with these practices is strongly encouraged. Building on this, interested parties could establish a forum to facilitate conversations and collaboration.

For example, this could include:

- **Reach out to the organizations in this report** - You are invited to start conversations with the organizations highlighted in this report to gain deeper understanding.
- **Empower advocates** - Identify, support, and amplify the voices of those individuals who are passionately advocating for change.
- **Create a Donor Community of Practice** - Connect with other donors to continue the conversation and learn together.

SECTION 9

Appendix



Contributors

Snowmelt and Argidius would like to acknowledge those who contributed to this report for the energy and candid perspectives that were graciously shared.

This report was developed from the valuable insights and feedback of 40+ contributors from various donors and ESOs. These participants graciously gave their time for interviews and workshops and to participate in document reviews. It was a unique opportunity to connect with many inspiring people and organizations invested in this agenda. Thank you again to all of the contributors.

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SNOWMELT.

Snowmelt is a systemic design firm catalyzing change in systems. They partner closely with organizations and communities, focusing on system challenges in entrepreneurship, the built environment, and health.

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Resources

This research referenced the research of many other organizations. Much of this work, thankfully, is publicly available. These resources will enable you to go deeper on some of the topics mentioned.

Report
Funding Organisational Development: a smart investment to multiply impact: View from five foundations
 Laudes Foundation, Mava Foundation, PeaceNexus Foundation, Stiftung Mercator Schweiz, Oak Foundation, 2020, September 10.

Report
Strengthening Entrepreneurial Ecosystems: An interactive Guide for development professionals
 GIZ, 2021

Tools
Abaca for ESOs
 Village Capital
 ESO assessment

Report and resources
How to fulfill the potential of Business Development Services using SCALE
 Argidius, 2021
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Guide
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 Village Capital
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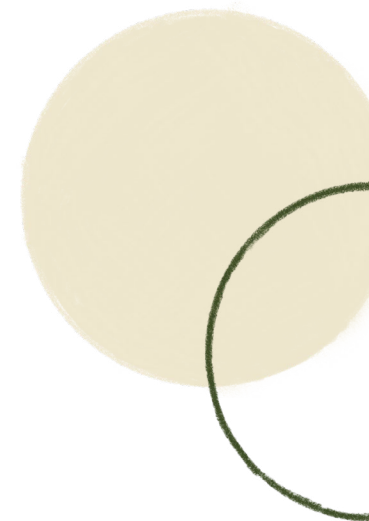
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