

FOUNSMALLDATION

Theory of Change

Supporting Narrative

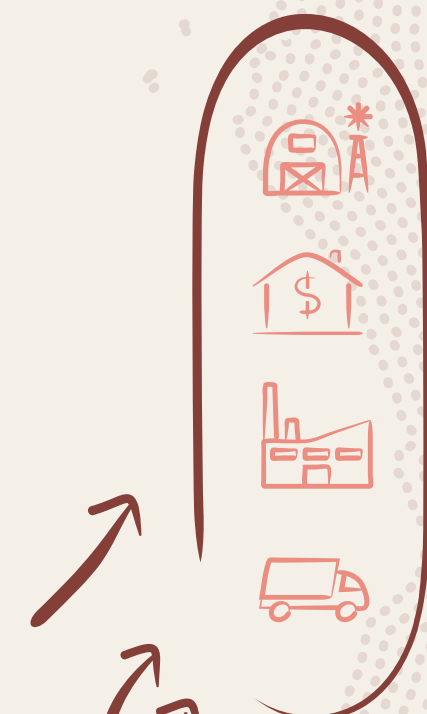
Small Foundation Activities



Key Ecosystem Elements



Rural MSMEs Ecosystem



Income Generating



Impact on Individuals





Bianca Thielke

CURRENT STATE

- According to the World Bank, more than half of the extreme poor live in sub-Saharan Africa, with 413 million people living on less than US \$1.90 a day in 2015.
- 63% of the total sub-Saharan population live in rural areas.
- Small and Medium-sized Enterprises (SMEs) are important drivers of growth in economies across sub-Saharan Africa, accounting for up to 90% of all businesses in these markets.
- Businesses (which include small holder farmers, micro enterprises, and SMEs of all segment types - high growth ventures, niche ventures, dynamic, livelihood sustaining) require knowledge, skilled human resources, financial capital, access to inputs and technology, and access to markets to start, maintain and grow.
- Rural businesses face disadvantages in terms of their ability to grow and provide high quality services, owing to factors resulting from remoteness (lack of economies of scale, infrastructure and connectivity), marginal resources and agrarian-dependent economies that revolve around increasingly erratic seasonal cycles.
- The products and services that would provide businesses the knowledge/technical assistance, skilled human resources, financial capital, access to inputs and technology, and access to markets to MSMEs are either:
 - Non-existent (Need to be built)
 - Not effective or appropriate for this target segment or not easily accessible (Need to be refined/adapted)
 - Not affordable, sustainable and/or scalable (Require innovation-new business models)
 - Not connected (Need to be interconnected to leverage opportunities, scale, and sustainability)
- As such, the potential revenue of these businesses (which could lead to increased income and/or employment opportunities that could move people out of extreme poverty) is untapped and/or underperforming.



FUTURE STATE

- Elimination of extreme poverty in sub-Saharan Africa by 2030 (benchmark: SDG1, no one is living below \$2/day with an aspiration that people can meet basic needs, resist economic shocks, and invest in their future).
- There is continued economic growth and social mobility beyond 2030 that continues to be sustained in sub-Saharan Africa by high-functioning business ecosystems, sound business models, quality services, and local ownership.
- Business ecosystems drive economic growth and social mobility, with rural MSMEs as crucial, critical, catalytic and benefiting actors in these systems. There is a mix of individual, small, medium and large-scale economic activity (including formal and informal) and trade amongst all types of businesses whereby individuals have employment opportunities and/or ways to generate income through commercial activity. This functions as a virtuous economic circle as income grows – fueling growth in consumption, supply and demand, and opportunity.
- Appropriate, effective, and affordable products and services are readily available to MSMEs in sub-Saharan Africa for them to access knowledge, skilled human resources, and finance for them to start, maintain and/or grow their businesses. Where needed these have been specifically designed to address rural-impacting MSMEs and their specific needs.
- These products and services are market-based solutions where private philanthropic capital is not needed.
- These solutions have been scaled such that they are accessible and affordable throughout sub-Saharan Africa, wherever they are needed.



HOW CHANGE OCCURS

- Leveraging the financial and non-financial support of Small Foundation and others, Partners build, adapt/refine and/or innovate sustainable and scalable models to bring technical assistance, knowledge, human capital, and financing solutions to MSMEs in sub-Saharan Africa.
- Knowledge, human capital, and financing solutions often reinforce each other and can enable productivity and market access solutions and improvements.
- Corporates can engage in activities that bring technical assistance, knowledge, human capital, and financing solutions to rural MSMEs in sub-Saharan Africa.
- Business ecosystems provide connectivity between and amongst MSMEs and service providers.
- Networks and ecosystems are breeding grounds for opportunities, facilitate sharing and disseminate learning, provide connectivity, enable trust, reinforce social capital, provide scale and crowd in others that want, need or desire to support, create and/or access services.
- These solutions have been scaled such that they are accessible and affordable throughout sub-Saharan Africa, wherever they are needed.
- Partners are connected into these networks and ecosystems.



One Acre Fund

OUR ROLE

- Small Foundation plays a catalytic role: using research, spotting and supporting opportunities and organisations, and offering financial and non-financial support to the most promising opportunities which will deliver technical assistance, skilled human resources, and financial solutions sustainably and at scale to rural MSMEs.
- The financial support is patient: enabling enough time for the building, adapting, refining, innovation, and customisation for rural populations. It is also catalytic in that it might lead to crowding in others and further investment if needed, as well as catalytic in a sense in that it enables the development of a model that would be sustainable at scale.
- Small Foundation creates a demonstration effect based on the successful ideas, organisations, and models that can be interesting and potentially transformative.
- Small Foundation supports network and platforms that pull together and disseminate knowledge, capital and delivery of services, and promote connectivity and collaboration, as well as crowd in others. They do this with the intent to find great organisations and ideas but also to have channels to share learning and successful models as well as learn from and leverage others.
- Small Foundation's network and ecosystem includes and connects like-minded ecosystem actors that are committed to the same or similar solutions at scale.
- Small Foundation seeks the highest effective leverage point in the ecosystem to intervene. Small Foundation seeks to exploit these points of leverage to create a larger impact either through the organisations in which we invest, the financial instrument we choose to invest with or by driving change or creating opportunities for ecosystem stakeholders, rather than individual organisations. The concept of leverage also is embedded in the way that Small Foundation's capital investments and non-financial investments are levers for driving change and signaling where change needs to occur. The financial capital also can be a catalytic lever that drives crowding in of others.

Theory of Change Supporting Narrative

PRECONDITIONS

- The community/region has viable economic opportunities and infrastructure to support some level of commercial activity.
- There are underlying macro-level preconditions in place: peace, order, political stability, business policies and regulation, basic services (health, education, clean water, sanitation), property and commercial law and infrastructure (electricity, communications, transport), administration of justice, natural environment). It is possible to work in regions where these preconditions might be questionable – although it is safe to say that the lack of these conditions might inhibit progress, whereas having these conditions in place might facilitate the pace and extent of progress.

ASSUMPTIONS

- There are safety nets for populations that are unable to work.
- Business owners have the interest and appetite to change, adapt, and learn to strengthen their business and/or further their economic position. This may include taking on some level of risk and/or making investments in terms of time and/or financial capital.
- Rural populations choose to remain in the rural area and be involved in agri and rural product and service value chains.
- There are some geographies where there is not enough economic activity for this approach to work, whilst there are others where this theory will work quite well.
- Populations who face extreme poverty will improve their situation if they have economic opportunities.
- There are people and organisations that are willing to provide solutions to this market and they are smart, strategic, adaptive and committed to finding long-term and cost effective models.
- The models needed haven't yet come to fruition because of the time and capital required in understanding the market (and specific market failures), R&D, adaptation, investment case, and innovation.
- New people and organisations are taking on these challenges and new collaborations are starting to happen, and thus new opportunities are emerging.
- Despite the fact that Small Foundation is not specifically addressing market linkages and technology, there will be others working on those solutions and technical assistance, finance, and human capital solutions will help to unlock market linkages and technology.

OTHER CONSIDERATIONS

- The primary targets are rural populations: as such agriculture will be a key focus of economic activity. The isolation of rural populations will also necessitate supporting peri-urban businesses located where extreme poverty may or may not be present, but where their involvement as economic actors is important to create linkages to the rural populations to link commercial opportunities.
- Large SMEs/corporates/ multinationals have a role to play with the MSME as a supplier, customer, and/or provider or enabler of products and services provisions for technical assistance, human resources, and/or finance.
- Employment will be “gainful” employment whereby the employee receives steady work and fair payment from the employer.
- Although the theory targets those in extreme poverty, others will improve their economic position as well. It will be important to ensure that opportunities reach those in extreme poverty and that economic growth does not increase any inequality gaps.
- Different segments of businesses are going to require different solutions to technical assistance, human capital and financial capital: livelihood sustaining enterprises, dynamic enterprises, high-growth ventures, and niche ventures. As such the service providers of these solutions will have different paths to financial sustainability.
- Sustainable models do not necessarily mean that they don’t ever make use of subsidy. It can be a question of who pays and how the solution is paid for. For example there could be tax breaks or incentives that address the sustainability issue. Sustainable models are ones that consider how they can be paid for over a long trajectory of time and are not dependent on philanthropic capital. Partners need the intention and mindset to pursue a sustainable solution long term.

Equity for Africa Group



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