Sustain Impact

Donor practices to grow Enterprise Support Organizations

Report Summary

V1.0

REPORT BY

SNOWMELT.

SUPPORTED BY

argidius

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How can funders help and not hinder the organizations that deliver their programs and initiatives?

This is a big question, and one that many organizations on both sides of donor-grantee relationships are exploring. However, focusing on the growth of delivery organizations challenges many entrenched practices in grantmaking. This report, summarised here, responds to this topic, looking at a specific instance of this broader dynamic - how donors work with Enterprise Support Organizations. One that in Low and Middle Income Countries has significance for SME development and economic growth.

Overview of the report

The report, created for donor audiences, shows how ESOs can scale and sustain SME development, offering frameworks and recommendations for how donors can adjust their programmatic funding to encourage ESO growth.

The report uses cases and narratives of ESOs and their growth, noting donors' roles in support. Using the metaphor of a tree the report communicates how ESO development happens and what enables them to thrive. Findings suggest that investing in ESOs supports the development of robust, enduring support for SMEs and broader ecosystems.

The report was produced by Snowmelt, and backed by Argidius, with 40+ participants who added their perspectives through interviews and workshops, which included representatives from major donors and leading ESOs.
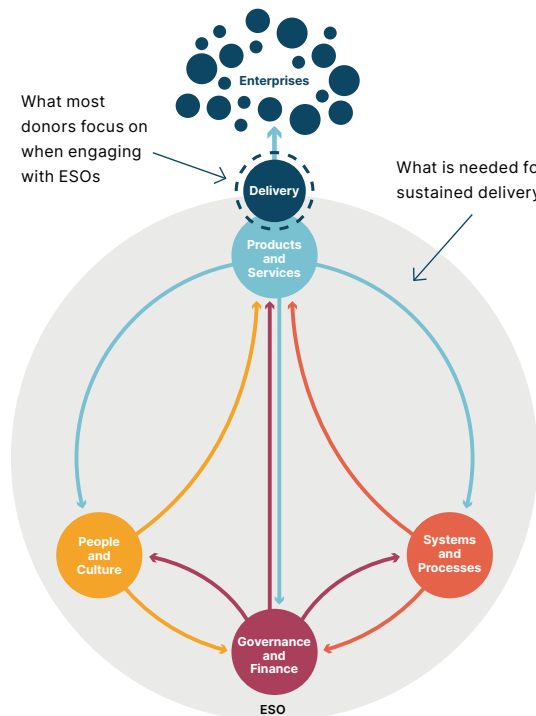
Why donors should support ESO development

Enterprise Support Organizations 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. Quality BDS is proven to enhance growth. Read more about this in the Argidius SCALE report.

BDS funding can limit the potential of ESOs when Organizational Development (OD) impacts are not considered

Donor engagement with BDS providers like ESOs is dominated by prescriptive program funding, with limited 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.

What most donors focus on when engaging with ESOs

What is needed for sustained delivery

Enterprises

Delivery

Products and Services

People and Culture

Systems and Processes

Governance and Finance

ESO

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

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 ESOs. With adjustments, **Program Funding** can support **Organizational Development** and **Ecosystem Strengthening**. The metaphor of the tree is apt. You can't have quality fruit without a healthy tree and ecosystem.

There are three distinct modes of engagement between donors and ESOs, outlined here:

(I) Program Funding

Funding programs only, often in very prescriptive ways - this is like focusing on the production of fruit (i.e. outputs, enterprise outcomes, impact) without considering the health of the tree that produces it.

(II) Organization Development

Directly supporting ESO development in flexible or targeted ways - this focuses on the health of the tree (i.e. ESO), above and below ground and can be integrated with program funding.
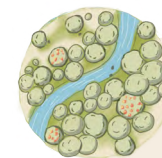
III) Ecosystem Strengthening

Engaging in strategic ESO development informed by ecosystem mapping/ diagnostics, to increase productivity, coverage, diversity, specialisation and or connectivity - focus on the whole forest.

Leading ESOs are scaling and sustaining impact

These ESOs have multiplied their impact in recent years

Some of the world's largest and most effective ESOs have grown thanks to the donors who have worked with them to enable their development. The report explores these ESOs, using them as references that emphasize different aspects of OD in their development. These instances underscore the integral link between the efficacy of BDS, ESO development, and donor engagement.

A alterna

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.

B Fundap

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.

C IMPACT HUB

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.

D LightCastle Partners

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 on taking unique roles in their ecosystem. They have mobilized more than $150mn in investment in SMEs.

E Open Capital

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.

F TechnoServe
Business Solutions to Poverty™

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.

G villgro® possible.

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.

The cases illustrate that some types of donor partnerships can greatly accellerate ESO growth

These organizations have been supported with Organizational Development from the donors likes of **Target Foundation, ADA, Argidius, ACTEC, IDB, DFAT, Small Foundation, Anglo American, SIDA, IIT Madras,** and **Lemelson**.

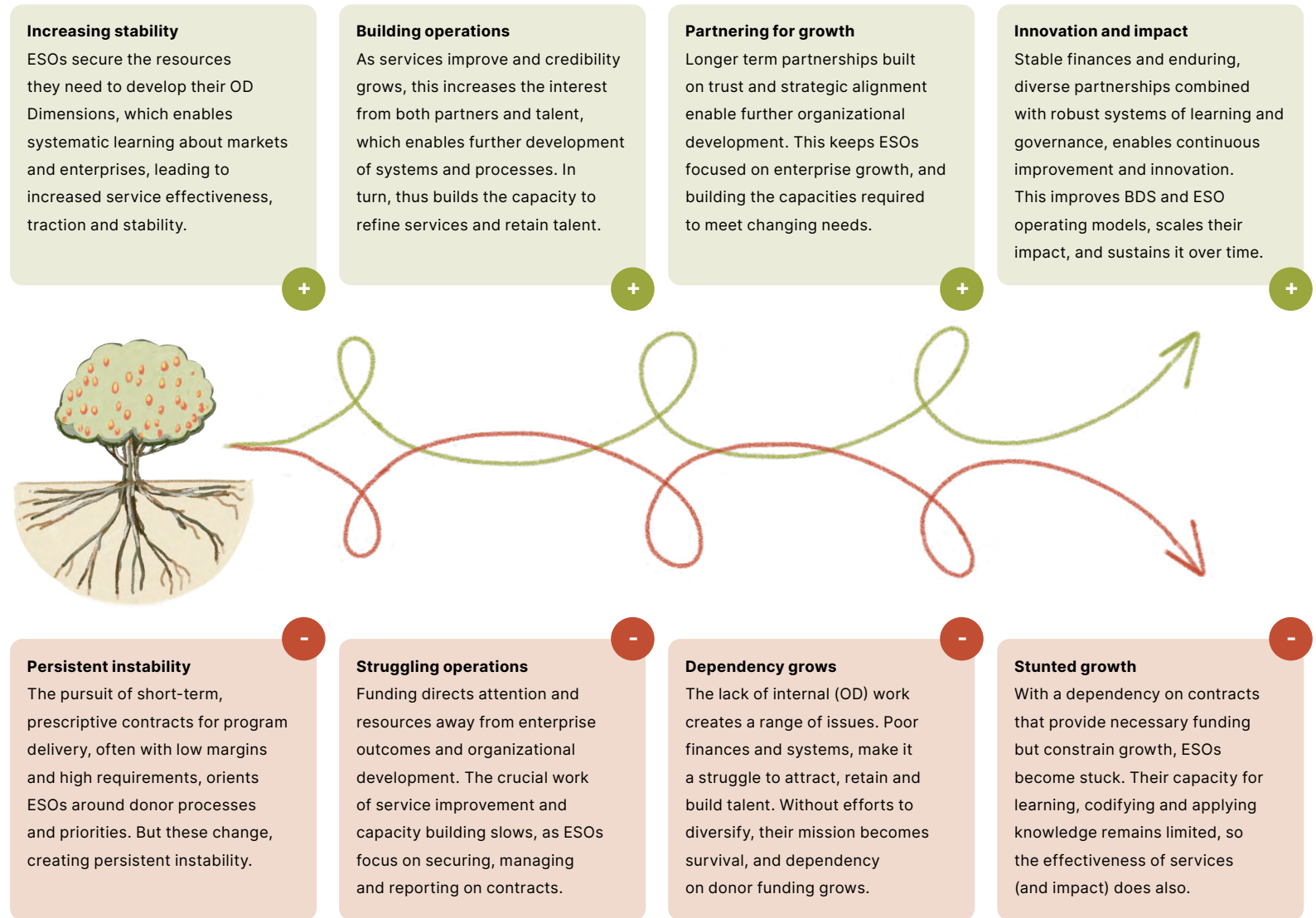# Donor-ESO engagement can create virtuous and vicious cycles

Self-reinforcing cycles can hinder or help ESOs develop

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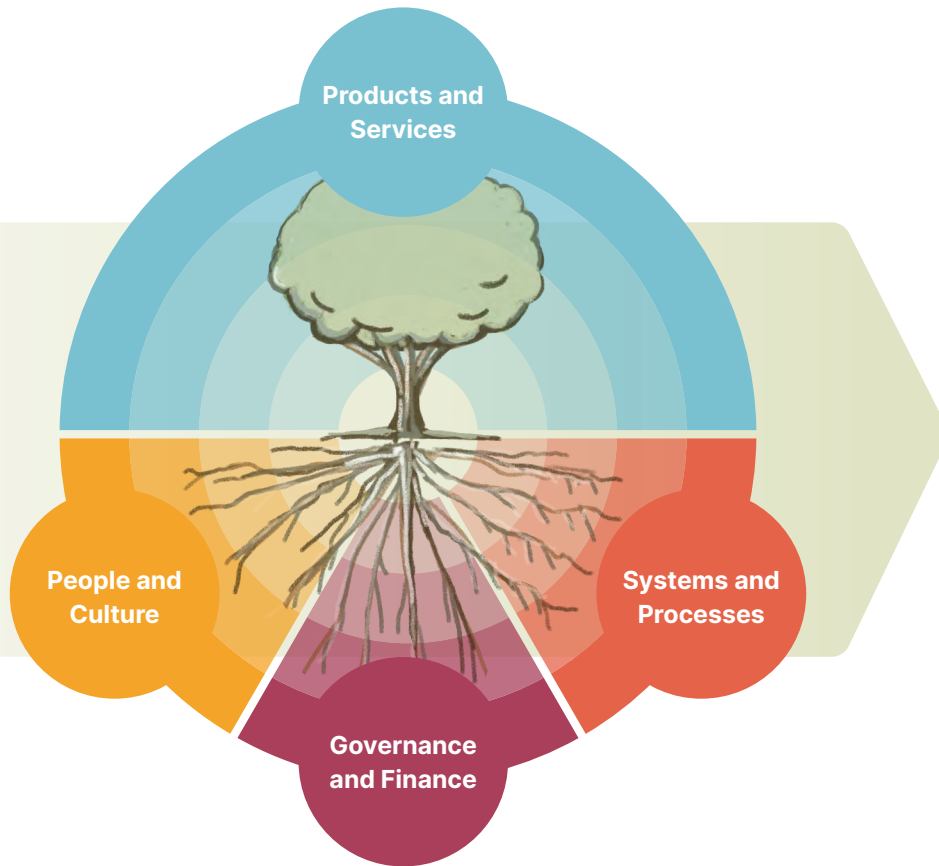
This framework outlines examples of how donor approaches to engaging ESOs can create both virtuous and vicious self-reinforcing cycles.

Increasing stability
ESOs secure the resources they need to develop their OD Dimensions, which enables systematic learning about markets and enterprises, leading to increased service effectiveness, traction and stability.

Building operations
As services improve and credibility grows, this increases the interest from both partners and talent, which enables further development of systems and processes. In turn, thus builds the capacity to refine services and retain talent.

Partnering for growth
Longer term partnerships built on trust and strategic alignment enable further organizational development. This keeps ESOs focused on enterprise growth, and building the capacities required to meet changing needs.

Innovation and impact
Stable finances and enduring, diverse partnerships combined with robust systems of learning and governance, enables continuous improvement and innovation. This improves BDS and ESO operating models, scales their impact, and sustains it over time.

Persistent instability
The pursuit of short-term, prescriptive contracts for program delivery, often with low margins and high requirements, orients ESOs around donor processes and priorities. But these change, creating persistent instability.

Struggling operations
Funding directs attention and resources away from enterprise outcomes and organizational development. The crucial work of service improvement and capacity building slows, as ESOs focus on securing, managing and reporting on contracts.

Dependency grows
The lack of internal (OD) work creates a range of issues. Poor finances and systems, make it a struggle to attract, retain and build talent. Without efforts to diversify, their mission becomes survival, and dependency on donor funding grows.

Stunted growth
With a dependency on contracts that provide necessary funding but constrain growth, ESOs become stuck. Their capacity for learning, codifying and applying knowledge remains limited, so the effectiveness of services (and impact) does also.

4

The opportunity to develop ESOs

Effective ESO growth is underpinned by four dimensions

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


Donor support can accellerate growth

Small changes to donor practices can help ESOs to grow into more robust and effective organizations, and amplify their impact. With the right backing from donors, ESOs can not only offer more impactful and enduring services but also bolster entrepreneurial ecosystems. 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.
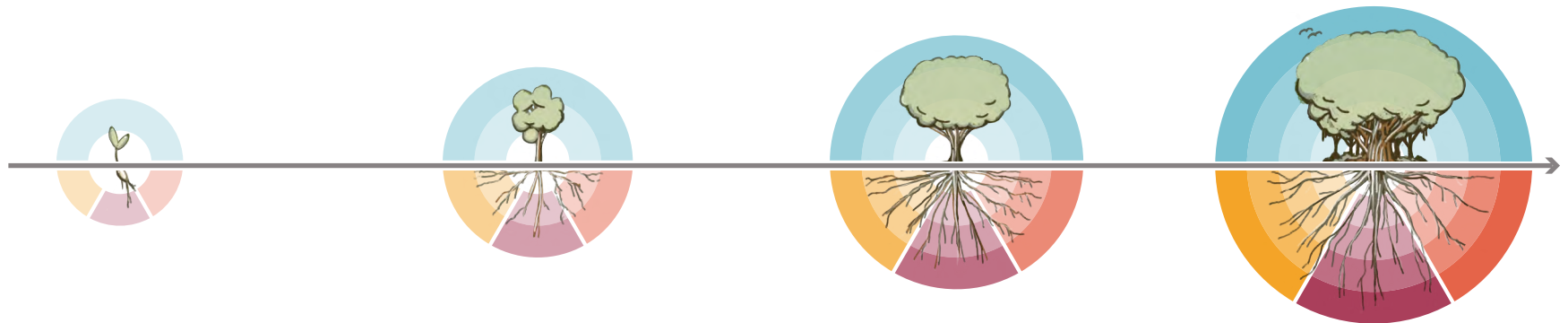
The tree metaphor

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.
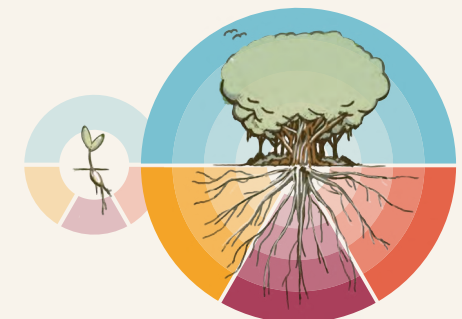
Recognise the patterns in ESO development

	Beginning *Seedling*	**Emerging** *Sapling*	**Solidifying** *Mature*	**Flourishing** *Mother*
Products and Services	• Program delivery • Developing unique offerings and position • Validation of approach (qualitative) • Market analysis	• Clear, differentiated offerings (gap-linked) • Promising impact metrics (quantitative) • Emerging brand • First multi-year institutional partnerships	• Established market position and brand • Reliable, effective and repeatable services • Building on offerings • Numerous partnerships • Evidence of impact	• Delivering proven impact in multiple markets (sectors, services, geographies) • Ecosystem convening, coordination and collaboration • Supporting other ESOs (ecosystem strengthening)

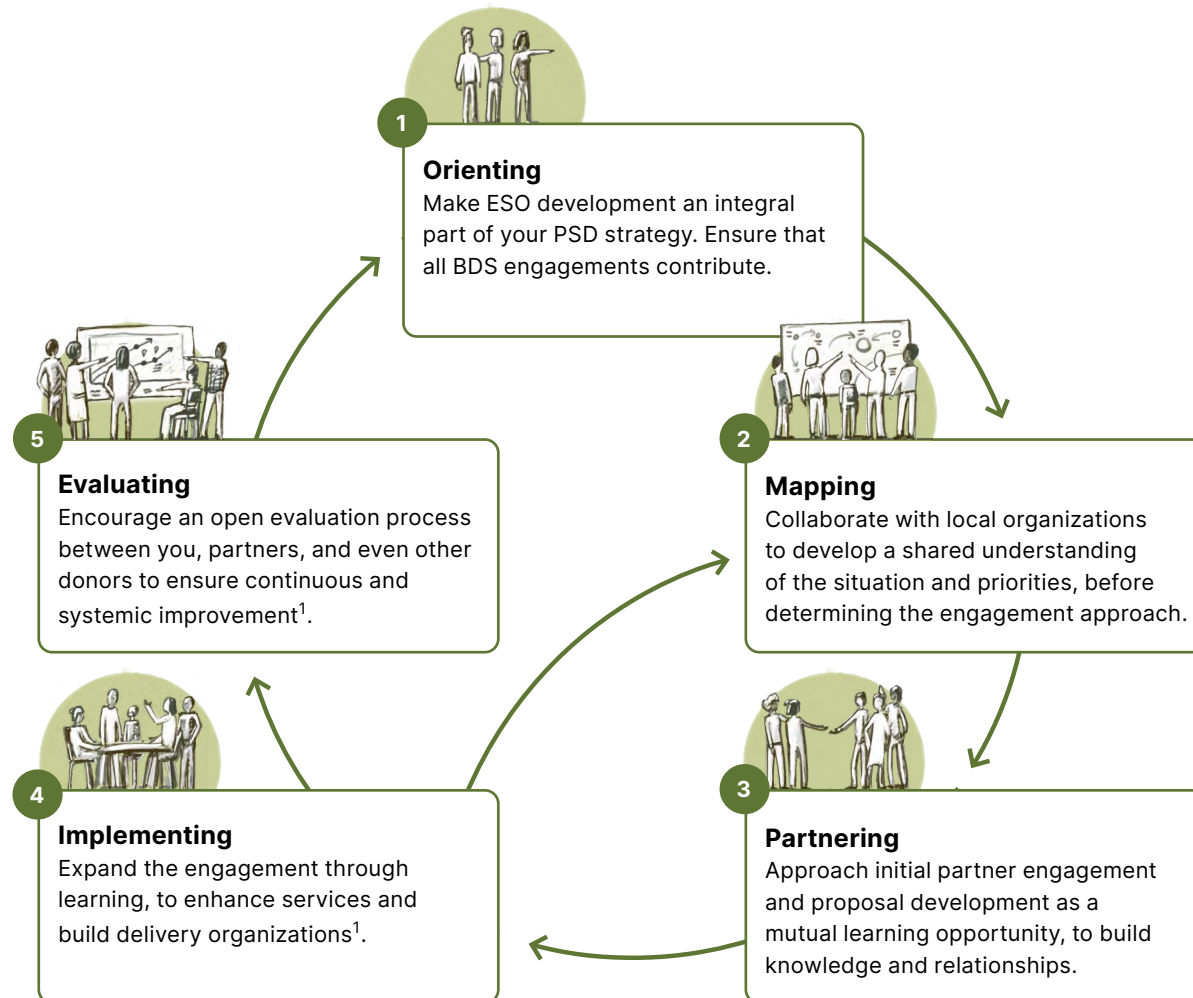*ESOs focus on different Organizational Development challenges as they grow*

	Beginning	**Emerging**	**Solidifying**	**Flourishing**
People and Culture	• Initial team building (beyond founders)	• Core team stabilizing • Delegation beyond leadership	• Expanding and maturing leadership and team	• Alumni relationships • Sophisticated career offers
Governance and Finance	• Incorporation • First clients • First funds raised	• Strategy developing, with internal and external ambitions • Solidifying governance • Stabilizing revenue sources	• Management reporting to non-executive board • A diverse donor network • Diversified revenue and increasing margins	• Mature strategic capability, risk management and compliance • Financial sustainability (+12 months runway)
Systems and Processes	• Basic software stack • Initial organizational processes	• Systems and processes (finance, MEL, project management)	• Systems and processes (knowledge, network) • Continuous improvement	• Advanced monitoring and evaluation • Sustained innovation practices

Shift your practices to enable ESO development

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

The recommendations 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. The recommendations compliment Argidius' SCALE toolkit[1] and should be taken together, but the focus here is specifically on donor practices and organizational development.

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.

[1] These recommendations are also expanded in Argidius SCALE toolkit

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

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

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

4 Implementing
Expand the engagement through learning, to enhance services and build delivery organizations[1].

5 Evaluating
Encourage an open evaluation process between you, partners, and even other donors to ensure continuous and systemic improvement[1].

Engage in open dialogue, responsive support, collaborative strategizing, and flexible funding.

The journey continues

The report outlines many opportunities for donors to better support and engage ESOs. With practical guidance for how these interconnected OD dimensions 'above ground' and 'below ground' can impact the growth of an ESO.

It is a call to action for donors to embrace these findings and change their engagement practices. Even small and minor changes to donor processes can catalyze SME growth and strengthen the ecosystem.

ESO growth can not only contribute to economic development, but also foster innovation, inclusion, and resilience. **The journey doesn't end here** - the report is an invitation for deeper, sustained collaborations, pointing towards a brighter future for SMEs in emerging markets.

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?

- How could we better support OD in promising ESOs?

Actions to take now

1. Read the report to learn more about this topic.

2. Share the report with others, either inside or outside your organization, and invite discussion.

3. Reflect on how you currently engage ESOs, and identify recommendations that you could action.

4. Reach out for more information.

Learn more by exploring the full report

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