



# CONNECT TO GROW

*Supporting enterprise growth through innovation and partnership*

## Supporting SME growth through innovation and partnership – a review of the landscape

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# Preface

This report has been produced by Connect to Grow, a programme that seeks to support growth of SMEs with impact on health and agricultural livelihoods, by facilitating innovation transfer from enterprises in India with a desire to expand internationally through business-to-business (B2B) partnership with enterprises in sub-Saharan Africa and south Asia with a desire to grow. Connect to Grow ('Connect') is implemented by IMC Worldwide in partnership with Ashley Insight and Innovation Alchemy.

This review was originally prepared as an internal document to help set the context for the Connect team. It provides a baseline for what is currently known about the role of innovation and partnership in SME growth. It identifies the gap in the market which Connect to Grow seeks to fill. And it assesses whether there are any indications of successful ingredients which can inform Connect design and approach.

For Connect, the review confirms the value of supporting SME growth as an overall objective, and on innovation and B2B partnership as a means to support SME growth. However, the review of SME growth also suggests that in order to deliver effective results from programme support, Connect needs to focus on those SMEs that have a strong focus on client value proposition plus some existing ability to innovation and manage growth. The review of innovation transfer suggests that Connect to Grow needs to operate as one kind of 'network pathway' and assess how to provide that pathway most effectively.

The review of scores of other programmes that focus on SME growth, innovation or partnership, indicates that Connect to Grow is indeed operating somewhat differently. By focusing primarily on the adopters of innovation, rather than working on diffusion of innovation from the innovators, it is taking a different approach that is more focused on the needs of the adopters.

One of the most important findings of this review for Connect is the lack of evidence on how innovation uptake happens by those adopting and adapting innovation. There is therefore little to guide the Connect team on the most likely characteristics of innovation adopters, or necessary components of successful adaptation. This also means that lessons from Connect about innovation uptake and the process of incorporating innovation into SMEs should be useful and shared with the wider market.

Connect is therefore operating in a gap in the market, but has relatively little evidence to draw upon as to which SME characteristics, which types of brokering activity, which pathways of innovation adaptation are most likely to make the programme effective. The review does suggest that any lessons from Connect, both negative and positive, will be a valuable addition to our understanding of these issues of SME growth, partnership and innovation uptake.

We hope that by putting this review in the public domain, other programmes and innovators can also benefit from a wide range of research to date and from the analysis of a vast range of programmes operating in this space.



## 1 Purpose and approach

The purpose of this document is to look at growth of impact-oriented small and medium enterprises (SMEs) through a particular lens, focusing on the role of innovation, innovation transfer and partnership. The report aims to:

- ④ assess current knowledge of the role that innovation and partnership play in SME growth;
- ④ review current mechanisms for promoting growth, innovation or partnership amongst SMEs.

This document is based on a desk review of relevant literature across different areas, extensive internet research, as well as information from interviews with relevant experts and programmes. The main focus of our work was the review of practical support provided to innovation, partnership and enterprise growth, rather than attempting to provide a comprehensive literature review of innovation and its role for development and growth which is well documented elsewhere.<sup>1</sup>

The first part of the report sets the context, drawing out key themes from existing literature on innovation and partnership in SME growth. Our main focus has been on the literature covering the role of innovation in economic development with a particular focus on the relevance of innovation in the global South, as well as for SMEs and impact-oriented enterprises. We have found there to be relatively little literature on the latter. More literature exists on the theory of innovation as well as the role of macroeconomic factors and policy to enable and generate innovation capacity, though this is not a focus for our report.

We also review the opportunities and mechanisms for, and challenges of, innovation transfer between countries in the global South, with a particular focus on transfer between Indian and African enterprises at enterprise level. There is a range of recent and relevant reports covering exchanges between India and Africa, not exclusively related to firm level innovation transfer and collaboration, but often with a broader focus covering the role of institutions and policy for innovation and innovation transfer.

The second part of the report looks at current support mechanisms (programmes and instruments) for SMEs in the areas of growth, innovation, innovation transfer and partnership, including their overlaps. Not surprisingly, there are not many sources covering or analysing these in detail. Therefore we have mapped them to understand what is available in terms of support and results and to understand the potential gaps.

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<sup>1</sup> For a comprehensive literature review read: G. Zanello; X. Fu; P. Mohnen; M. Ventresca. 2013. *The diffusion of innovation in the private sectors in Low-income Countries (LICs): A systematic literature review*. Oxford: University of Oxford

## 2 The SME context

### In Brief

- ④ SMEs are widely considered as drivers for employment and economic growth, particularly in emerging economies.
- ④ SMEs tend to be more innovative and more responsive to customer demands than larger businesses
- ④ SMEs are gaining increasing recognition as drivers of social solutions, demonstrating capacity to innovate effectively to generate business models that work at the Base of the Pyramid.
- ④ SMEs face many challenges if they want to grow. Some emphasise lack of finance as the main constraint. Others emphasise internal barriers that constrain growth and bankability including weak value proposition to customers, lack of innovation, weak supply chains and talent shortage. Unfavourable policy environments also pose constraints to SME formalisation and growth.

### 2.1 SMEs as drivers of jobs, growth, and social solutions

The World Bank and other international finance institutions see the private sector as the engine of growth for developing countries.<sup>2</sup> It is widely accepted that SMEs are a crucial constituent, creating jobs and contributing to poverty eradication in the world, particularly in emerging economies.<sup>3</sup> Many national governments, development banks and donor agencies now prioritise SME support as part of their strategies for economic growth. This is due to a number of reasons, first and foremost due to the scale of the SME sector and its significant contribution to employment: formal SMEs contribute up to 45 per cent of total employment and up to 33 per cent of national income (GDP) in emerging economies with even higher numbers when including informal SMEs.<sup>4</sup> In Africa, SMEs create around 80 per cent of employment and are considered to be at the core of the continent's economic expansion by establishing a new middle class and fuelling demand for new goods and services.<sup>5</sup>

The SME sector is also gaining increasing recognition as a driver of social solutions. Impact oriented SMEs increasingly provide goods and services to low income populations at the base of the pyramid (BoP), and tackle problems such as lack of sanitation, inadequate healthcare and lack of access to energy. Within the inclusive business space, SMEs are key players. This is because innovation is key to the success of inclusive business and is seen to be easier for SMEs than large firms. With growing recognition of the difficulties large firms face – because of their size and procedures – in innovating for engagement at the BoP, attention is shifting towards SMEs. Although they may struggle to deliver scale, their level of flexibility, simple organisational structure, and ability to adapt, makes them better placed to develop and implement new ideas compared to other types of businesses.<sup>6</sup>

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<sup>2</sup> Kraus, J. (2002), Capital, power and business associations in the African political economy: a tale of two countries, Ghana and Nigeria, *Journal of Modern African Studies*, vol. 40, no.3, pp.395-436; ILO, (2007), *The promotion of sustainable enterprise*, Geneva: International Labour Conference 96th session; URT, (2010), *National Strategy for Growth and Reduction of Poverty II*, Dar es Salaam: Ministry of Finance & Economic Affairs

<sup>3</sup> World Bank. 2013. *Evaluation of the World Bank Group's targeted support for small and medium enterprises*. Independent Evaluation Group (IEG) approach paper. Washington DC; World Bank.  
<http://documents.worldbank.org/curated/en/2013/01/17630245/approach-paper-evaluation-world-bank-groups-targeted-support-small-medium-enterprises>

<sup>4</sup> World Bank. 2015. *Small and Medium Enterprises (SMEs) Finance*. Washington DC; World Bank.  
<http://www.worldbank.org/en/topic/financialsector/brief/smes-finance>

<sup>5</sup> José Filomeno de Sousa dos Santos. 2015. *Why SMEs are key to growth in Africa*. Geneva: World Economic Forum  
<https://www.weforum.org/agenda/2015/08/why-smes-are-key-to-growth-in-africa/>

<sup>6</sup> Harrison, N.J & Watson, T. 1998. *The Focus for innovation in Small and Medium Service Enterprises*. Conference Proceedings of the 7Th Annual Meeting of the Western Decision Sciences Institute, 7-11 April, Nv. USA.

For example, the World Bank (forthcoming) is finalising documentation of 30 business models and 300 enterprises that demonstrate the potential of SMEs to provide beneficial goods and services at the BoP in energy, health, finance, and education. The Business Call to Action (BCtA) began with a membership of large corporates. But new members have been mainly SMEs (who now comprise over 50 per cent of the portfolio) and the most recent review of the portfolio identified that some of these SMEs are 'breaking through', matching the inclusive initiatives of large companies for revenue and reach, and surpassing them for growth.<sup>7</sup>

## 2.2 Limitations of SMEs and constraints to growth

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Despite their contribution to job creation and social solutions, SMEs face a raft of barriers to growth. Arguably, the lack of access to finance is one of their major challenges. The World Bank estimates that 50 per cent of formal SMEs do not have access to formal credit. The financing gap is even larger when micro and informal enterprises are taken into account. While the gap varies considerably between regions, it is particularly wide in Africa and Asia; the current credit gap for formal SMEs is estimated to be US\$1.2 trillion and the total credit gap for both formal and informal SMEs is as high as US\$2.6 trillion.<sup>8</sup>

Some interpret this as a problem of lack of supply of finance. Development Finance Institutions invest in finance providers to unlock the credit line for SME lending. SMEs talk about the challenge of finding appropriate finance to suit their needs. Interestingly, in addition to the conventional reasons that constrain finance (immature systems, risk of business models at the BoP), one of the reasons identified by Endeavor for lack of finance is a funding bias towards innovators and new inclusive business ideas, as opposed to funding second movers (innovation adopters).<sup>9</sup>

The alternative perspective to the supply problem is lack of investable propositions. This is repeatedly identified as a problem by impact investors in surveys<sup>10</sup>. There may be many SMEs, but there is a lack of SMEs that can demonstrate a track record, an ability to manage and grow the business, and, most importantly, a successful value proposition for their market that will meet needs and sustain business growth. Research on investability of SMEs has highlighted non-financial issues, including their understanding of the market, their competitive advantage and their level of innovation in product, process and concept.<sup>11</sup>

Business guru Peter Drucker argued that enterprise has two—and only two—basic functions: marketing and innovation.<sup>12</sup> This applies to any type of business, but for SMEs lack of capacity, small size, informality, all make it harder to deliver on these core functions necessary for growth. From this perspective, the biggest constraints to growth are internal to the SME and their business model.

At an SME Summit in China in 2010, entrepreneurs identified the three main issues affecting growth: access to finance; the need to innovate; and low levels of supply chain efficiency. Innovation capacity

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<sup>7</sup> Ashley, C. & Sivakumaran, S. 2014. *Breaking Through: Inclusive Business and the Business Call to Action today - Mapping challenges, progress and the way ahead*. New York: Business Call to Action, United Nations Development Programme

<sup>8</sup> World Bank. 2015. *Small and Medium Enterprises (SMEs) Finance*. Washington DC; World Bank.  
<http://www.worldbank.org/en/topic/financialsector/brief/smes-finance>

<sup>9</sup> A. Krämer, C. Péron, T. Pasipanodya. 2014, *Multiplying Impact: Supporting the Replication of Inclusive Business Models*. Königsdruck Service GmbH, Berlin

<sup>10</sup> DFID. 2014. *The Impact Programme- Annual Report 2014* and Global Impact Investing Network. 2015. *The Landscape for Impact Investing in East Africa*.

<sup>11</sup> Enhancing Access to Finance for Technology Entrepreneurs: Analysis of Highly Innovative High Growth Start-ups in Vietnam, Cambodia, and Nepal. World Bank, Washington DC. 2014.

<sup>12</sup> Drucker, P (1954) *The Practice of Management*

was seen as an advantage of SMEs due to their mobility, specialisation and risk-taking, but also an essential pre-requisite for SMEs. In other words, innovation capacity is "one of the key factors determining an enterprise's fate stimulating the entire economic action, in which SMEs plays a vital role".<sup>13</sup>

A 2014 study assessed the main challenges of SMEs in Iran in exploiting innovative opportunities. It identified the following six challenges in order of importance: managerial and human resource; research and development; technologies, national policy and regulatory environment and lack of market information.<sup>14</sup>

A World Economic Forum survey asked 1,000 global SME entrepreneurs about constraints in the external ecosystem. Entrepreneurs identified their top three external factors for growth to be:

- ④ **accessible markets** and revenue-paying customers: access to customers whether large companies, small companies, or government;
- ④ **human capital / workforce**: access to management and technical talent, entrepreneurial experience, outsourcing, and immigrant workforce;
- ④ **funding and finance**: from friends and family, angel investors, private equity, venture capital, and access to debt.

This survey also highlighted the role of entrepreneurs in acting as mentors and creating networks, and the importance of these networks to enterprise growth.<sup>15</sup>

Another set of SME constraints, highlighted in the literature, are around the operating environment. For example, in 2011, PwC found that 94 per cent of SMEs in India were unregistered because of the unfavourable regulatory environment to start a new business.<sup>16</sup>

In conclusion, it is clear that SMEs play a huge role in the economies of developing countries and are valued for their contribution to economic growth, as well as to solutions specifically at the base of the pyramid. However, their growth is limited by internal and external constraints, with some difference of emphasis on the balance between the two from different actors. Lack of finance is a common complaint, but this is a symptom of a more fundamental problem if SMEs are unable to demonstrate the value proposition and market that is needed to sustain growth. In the following sections we consider evidence on how innovation and partnership can contribute to addressing these challenges.

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<sup>13</sup> UPS. 2010. *Chinese SMEs Face Three Main Challenges: Innovation, Financing and Supply Chain Efficiency* [https://www.ups.com/content/cn/en/about/news/press\\_releases/20100128\\_cn\\_sme.html](https://www.ups.com/content/cn/en/about/news/press_releases/20100128_cn_sme.html)

<sup>14</sup> J. Y Farsi, & M. T Toghraee. 2014. Identification the main challenges of small and medium sized enterprises in exploiting of innovative opportunities (Case study: Iran SMEs), *Journal of Global Entrepreneurship Research* 4:4 <http://journal-jger.springeropen.com/articles/10.1186/2251-7316-2-4>

<sup>15</sup> K. Schwab, X. Sala-i-Martin. 2014. *The Global Competitiveness Report 2014–2015*. World Economic Forum. Geneva. For discussion of the relevance to socially oriented SMEs see *What matters most to start-up enterprises around the globe?* [http://www.inclusivebusinesshub.org/profiles/blogs/what-matters-most-to-start-up-enterprises-around-the-globe?xg\\_source=activity](http://www.inclusivebusinesshub.org/profiles/blogs/what-matters-most-to-start-up-enterprises-around-the-globe?xg_source=activity)

<sup>16</sup> PwC. 2011. *Changing landscape and emerging trends*. India: PwC <https://www.pwc.in/assets/pdfs/industries/technology/indianit-itesindustry-changinglandscapeandemergingtrends.pdf>

## 3 The role of innovation in SME-led development

### In Brief

- 🔍 In developed economies, research shows correlations between innovation and growth, at both the macro-economic and enterprise level. In emerging economies, there is less evidence, but the importance of innovation to enterprise performance is still shown.
- 🔍 Innovation is strongly emphasised as critical for success of socially-oriented business models,
- 🔍 Technology transfer into developing countries is assessed by some for its contribution to growth. Others emphasise less visible but constant innovation within enterprises in emerging economies and the importance of 'frugal innovation or bottom-up innovation', which responds to needs of the poor and necessity of meeting needs in new ways.
- 🔍 India has many examples of frugal innovation, including some that have already scaled.
- 🔍 Innovation transfer from North to South, and between Southern economies at similar stages of development emerging economies in the South, are both considered to support productivity and growth, but face challenges. The focus is on national level transfer and policy constraints.
- 🔍 B2B routes of innovation transfer are poorly documented. There are a few examples of successful transfer but several constraints, including lack of networks and platforms, lack of appropriate skills and partners, and difficulties innovators face in identifying the right pathways. Only one report has been identified which also focuses on the constraints that adopters of technology face.

### 3.1 Current discussion and data on the role of innovation in SME growth

There is a considerable amount of literature highlighting the importance of innovation to economic growth in developed economies, largely in the global North. This focuses on technological innovations borne from research and development (R&D), knowledge networks and high-tech breakthroughs. Zanello et al, for instance, list several examples where innovation and technology transfer in particular have speeded up the development process.

After the Industrial Revolution, the United States and other European countries were able to reduce the technological gap with the United Kingdom using "a successful imitation and catching up process". Post Second World War, the Japanese economy bounced back very quickly by integrating foreign technologies, and other Asian countries imitated the Japanese absorptive model with South Korea and Taiwan having particular success.<sup>17</sup>

At the SME level, a number of empirical studies have been conducted in industrialised countries that demonstrate the importance of innovation in spurring enterprise growth. For example, Roper<sup>18</sup> studied product innovations of SMEs in Germany, UK, and Ireland, and found that the output of innovative SMEs grew significantly faster than that of non-innovators. In a similar study, Engel et al.<sup>19</sup> found that sales turnover of innovative firms grew faster than that of non-innovative firms. Coad and Rao probed

<sup>17</sup> G. Zanello; X. Fu; P. Mohnen; M. Ventresca. 2013. *The diffusion of innovation in the private sectors in Low-income Countries (LICs): A systematic literature review*. Oxford: University of Oxford, p.2

<sup>18</sup> S. Roper. 1997. Product Innovation and Small Business Growth: A Comparison of the Strategies of German, U.K. and Irish Companies, *Small Business Economics*, 9 (6), pp. 523-537

<sup>19</sup> D. Engel, M. Rothgang. and L. Trettin (2004). 'Innovation and their Impact on Growth of SME – Empirical Evidence from Craft Dominated Industries in Germany'. Paper presented at the EARIE 2004 Conference, 2–5 September, Berlin.

the relationship between innovation and sales growth for incumbent firms in high tech sectors. They observed that innovation is of crucial importance for a handful of 'superstar' fast growth firms.<sup>20</sup>

Research on the role of innovation in economic development in emerging economies is newer. At the macro-economic level, the literature focuses on 'technology transfer' as a driver of productivity and economic growth, rather than innovation per se. For example, te Velde and Fu (2016) note that in low income countries innovative activities mostly take place in the "form of transfer, adoption and adaptation of existing technology, rather than new inventions (p.3)."<sup>21</sup> UNIDO comes to a similar conclusion noting that external sources of technology and innovation account for a large component of productivity and growth in most low income countries.<sup>22</sup> This can be explained partly due to the fact fundamental innovation is costly, risky and path-dependent, and to date ground breaking innovation is highly concentrated in a few rich countries, linked with specific forms of university science and research capacity, and amongst a small number of firms. Many emerging economies lack the resources both at institutional and/or firm level that allow them to develop desired innovations.

However, evidence at the firm level is highlighting the considerable amount of innovation that does take place less formally in the South, and the relevance of innovation to SMEs.<sup>23</sup> A problem in correlating innovation and growth in the South is that innovation is common, but not always evident. In emerging economies, a majority of enterprises are involved in some form of innovation. For example, 80 per cent of firms surveyed in Ghana during 2011-2013 as part of research conducted by the Overseas Development Institute<sup>24</sup> had introduced some form of innovation.<sup>25</sup> However, this type of innovation is often 'under the radar' as it cannot be measured using traditional methods such as patents or R&D budgets.

The limited empirical evidence suggests a positive relationship between firm performance and innovative activities.<sup>26</sup> A study by Subrahmanya et al found that innovative SMEs in the auto, electronics and tool sectors in Bangalore, India "registered higher growth relative to non-innovative SMEs in terms of not only sales turnover but also employment and investment in all the three sectors".<sup>27</sup>

Innovation is particularly central to the growth of businesses that deliver social impact. Literature on business at the base of the pyramid highlights that demand cannot be secured just by simplifying product design to lower prices for smaller wallets. Successful inclusive business is about innovation within the business model that matches aspirations of quality and affordability for the consumer with viability for the business.<sup>28</sup> Synthesizing findings from 18 business initiatives focused on entering the BoP market, Professor Ted London concludes that a business "capable of serving the BoP must ensure a proper focus on innovation and avoid the understandable tendency to overemphasise execution."<sup>29</sup>

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<sup>20</sup> A. Coad, and R. Rao (2008). 'Innovation and Firm Growth in High-Tech Sectors: A Quantile Regression Approach'. *Research Policy*, 37 (4): 633-48.

<sup>21</sup> D.W. te Velde, and X. Fu. 2016. *Research in Context: The diffusion of innovation in Low-income Countries*. London: Overseas Development Institute, p.3

<sup>22</sup> G. Zanello; X. Fu; P. Mohnen; M. Ventresca. 2013. *The diffusion of innovation in the private sectors in Low-income Countries (LICs): A systematic literature review*. Oxford: University of Oxford

<sup>23</sup> M. Ingvarsson. 2013. *North-South and South-South Technology Transfer- A conceptual framework*. Vienna: United Nations Industrial Development Organization

<sup>24</sup> Growth Research Programme, ODI. 2015. *10 things to know about innovation in LICs*. UK

<sup>25</sup> *ibid*.

<sup>26</sup> Intelicap. *The Game Changers- Impact Enterprises in East Africa*, India and Independent Evaluation Group. 2013. *World Bank Group Support for Innovation and Entrepreneurship- An independent evaluation*. International Bank for Reconstruction and Development / The World Bank. Washington.

<sup>27</sup> M. H. Bala Subrahmanya. 2010. *Importance of technological innovation*. Helsinki: United Nations University (p16)

<sup>28</sup> S. Apampa. 2013. *Inside Inclusive Business: Innovation in inclusive business: Why innovation is critical to the success of inclusive business*. London: Business Innovation Facility.

<sup>29</sup> T London (2015). *The Base of the Pyramid Promise*. Stanford Business Books. Stanford California (p27)

A 'fortune finding' mentality exploits the skills and processes a company already has, to leverage an opportunity. But, argues London, it does not work at the BoP. In contrast a 'fortune creating' mind-set is about "working out what you don't know and figuring out how to acquire that missing knowledge ... encouraging experimentation and especially, enabling innovation".<sup>30</sup> London's approach builds on Drucker's proposition on innovation and marketing, arguing that innovation is even more important at the BoP, and it is needed to understand and co-create with the BoP market.

A related body of work highlights the innovation that takes place in the informal sector that is most likely to be relevant to low-income people. Fu et al. find that the majority of innovations in emerging economies are about appropriate technologies and processes in or for the BoP<sup>31</sup>, but a growing body of research implies that technological innovation in the formal sector fails to address the needs of those at the BoP<sup>32</sup>, and that it is the innovative approaches to pro-poor products and services adopted by the informal sector that have a higher development impact. These are referred to as 'frugal' innovations, and 'grassroots or below the radar' innovations (BRI), i.e. low- and middle-income group-generated innovations drawing on traditional knowledge and available technologies.<sup>33</sup> These come under the now widely recognised area of 'inclusive innovation' referring to the production or delivery of new products and services for and/or by those people that have been largely excluded by markets.

### 3.2 Emerging practice: frugal innovation in emerging economies

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Frugal innovation can boost the welfare of the poor by providing innovative products and services that are accessible to a wider share of the population. This is particularly the case in healthcare, agriculture and education.<sup>34</sup> In fact, there is evidence that agricultural R&D has a greater impact on poverty reduction than most other public investments.<sup>35</sup>

In their 2013 working paper, Fu et al. maintain that despite the multiple obstacles faced by emerging economies, the benefits from the spread of innovations are likely to be greater than in more advanced economies.<sup>36</sup> As mentioned above, most of the firms in emerging economies work far from the potential technological production frontiers; so small changes in their activities may have greater impact in the production and wealth distribution. Given the current state of local capacity, incremental and low-tech innovations are more likely to be adopted and have more chances of success.<sup>37</sup>

Of all emerging economies, India is most cited in the literature as a country where innovation, in particular frugal innovation, has thrived. India's rapid economic growth in recent years has been driven in part by its burgeoning micro, small and medium enterprise (MSME) sector. MSMEs are the largest source of employment after agriculture and many of the enterprises still function in the informal sector. These enterprises are known for using 'abundant localised creativity', or *jugaad*, a uniquely Indian term which means "working around a lack of resources by making best use of available resources and coming up with a quick-fix solution".<sup>38</sup> A National Knowledge Commission of India study

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<sup>30</sup> Op. cit. (p.28)

<sup>31</sup> Fu, X., Zanello, G, Owusu Essegbey, G, Hou, J, Mohnen, P. (2014) *Innovation in low income countries: A survey report*. Oxford: OMDC

<sup>32</sup> Arocena and Sutz 2003; Arocena and Sutz 2012; Chataway, Hanlin, and Kaplinsky 2013; Cozzens 2007; Cozzens et al. 2005; Prahalad 2005; Smith, Fressoli, and Hernán 2013; Srinivas and Sutz 2008)

<sup>33</sup> OECD. 2012. *Innovation for development*. Paris: OECD

<sup>34</sup> *ibid.*

<sup>35</sup> *ibid.*

<sup>36</sup> G. Zanello, X. Fu, P. Mohnen, M. Ventresca. 2013. *The diffusion of innovation in the private sectors in Low-income Countries (LICs): A systematic literature review*. Oxford: University of Oxford

<sup>37</sup> *ibid.*

<sup>38</sup> PwC. 2011. *Innovation: Changing the MSME landscape*. India: PwC, p.10

reveals that 17 per cent of these MSMEs have introduced 'new to the world' innovations during the course of their business.<sup>39</sup>

With 800 million people living at the BoP in the country, there is a huge demand for healthcare, education, food, shelter and employment, which the public sector is unable to fulfil. This segment also has a cumulative disposable income of more than US\$350 billion. This market opportunity has helped spur the growth of enterprises specifically catering to the needs of the poor and has seen India emerge as "global hub for market-based social innovation over the past decade".<sup>40</sup> (p.8) Financial inclusion, healthcare, agribusiness and renewable energy have emerged as leading sectors for such enterprises.<sup>41</sup> Some of these inclusive enterprises have harnessed innovation (in different ways) to improve the lives of millions of people living at the BoP. Four prominent examples are highlighted below and provide a demonstration of how innovation enabled a business to develop a successful value proposition for its clients. Thus, complying with the tenets of Drucker and London, and along the way accessing finance and securing business growth.

#### **Box 1: inclusive eye-care for low income customers**

**Aravind eye-care** is a small chain of eye hospitals in India that has developed an operational model that allows it to deliver cataract surgeries to low-income people for \$10 a surgery. The Aravind model is highly efficient, with cataract operations taking 10 minutes compared with an average of 30 minutes in the Western world. This is primarily achieved through a process innovation that relies on a team of trained nurses and paramedics to carry out lower-skilled tasks such as washing the eye, thereby allowing surgeons to operate on two patients alternately within the same operating theatre. Most doctors at Aravind carry out an average of 2600 operations per year, compared with around 400 operations in other Indian hospitals. This means that Aravind currently conducts around 200,000 eye operations every year, making it the largest provider of cataract operations in the world. It began in 1977 as a small 30-bed healthcare enterprise in Tamil Nadu and is now a ten hospital business that runs camps and training centres as well as exporting eye-care products globally.<sup>42</sup>

#### **Box 2: affordable finance for rickshaw drivers**

**Rickshaw Bank** is an enterprise that provides affordable finance and modified vehicles to rickshaw drivers allowing them to own their vehicles, escape the cycle of debt and increase their incomes. The Rickshaw Bank has introduced a number of innovations that have helped thousands of rickshaw drivers improve their livelihoods in the North-east Indian city of Guwahati. The first is in the product itself, introducing design modifications to traditional rickshaws that have made vehicles lighter and easier to ride. The second is an affordable finance scheme that follows the lease-to-own model allowing drivers to buy their own vehicle through small incremental payments. The vehicles have also been designed to include space for advertisements which drivers can sell to further finance their loan. The third is offering affordable life and health insurance to drivers. Finally, the Bank provides uniforms and special licenses to its clients providing them with a legitimate identity. In 2013, the Rickshaw Bank estimated that it had benefitted more than 10,000 rickshaw drivers and the model has been replicated in other Indian cities.<sup>43</sup>

<sup>39</sup> PwC. 2011. *Changing landscape and emerging trends*. India: PwC

<sup>40</sup> D. Prasad, U. Ganesh, R. Badaskar. 2015. *Corridors for shared Prosperity- Spotlight on India-Africa Inclusive Business Transfer*. Hyderabad: Intellectap, p.42

<sup>41</sup> N. Dutt, U. Ganesh, P. Chandrasekaran, P. Agarwal, S. Patil, A. Gupta. 2014. *Invest, Catalyze, Mainstream: The Indian Impact Investing Story*. Hyderabad: Intellectap.

<sup>42</sup> Tidd, Bessant & Pavitt. 2013. *Innovation Portal Case Studies: Aravind Eye Clinics Innovation Portal*. Innovation Portal

<sup>43</sup> Shanbaug. 2012. *Rickshaw Bank concept changes lives of thousands of pullers*. Economic Times. [http://articles.economictimes.indiatimes.com/2012-05-02/news/31538555\\_1\\_pullers-cycle-rickshaw-million-rickshaws](http://articles.economictimes.indiatimes.com/2012-05-02/news/31538555_1_pullers-cycle-rickshaw-million-rickshaws)

### Box 3: micro-irrigation systems

**Jain Irrigation Systems Ltd (JISL)** is an inclusive agri-business that manufactures micro-irrigation systems for farmers and is a leading processor of fruits and vegetables in India. For JISL, its key innovation is in the product where it has developed micro-irrigation systems that use 30-65 per cent less water than traditional irrigation techniques. The company distributes its products through a network of 2,000 distributors across the country. Additionally, it has developed a contract farming model where it procures fruits and vegetables directly from smallholders while providing them with access to high quality seeds, other inputs and training and guidance. Overall, JISL has reached more than five million farmers in India through its innovative agribusiness model.<sup>44</sup>

### Box 4: ICT for farmers

**eKutir**, is a social enterprise in India that has developed an ICT solution to provide much needed information and training to smallholder farmers. It works through a decentralized network of micro-entrepreneurs, who engage with the farmers and rural communities through e-kiosks. At the ADB's 2<sup>nd</sup> Inclusive Business Forum, the business reported that it has reached more than 60,000 farmers in India through its 100+ micro-franchises.<sup>45</sup> Farmer customers of eKutir have seen an income improvement of 60 to 400 per cent.<sup>46</sup>

## 3.3 Emerging practice: innovation transfer in the South

The importance of innovation to SMEs, and particularly to socially oriented SMEs is clear. But whether innovation is sufficient or currently sub-optimal, how it can be facilitated and what market failures might constrain either innovation within a firm, or innovation transfer to a firm, are less clear.

There are examples of a number of organisations that support grassroots innovators to spread and commercialise their products/services (see also Section 5 for further detail). One such organisation in India is the Honey Bee Network<sup>47</sup> that identifies and documents innovations emerging from local communities including the pedal-powered washing machine, groundnut digger, multi-crop thresher, cotton stripper etc. The National Innovation Foundation<sup>48</sup> in turn helps scale up these innovations. The central tenet underpinning the work of these organisations is that poor people have always been relying on their own ingenuity to solve their problems away from high-technology innovation systems, and this ingenuity can be harnessed, replicated and commercialised to help others.<sup>49</sup>

While the National Innovation Foundation focuses on replication of innovation within India, attention is now being paid to the transfer, adoption and adaptation of innovation amongst emerging economies.

Innovation transfer between countries at rather different stages of development can be challenging and technology does not spread easily from industrialised countries to LICs.<sup>50</sup> Innovations may not spread due to a mismatch with local needs: something that solves a problem in developed countries may not be resourceful in a different context. Relatedly, for North-South transfer to be successful there

<sup>44</sup> IFC. 2014. *Inclusive Business Case Study: Jain Irrigation Systems Limited (JISL)* IFC: Washington DC.

<sup>45</sup> C. Ashley, L. Sinha. 2016. *Inclusive Business in Asia*. Mandaluyong: Asian Development Bank.

<sup>46</sup> Carvalho, Karsfeld & Lepicard. 2011. *Leveraging Information and Communication Technology for the Base of the Pyramid*. Hystra: Paris.

<sup>47</sup> Honey Bee Network <http://www.sristi.org/hbnew/>

<sup>48</sup> National Innovation Foundation <http://nif.org.in/>

<sup>49</sup> OECD. 2012. *Innovation for development*. Paris: OECD

<sup>50</sup> M. Ingvarsson. 2013. *North-South and South-South Technology Transfer- A conceptual framework*. Vienna: United Nations Industrial Development Organization

needs to be sufficient capacity of the recipient country to absorb the innovation. For example, knowledge transfer on how to build solar panels may work fine, but then subsequently the problem may be a lack of trained technicians to maintain and repair them.

There is however, increasing consensus that innovation transfer between countries at similar stages of development - commonly referred to as 'South-South transfer or collaboration' - may be more appropriate and offers higher probability of success than transfer from North to South.<sup>51</sup> Innovations in emerging economies are inherently designed to work even in the face of systemic inadequacies and market inefficiencies such as poor business environments and investment climate and lack of access to finance, and shared socio-economic contexts can be beneficial for an existing innovation to be adapted in a new context.<sup>52</sup> The spread of microfinance and mobile money are good examples for successful South-South transfer – both models were tested and refined in a few developing countries with donor capital, and later spread across the developing world.<sup>53</sup>

Specific studies on evidence of transfer and collaboration and related learnings are somewhat limited. Examples that do exist are mainly about large MNCs investing abroad. In addition, existing literature primarily focuses on the enabling environment, i.e. policy and institutional level for innovation transfer (see for example UNCTAD 2012)<sup>54</sup>, rather than collaboration at firm level. Intellectap's analysis of eleven business models provides an exception here. Their report "Corridors for Shared Prosperity - Spotlight on India-Africa Inclusive Business Transfer" identifies 20 business models across agriculture, healthcare and renewable energy that have already transferred to countries in South Asia and Sub-Saharan Africa at various points in their development cycle, and analyse eleven in detail. The overall analysis concludes that "half the businesses were motivated by business objectives, while the others were encouraged to transfer either by donors and funders or to scale the impact of their models. [...] East Africa seems to be particularly interesting as a transfer destination for Indian businesses due to its improving macro-economic environment and investment climate, widespread use of English as an official language, geographic proximity to India, and presence of a large Indian expatriate community".<sup>55</sup>

There are various mechanisms for how innovation transfer can happen in practice. Creative swiping<sup>56</sup> is simply looking at what others do, to adopt and improve it. More formal mechanisms include structured partnerships between companies (such as joint ventures and franchising, covered further below in section 4) or initiatives by the public sector or public private alliances, such as technology parks, industrial parks and business incubators.

A different analysis of innovation transfer is used by 'market systems' programmes, which apply a framework known as 'adopt, adapt, expand, respond'.<sup>57</sup> The aim is for market players to adopt and then adapt a pro-poor innovation which has been identified as positive for the poor. Arguably, the

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<sup>51</sup> G. Zanello; X. Fu; P. Mohnen; M. Ventresca. 2013. *The diffusion of innovation in the private sectors in Low-income Countries (LICs): A systematic literature review*. Oxford: University of Oxford. M. Ingvarsson. 2013. *North-South and South-South Technology Transfer- A conceptual framework*. Vienna: United Nations Industrial Development Organization

<sup>52</sup> P. Gehl Sampath. 2012. *Technology and Innovation Report 2012*. New York: United Nations Conference on Trade and Development. [http://unctad.org/en/PublicationsLibrary/tir2012overview\\_en.pdf](http://unctad.org/en/PublicationsLibrary/tir2012overview_en.pdf)

<sup>53</sup> D. Prasad, U. Ganesh, R. Badaskar. 2015. *Corridors for Shared Prosperity- Spotlight on India-Africa Inclusive Business Transfer*. Hyderabad: Intellectap

<sup>54</sup> P. Gehl Sampath. op. cit.

<sup>55</sup> D. Prasad, U. Ganesh, R. Badaskar. 2015. *Corridors for shared Prosperity- Spotlight on India-Africa Inclusive Business Transfer*. Hyderabad: Intellectap, p.23 and 28

<sup>56</sup> Peters, T, 1989. *Thriving on Chaos*, London: Pan Books pp 228 - 236

<sup>57</sup> Adopt-Adapt-Expand-Respond. A Framework for Managing and Measuring Systemic Change Processes. The Springfield Centre, 2014. [https://beamexchange.org/uploads/filer\\_public/55/99/55991aa8-1a33-4dbd-bfac-ef3c7ba5b81c/adoptadaptexpandrespond.pdf](https://beamexchange.org/uploads/filer_public/55/99/55991aa8-1a33-4dbd-bfac-ef3c7ba5b81c/adoptadaptexpandrespond.pdf)

source of the innovation does not matter; the programme facilitator's job is to get players first to use it (adopt it), then invest in it and make it part of their own behaviour (adapt it), and then crowd in others (expand). While uptake of innovation is central to this approach, and the distinction between adoption and adaptation is useful in analysing uptake pathways, the facilitator-driven focus does not reveal a great deal about entrepreneur-driven adoption pathways.

### 3.4 Constraints on innovation transfer and uptake

Challenges of, and key success factors for, successful innovation transfer to countries in the global South are well documented. Interestingly, lessons from specific examples are less easily available. UNIDO notes "Case studies of failed technology transfer are more difficult to find, not because they do not exist but because they are not as well documented as success stories."<sup>58</sup>

A study of Indo-Africa technology transfer<sup>59</sup> by the Economic and Social Research Foundation focuses on constraints in the policy environment and argues that Africa badly needs a strategy to tap into the opportunities existing in Indian innovation.

The opportunities and barriers for 'hardware pioneers' to get their technologies to scale have been assessed by FSG<sup>60</sup>. Their analysis calls for 'networked pathways' to enable a lone pioneer firm to amplify the impact of their technology. While there are some examples of success, such as the spread of technologies for low-cost sanitary pads, the FSG analysis argues that hardware pioneers are not well positioned to assess the best opportunities for scale. Support needs to focus on:

- Helping hardware pioneers to assess the right pathway: "Many technical founders step on to the entrepreneurial track because they see it as the only path for taking their idea to market and do not see the potential for partnership with more established businesses."<sup>61</sup> (p.54)
- Platforms that help originators of ideas and solutions find transfer partners and collaborators or vice versa (such as the Honey Bee Network, discussed above).
- Support to the adopters of innovation.

This analysis is distinctive in focusing not only on the challenges faced by the innovator but also on the adopter (bullet point 3 above). Other literature covered so far focuses on the *source* of innovation and the transfer routes leading *from* the innovator. The uptake of innovation by adopters is likely to be a non-linear process involving considerable adaptation and indeed further innovation. Not all are well equipped for that, but this is a neglected area of attention. FSG's narrative on the adopter is covered further in Box 5. This is brief, but nevertheless unusual and welcome.

#### Box 5: Supporting adopters for replication and adaptation<sup>62</sup>

"Alongside our support of hardware pioneers in all the ways that we have described so far, we must also support the entrepreneurs who wish to adopt and build on the ideas of pioneers who have come before them. The process of scaling out depends as much on there being other entrepreneurs to take the original idea forward as it does on the origination of the idea itself. These later entrepreneurs are often referred to as 'followers' or 'replicators' but these convenient labels run the risk of considerably

<sup>58</sup> M. Ingvarsson. 2013. *North-South and South-South Technology Transfer- A conceptual framework*. Vienna: United Nations Industrial Development Organization, p.25

<sup>59</sup> Dr. H. Bohela Lunogelo, S. Baregu. 2013. *Indo-Africa relationship: opportunities for technology transfer between India and African countries*. Dar es Salaam: The Economic and Social Research Foundation (ESRF)

<sup>60</sup> H. Koh, N. Hegde, C. Das. 2016. *Hardware Pioneers: Harnessing the impact potential of technology entrepreneurs*. Portland: The Lemelson Foundation

<sup>61</sup> *ibid.*

<sup>62</sup> *ibid.*

understating the degree of challenge involved: many of these entrepreneurs will still need to exercise a great deal of boldness and ingenuity as they adapt, and often improve on, the original ideas that inspired them. In the case of Aurolab, the team had to take an established technology and completely reimagine it for the specific context of low-income patients and for the medical practitioners who would use it in lower-tech, affordable hospitals. Because of this, their work could well face some of the same challenges as that of the hardware pioneer— for instance, they might need to refine and test new propositions with customers, or build different sales and distribution channels — and therefore benefit from similar supports to help them succeed.”(p.56)

Challenges from the perspective of an innovative firm seeking expansion have been assessed by Endeava and Intellectap. Endeava’s assessment of replication potential for inclusive business models identifies two key constraints.<sup>63</sup>

- ④ Finding and recruiting talent for operations in new markets is often a challenge for expanding inclusive businesses. This is partly because inclusive businesses need employees with a special combination of skills – a mix of business skills coupled with a strong knowledge of the social sector.
- ④ Finding suitable partners when setting up replication entities such as franchises or joint ventures is a challenge. Inclusive businesses looking to disseminate their model face similar challenges in finding suitable entrepreneurs or companies interested in reproducing their model.

Endeava note that there is, in fact, a lack of formalised platforms of information exchange, such as conferences or forums, which could help disseminate successful inclusive business models across industries and/or geographical borders.<sup>64</sup> Currently, potential partners often find each other simply by accident.

Intellectap’s analysis is specifically of transfer of models from India to Africa. Analysis of eleven examples leads to identification of four main challenges for firm level transfer, again from the point of view of the innovator that seeks expansion:<sup>65</sup>

- ④ More challenging business environments e.g. ease of doing business, lack of infrastructure.
- ④ Lack of information, e.g. market intelligence about regulations, customers, competitors.
- ④ Access to finance, in particular risk capital in target market, and limited ability to invest due to low profit margins and lean operations.
- ④ Implementation partners, i.e. enterprises in target countries including hiring and retaining talent in particular at mid-to-senior level.

The same analysis identifies success factors for Indian businesses entering African markets. Innovation transfer is found to be easier for models that are based on product and technology (as opposed to service based models) as they offer higher margins, as are those focused on urban customer segments as they do not face the last mile distribution challenge. Not surprisingly, success is also more likely when business models adapt to local realities (distribution models, target markets), are systematically prepared and adopt a phased approach.

The difficulty of finding partners and finance for innovation partnerships, by implication, also constrains potential franchisees, licensees, and local joint venture partners (the innovation adopters).

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<sup>63</sup> A. Kramer, C. Peron, T. Pasipanodya. 2014. *Multiplying Impact: Supporting the replication of inclusive business models*. Berlin: Endeava

<sup>64</sup> *ibid.*

<sup>65</sup> D. Prasad, U. Ganesh, R. Badaskar. 2015. *Corridors for shared Prosperity- Spotlight on India-Africa Inclusive Business Transfer*. Hyderabad: Intellectap

World Economic Forum. 2015. *Collaborative Innovation, transforming Business, Driving Growth*. Cologne: World Economic Forum

But aside from the brief consideration in the FSG report<sup>66</sup>, there is remarkably little analysis of how smaller and socially oriented firms can tap into innovation of other firms or what constraints them from doing so.

### 3.5 Summary findings and gaps

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In summary, there seems to be consensus about the potential market opportunities of South-South innovation transfer and collaboration but also several constraints. Some examples and evidence are emerging across sectors. At the same time, the lack of systematic strategies at country level to exploit and support opportunities better is evident.<sup>67</sup> Lack of networks, platforms and partners are identified as clear constraints to B2B transfer, in addition to lack of finance and skills. These constraints result in calls for structured support to create pathways or supportive policy.<sup>68</sup> There is relatively little analysis of the needs and constraints faced by adopters of innovation, thus little attention on solutions that would facilitate their processes.

Section 4 looks at the role of partnerships in SME growth, and their potential to address some of the challenges. Section 5 then explores existing mechanisms to support enterprise innovation, innovation transfer and enterprise partnerships.

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<sup>66</sup> H. Koh, N. Hegde, C. Das. 2016. *Hardware Pioneers: Harnessing the impact potential of technology entrepreneurs*. Portland: The Lemelson Foundation

<sup>67</sup> Dr. H. Bohela Lunogelo, S. Baregu. 2013. *Indo-Africa relationship: opportunities for technology transfer between India and African countries*. Dar es Salaam: The Economic and Social Research Foundation (ESRF)

<sup>68</sup> D. Prasad, U. Ganesh, R. Badaskar. 2015. *Corridors for shared Prosperity- Spotlight on India-Africa Inclusive Business Transfer*. Hyderabad: Intellectap and Fu et al. 2014. *Innovation in LICs, a survey report*. Oxford: Growth Research Programme

## 4 The role of partnerships in SME growth

### In Brief

- Partnerships are important to business, particularly to small business, in developed and emerging countries alike. Their importance is even more apparent for inclusive businesses.
- Businesses engage in B2B partnerships and in cross-sector partnerships with government or NGOs.
- A B2B partnership is different to a standard contract because it shares risk, objectives, and obligations. There are different types of business-to-Business (B2B) partnership, including several that can facilitate technology transfer and adaptation.
- In partnerships, both parties must gain clear benefits and feel that the costs are worth it. Partnership gains to SMEs can range from access to a wider customer base, access to new technology and updated processes to access growth finance.
- There is considerable focus on multi-stakeholder partnerships, particularly since the SDGs, while much discussion of B2B partnerships focuses on MNC-SME partnerships.
- There is little evidence on the benefits of different types of partnerships to deliver different enterprise benefits, including access to innovation. There are more lessons on how to deal with challenges in the partnering process and how to build resilient partnerships with aligned expectations and win-win alignment.

### 4.1 The benefits of partnerships for SMEs

This section considers the literature on key questions deriving from previous sections: whether partnerships can help SMEs to address their constraints to growth and particularly address the constraints to innovation transfer identified in the previous section.

The importance of partnership to business, particularly to small business, is flagged in developed and emerging countries alike. For example, empirical analysis on the SME sector in the UK, conducted between 1993 and 1999, indicated that firms with inter-firm relationships in their supply chain experienced significantly higher growth rates.<sup>69</sup> A recent profiling of the SME sector in the UK comes to a similar conclusion, in that SMEs which work with external partners grow faster and perform better than those which go it alone.<sup>70</sup> Similarly, in emerging economies such as India, the importance of global partnerships for growth of Indian SMEs is stressed: "MSMEs should forge partnerships with their counterparts in various countries and try to become more competitive"<sup>71</sup>

Partnerships are one way to tackle the multiple constraints faced by SMEs, outlined in Section 2 above. Partnerships can be built to bring in talent, tackling the human resource constraint; to engage more effectively with BoP distribution networks or business clients, tackling the demand constraints; to build credibility and reduce risk, tackling the finance constraint; to strengthen supply chains, tackling efficiency constraints, or to tap into innovation, tackling the productivity and value proposition constraint.

<sup>69</sup> P. Wyncarczyk. & R. Watson. 2005. "Firm Growth and Supply Chain Partnerships: An Empirical Analysis of U.K. SME Subcontractors." *Small Business Economics*. 24, (1) pp. 39-51

[http://www.jstor.org/stable/40229408?seq=1#page\\_scan\\_tab\\_contents](http://www.jstor.org/stable/40229408?seq=1#page_scan_tab_contents)

<sup>70</sup> Higher Education Funding Council. 2015. New maps show partnership is central to local growth. Bristol: Higher Education Funding Council. <http://blog.hefce.ac.uk/2015/06/02/new-maps-show-partnership-is-central-to-local-growth/>

<sup>71</sup> Business Standard. 2015. Global partnership needed for growth of Indian SME sector: Minister. New Delhi: Business Standard [http://www.business-standard.com/article/news-ians/global-partnership-needed-for-growth-of-indian-sme-sector-minister-115120701166\\_1.html](http://www.business-standard.com/article/news-ians/global-partnership-needed-for-growth-of-indian-sme-sector-minister-115120701166_1.html)

The importance of partnerships for inclusive business or social enterprise seems even more apparent. For example, out of 120+ organisations surveyed to assess market demand for a partnership facility, almost 100 per cent indicated that a successful inclusive business requires successful cross-sector partnerships.<sup>72</sup> Eighty per cent of SEED winners from the past 10 years form multi stakeholder partnerships bringing together at least three different stakeholder groups, e.g. business, NGO, cooperatives, research institutions or government.<sup>73</sup> This is because successful operation at the BoP usually requires innovation, takes a company out of its comfort zone, and usually needs to tap into skills or assets of other organisations (commercial or non-profit). This was a finding from the 3-year pilot of the Business Innovation Facility, which noted that most corporates in the portfolio of inclusive businesses engaged in multiple partnership: "Many of the partnerships that they form are about innovating in the aspects of the market creation that they are not good at.... partnering becomes particularly valuable when the combined knowledge and resources of organisations with very different outlooks and experiences is combined in a way that creates something that is new to both."<sup>74</sup>

## 4.2 Types of partnerships

There are many different types of business partnerships, ranging from commercial supply chain relationships through pre-competitive alliances or joint ventures. Partnerships are categorised in many ways. The first distinction is between business to business partnerships, or 'B2B' partnerships in short, and business to non-commercial partners, which are government or NGOs. The latter are confusingly termed 'cross-sector' partnerships, but this does not mean that they straddle industrial sectors. To develop inclusive, sustainable supply or distribution chains, create new pro-poor products and services, address client awareness or financing, or to reduce the risk of investments in more fragile areas, business will almost always need to partner with other businesses or other types of stakeholders such as international and local NGOs, governments, donors, UN – that can bring essential resources, essential pieces of the puzzle to the table. These partnerships are a strong focus of work by The Partnering Initiative<sup>75</sup>, by UN organisations and donors, and of approaches to achieve the Sustainable Development Goals.

*"Multi-stakeholder collaboration is now widely seen as vital to creating a more sustainable world. But such collaboration (commonly known as 'partnership') is hard to build, manage and scale up without expertise that helps to navigate what is inevitably a complex and challenging process."<sup>76</sup>*

B2B partnerships can be further categorised in many ways, and most categories are not mutually exclusive. There can be some debate as to when a relationship is just a contract, or a commercial client-supplier relationship, and when it is an actual partnership. The Partnering Initiative has several criteria for distinguishing these, of which the key ones are that a partnership, unlike a principal-agent contract:

- entails reciprocal obligations between parties;
- seeks to allocate risk between parties;
- generates a work plan implemented by range of parties with pooled resources;
- allows each organisation to bring non-purchasable, non-tangibles to the table; and

<sup>72</sup> T. Kirkbride. 2016. Partnerships as a stepping stone for developing sustainable inclusive businesses. London: The Practitioner Hub for Inclusive Business <http://www.inclusivebusinesshub.org/profiles/blogs/partnerships-as-a-stepping-stone-for-developing-sustainable-1>

<sup>73</sup> C. Ehrensperger, J. Liebl, J Rudnik, M Zurker. 2015. *Turning Ideas into Impact*. Berlin: Adelphi Research

<sup>74</sup> T. Harrison. 2013. *Inside Inclusive Business: Take your partners: large companies and collaboration in the Business Innovation Facility portfolio*. London: Business Innovation Facility, p.7

<sup>75</sup> The Partnering Initiative: [www.thepartneringinitiative.org](http://www.thepartneringinitiative.org)

<sup>76</sup> T. Harrison. op. cit. p.8

- is framed by an agreement (legal or otherwise) which is more readily renegotiated if required to deliver results.<sup>77</sup>

There are different types of partnerships that involve businesses in some way. Most involve an element of innovation transfer and adaptation, plus other elements that develop the business model or supportive external environment:

- Alliances amongst multiple players:** this may involve several companies and focus on pre-competitive issues, such as regulatory change, or consumer awareness of a product (not a brand). For example, LPG companies or solar companies raise awareness and trust of their product types. Alliances may also include non-business actors alongside several businesses, for example the Toilet Board Coalition<sup>78</sup>, or the Southern Agricultural Corridor of Tanzania.
- SME to SME partnerships:** for example, a rural distributor partners with manufacturers of stoves, water filters and solar lanterns; a ceramic or plastic manufacturer partners with a hardware store and builders to develop the toilets value chain.
- MNC to SME partnerships:** for example, a consumer durables brand partners with an SME stove producer to improve, sell and scale the improved stove within their brand; or, a solar SME company partners with a telecoms company for mobile payments linked to usage of the system.
- MNC to multiple SMEs: most commonly termed 'linkage,' one or several MNCs with operating presence s (eg mines, processors) develop partnerships to develop SME capacity to compete within the large firms' supply chain.
- Business-financier partnership:** an improved stove company partners with an MFI to enable end-users or micro-retailers to afford the purchase; awareness-raising is also done through the MFI.

At present, there is considerable attention to partnerships between SMEs and large corporations. Initiatives to develop large firm procurement linkages with SMEs have been going for decades. More recently, a focus on innovation has emerged. The World Economic Forum defines 'collaborative innovation' as cases where "a young firm and an established firm share complementary resources and combine efforts to support innovative ideas" (p.4) and argues that it can create significant value for both parties as well as for the economies in which such collaborations take place.<sup>79</sup> Acumen and Business Fights Poverty analyse the potential for collaboration between social enterprises and global corporations identifying three different partnership models: skills partnership, channel partnership and venture partnership.<sup>80</sup> Intelicap identify two broad types of partnerships in their sample set: transaction-based commercial partnerships for sale of goods and services, and strategic collaborations with local firms to achieve common goals.<sup>81</sup>

The gain to the SME can vary widely: access to a large client, access to a much wider customer base (e.g. when partnering with an MFI, telecommunications, or household brand), access to new technology and updated processes (when partnering with a corporate or perhaps a more established southern SME), access to finance to grow (when partnering with a corporate). There may well be innovation transfer into the SME. The external partner gains customers and market intelligence in

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<sup>77</sup> T. Kirkbride. 2016. *Checklist: How to develop a Partnering Agreement*. London: The Practitioner Hub for Inclusive Business

<sup>78</sup> The Toilet Board Coalition [www.toiletboard.org](http://www.toiletboard.org)

<sup>79</sup> World Economic Forum. 2015. *Collaborative Innovation, Transforming Business, Driving Growth*. Cologny: World Economic Forum

<sup>80</sup> Acumen and Business Fights Poverty. 2015. *Social Enterprises and Global Corporations: Collaborating for Growth with Impact*.

<sup>81</sup> D. Prasad, U. Ganesh, R. Badaskar. 2015. *Corridors for shared Prosperity- Spotlight on India-Africa Inclusive Business Transfer*. Hyderabad: Intelicap

return.<sup>82</sup> However, innovation can also be transferred in the other direction. When an established brand aligns with an SME, particularly a social enterprise, it is taking an innovation into its structure with potential for mainstreaming it internally.

Not all B2B partnerships involve innovation or technology transfer. Those that do entail technology transfer with another company (whether MNC or SME) can take several forms (detailed further in Intellectap<sup>83</sup> and UNIDO<sup>84</sup> reports):

- ④ technology licensing;
- ④ subcontracting;
- ④ franchising;
- ④ joint venture;
- ④ trade partnership;
- ④ strategic alliance;
- ④ acquisition/ set-up;
- ④ knowledge sharing, workshops and seminars, twinning programmes.

### 4.3 Lessons for partnership success

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Partnerships are seen to be both necessary and challenging. Lessons to date focus heavily on the challenges and tips for overcoming them. Some emerging lessons also cover when partnerships are and are not needed, or when they should be ended. There is not yet enough evidence of different types of partnerships to be able to say which type works best for what purpose, nor to specifically analyse the alternative partnership options for transferring innovation.

The lessons that exist relate to good partnering practice, and are likely to apply to partners in any global alliance, joint venture, franchisee arrangement or other model. The key principles are to find appropriate implementation partners and implement a 'win-win' partnership. Some of the most commonly cited challenges are summarised by The Partnering Initiative and can apply equally to cross-sector partnerships and B2B partnerships:<sup>85</sup>

- ④ misalignment of partner expectations;
- ④ lack of partnering skills: limited understanding of what it takes to partner successfully;
- ④ organisations that are un-fit for partnering - many failing to recognise how their culture and behaviours need to adapting order to collaborate effectively;
- ④ communication breakdown - working inter (and even intra) sectorally can be surprisingly difficult and frequently leads to break down;
- ④ failure in terms of legislation and policymaking - to create an enabling environment for partnering;
- ④ donor practices undermining rather than supporting collaboration - by funding them inappropriately.

Lessons have also been drawn from years of programmes facilitating corporate SME procurement linkages. While these are very different partnerships to innovation partnerships, some of the lessons

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<sup>82</sup> Intellectap emphasises partnerships as critical in the African context because they offer access to customers and market intelligence in short timeframes without requiring high investments. In addition, in several African countries local partners are necessary to register a business or acquire fixed assets such as land and real estate.

<sup>83</sup> D. Prasad, U. Ganesh, R. Badaskar. 2015. *Corridors for shared Prosperity- Spotlight on India-Africa Inclusive Business Transfer*. Hyderabad: Intellectap

<sup>84</sup> M. Ingvarsson. 2013. *North-South and South-South Technology Transfer- A conceptual framework*. Vienna: United Nations Industrial Development Organization

<sup>85</sup> Partnership Brokers Association: <http://partnershipbrokers.org/w/learning/research-findings/>

are salient. A Topic Guide<sup>86</sup> notes that linkages take time to evolve and require 5, 10, or 15 years of support, and that an active sense of ownership, by both SMEs and the corporates, is essential. So facilitators must be active and committed long-term, but while empowering the partners. The authors note that despite the maturity of these approaches there has been little robust monitoring of results.

#### **4.4 Summary findings and gaps**

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Partnerships can create value for SMEs in many ways. They are seen as important to SMEs and particularly to socially-oriented businesses. There are multiple types of partnership and multiple potential benefits. Various partnership structures can support innovation transfer and adaptation, while partnerships can also help reduce risk, secure customers or finance. However, the evidence on how partnerships contribute to SME value is limited. The current focus is more on multi-stakeholder partnerships and MNC-SME partnerships, but even these have minimal data on results. There are several lessons on the implementation challenges of partnerships and how to reduce these.

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<sup>86</sup> K. Clancy, S. Parameswaran, M. Thomas. 2014. *EPS PEAKS Helpdesk: Making Market Linkages Topic Guide*. Nathan Associates Ltd

## 5 Catalysing SME growth with innovation and partnership

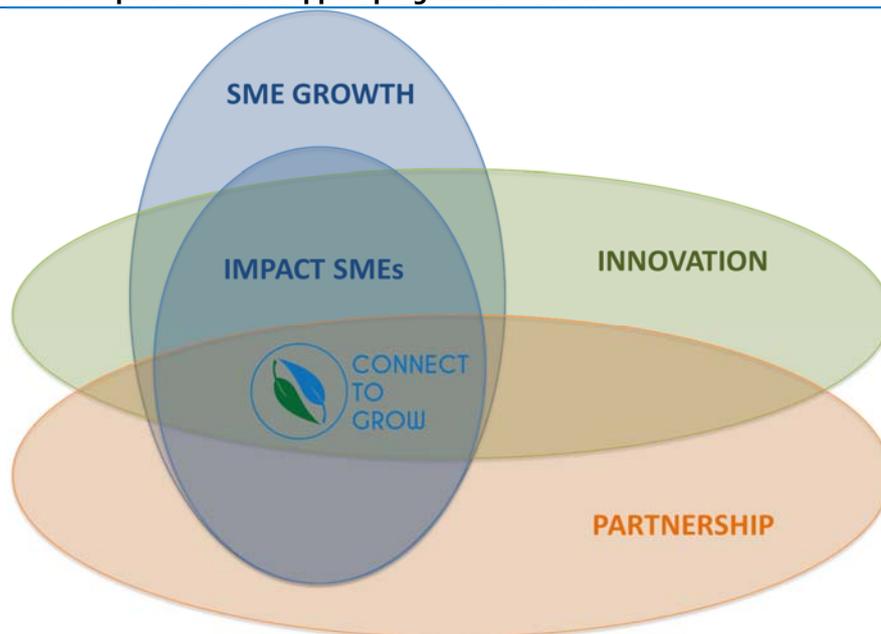
### In Brief

- There are countless private sector development (PSD) donor initiatives and other stakeholders that aim to support SME growth using a variety of instruments through different organisations. Many challenge funds, quasi-challenge funds, accelerators and impact investors focus specifically on SMEs that deliver social impact.
- Most mechanisms that prioritise SME growth focus on improving access to finance. However, there is recognition that money is not enough.
- A smaller number of programmes focus on supporting innovation or innovation transfer. These include SME support programmes, market system programmes and a few programmes dedicated to innovation transfer.
- Programmes have an innovation focus in order to address market failures in the innovation process, to screen for likely successful entrepreneurs, to adapt market systems, or to scale impact through innovation replication. They nearly all focus on the innovator rather than the adopter of innovation.
- A few programmes focus on, or include, support to partnering by business. Many focus on multi-stakeholder alliances and only a few on B2B partnerships. These include a focus on innovation transfer.

### 5.1 Overview of the landscape of mechanisms and initiatives

There are countless private sector development (PSD) donor initiatives and other stakeholders that aim to support SME growth using a variety of instruments through different organisations: investors, incubators, challenge funds, or commercial business development services. Several more programmes support innovation and more again focus on partnership. There are few that focus on the nexus of all of these: specifically supporting growth of SMEs with social impact through innovation transfer and enterprise partnership.

**Figure 1: Focus areas of private sector support programmes reviewed**



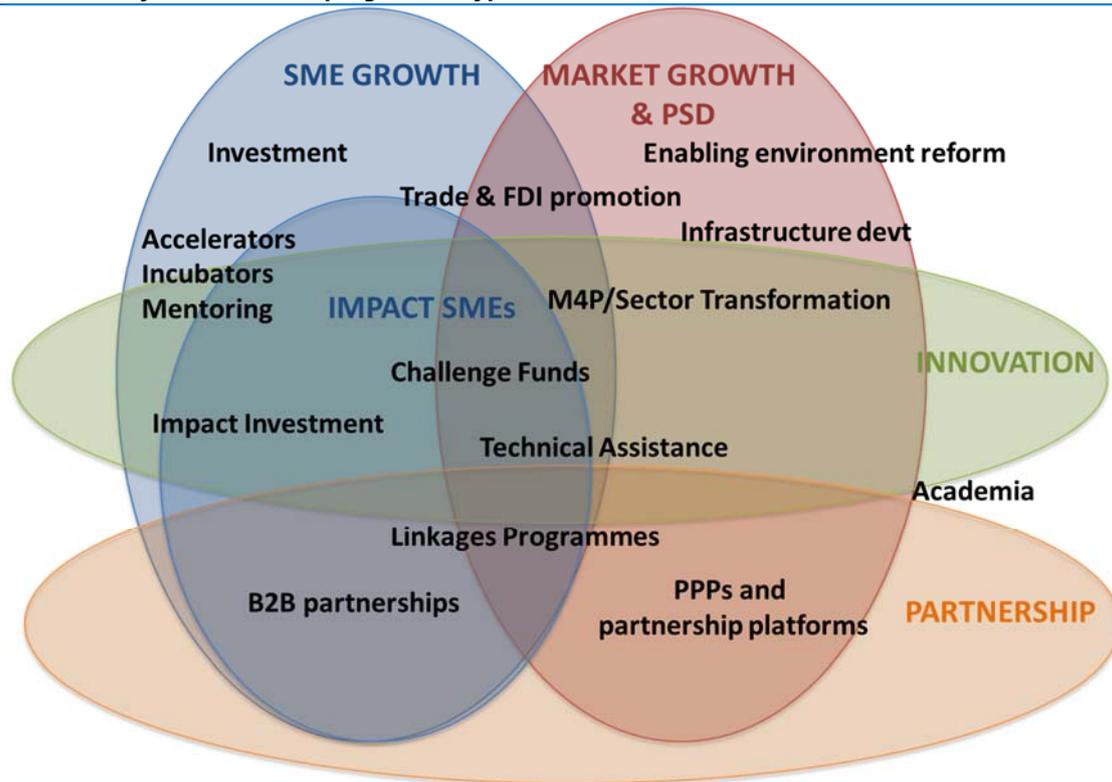
This section seeks to map the broad areas in which programmes are active, and look at the types of tools that are and are not being used for supporting SME growth, innovation transfer and B2B partnership. Figure 1 shows the focus areas of interest here, which have guided the mapping of programmes for this report.

In mapping initiatives with these foci, we find an array of initiatives, plus one additional area of focus – market system development – which overlaps considerably with innovation, partnership and SME growth. Thus, when we look at a range of initiatives that aim to support SME growth, SMEs with social impact, innovation in the South or B2B partnership in some way, we generate the following categorisation based on their primary objective:

- ④ **SME growth:** a wide range of initiatives focus on SME growth, including investors, accelerators, challenge funds, linkage programmes and trade promotion. Some of these focus on SMEs overall as a target group, while some focus specifically on SMEs with social impact, or social enterprises. The latter is thus a sub-set of the former.
- ④ **Growth of Impact SMEs:** most of the programmes that support impact SMEs have a degree of focus on innovation, because (as per sections 3.1 and 3.2 above) developing a scalable model at the BoP requires innovation. Similarly, the concept of a challenge fund is to tap innovation by applicants instead of prescribing solutions. Some of these programmes and challenge funds have innovation in the title (e.g. Innovations Against Poverty, which supported start-up social enterprises, or Global Innovation Fund, which supports businesses (and others) to take innovations to scale).
- ④ **Innovation at sector/market level:** there is a range of other programmes that also embrace innovation, that are not primarily focused on SME growth. A large group of programmes here aim to facilitate market system change and change at sector level, respectively. By definition, a programme that is seeking to transform the oil seed sector, the garment sector, or the renewable energy sector is aiming for change, and thus substantive improvements in products and processes. However, there are other initiatives focused on market growth (such as trade promotion, investment promotion, business climate reform) that also work on the macro or sectoral level, without an innovation focus. Thus there is high overlap, but not subsidiarity, between innovation and market growth, as shown by adding Market Growth to the figure below.
- ④ **Partnership at sector/market level:** market system programmes tend to build partnerships especially within a value chain. So even if they are not explicitly labelled as partnership programmes, there is strong overlap between market system programmes and partnership support. The focus on partnerships within SME support programmes is weaker, but in some cases has emerged as a need for SME growth (more on this below).
- ④ **Partnership at enterprise level:** finally, there are some programmes that are specifically focused on building partnerships, without necessarily a focus on SMEs. These can include south-south partnerships, including India-Africa partnerships.

These primary objectives of course overlap, and one instrument (such as a challenge fund) can be deployed for 2 or 3 of these primary objectives. This results in a map of programme objectives and instruments/activities that are roughly represented in our illustration in figure 2 below.

**Figure 2: Primary focus areas of programme types and mechanisms**



The following sections explore the main programmes and types of activity that are supporting SME growth, innovation (and innovation transfer) and B2B partnership, to assess the level and type of activity and identify gaps. Table 1 summarises the approaches that are explored in section 5.2, 5.3 and 5.4 with highlight findings.

**Table 1: Summary of intervention approaches to SME support, innovation and partnership**

Main approach	Typical focus	Key trends, potential gaps	Scale of operations and impact
<b>Interventions focused on SME growth</b>			
Financing intermediaries	Access to capital	Major focus on finance. But recognition that finance is not enough. Technical support increasing, including for improved models and partnerships.  Beyond finance: not clear there is enough support for getting the model right and scalable	Hundreds of programmes, possibly thousands.  Reaching 20-2000 enterprises each with mixed progress  Each reaching hundreds to hundreds of thousands of beneficiaries.
Direct investment	Capital & TA		
Challenge Funds	Risk tolerant capital, grants and TA		
Funds, quasi challenge funds,	Risk tolerant capital, grants, TA		
Awards	Cash, profile, some TA		
Acceleration, incubation, mentoring	Improved capacity, business model services		
Matchmaking	Finding partners, finance		
Business Advice	Improved capacity, model		

<b>Interventions focused on business innovation &amp; innovation transfer</b>			
SME support programmes, challenge funds, grants	Prioritise applicants with innovation, either to support pioneering or pick winners/scale innovations.	Focus on: Pre-screening innovators for support; Supporting value chain innovation; Supporting expansion by innovators.	Tens or scores of programmes that prioritise innovative SMEs to support. Wide reach but little reporting on innovation results.
Awards, prizes			
Impact investors			
Market systems programmes/M4P	Facilitate innovation in the value chain, encourage adoption/adaption	Gaps: no targeted support for innovation adopters to find and use innovation.	Scores of M4P programmes. Handful of innovation replication or transfer programmes (too new for results)
Innovation transfer support	Match-make partners, help innovators find adopters		
<b>Interventions focused on partnership support</b>			
Broker of value chain partnerships or global alliance	Multi-stakeholder partnerships. PPPs	Major focus on PPPs and multi-stakeholder partnerships. Less on B2B partnerships, but some linkages programmes.  Lessons on how to make a partnership work, less on how to find the right partner, implement partnerships or actual results of partnerships	Tens or scores of programmes with explicit partnership focus. Hundreds more likely to touch on partnership.  Lack of evidence on results of PPPs, B2B partnerships and alliances.
Technical support to partnerships	Facilitating business linkages on the ground		
Fund partnerships	Grant support for partnership implementation		
Donor acting as partner	Variation of a PPP		
Partnership facilitation service	Brokering a specific partnership		

## 5.2 Approaches to supporting SMEs: trends, examples, lessons and gaps

### 5.2.1 Most commonly used mechanisms

The main approaches being used to drive SME growth (leaving aside policy and regulatory focused initiatives) are:

- 🔍 **Investment in financing intermediaries to increase SME access to finance:** for example, IFC and other development finance institutions invest in banks and investment funds, with the aim of encouraging them to invest in SMEs. Southern governments also have various programmes to encourage and incentivise banks to lend to SMEs.<sup>87</sup>
- 🔍 **Direct investment<sup>88</sup>:** venture capitalists, private equity funds and a growing range of impact investors directly invest in SMEs, including those with a clear social impact. Some of these are

<sup>87</sup> For example, see Business Innovation Facility. 2012. *The landscape of SME finance in Bangladesh*. [http://www.bifprogramme.org/sites/default/files/attachments/projectresourceofsmefinanceinbangladesh\\_dec2012.pdf](http://www.bifprogramme.org/sites/default/files/attachments/projectresourceofsmefinanceinbangladesh_dec2012.pdf)

<sup>88</sup> It could be argued that investors' primary focus is financial return, with SME growth simply the means not the end. On the other hand, in the broad tent of 'impact investing' a large proportion define their impact as SME

sector focused (e.g. Injaro<sup>89</sup> in West Africa focuses on agricultural SMEs), others are cross-sectoral (e.g. Novastar<sup>90</sup> in East Africa covers any sectors that deliver benefits to low-income households). They range from the more commercial (e.g. Unitus Seed Fund<sup>91</sup>) to the non-profit (e.g. Acumen<sup>92</sup>). Investors do not just contribute their finance, but also their expertise. There is little evidence to date on the role and cost of such technical support by investors - often including networking and partnership brokering - but recognition in the industry that it is critical.<sup>93</sup>

- **Challenge funds:** donors<sup>94</sup> provide grant funding to SMEs that demonstrate ability to contribute towards a social solution, which is often defined for a specific sector or geography (e.g. renewable energy or agriculture in Africa, or post conflict affected states). Some are purely for the private sector, others include private sector applicants (while others are designed for non-profits).<sup>95</sup> Examples that support companies include the Africa Enterprise Challenge Fund (AECF)<sup>96</sup>, Vietnam Business Challenge Fund (VBCF)<sup>97</sup> and Enterprise Challenge Fund for Pacific and Southeast Asia (ECF)<sup>98</sup>.
- **Quasi-challenge funds and other funds:** there are donor-funded programmes that operate like a challenge fund (through competition between companies that can address a social problem) but don't focus on grants as the main instrument. They may combine grant funding with technical support or coaching/mentoring, such as in the Global Innovation Exchange Innovation into Action Challenge<sup>99</sup>. Or they may focus only on technical support, as the pilot Business Innovation Facility (BIF)<sup>100</sup> did. Connect to Grow could also be categorised as a quasi-challenge fund. Then there are other 'Funds' that share the financial instruments of a challenge fund (grants or loans) but don't operate a public competition mechanism. For example, Shell Foundation<sup>101</sup>, Omidyar Network<sup>102</sup>, Acumen all make grants as well as commercial investments but use selection processes that are more private, in line with investment behaviour.
- **Awards:** awards operate in a very similar way to challenge funds, in that they select the best amongst many companies, and support them with a mix of grants (prizes), profiling, networking, mentoring, or technical support. Examples include SEED<sup>103</sup>, Sankalp<sup>104</sup> and Ashden Awards<sup>105</sup>.
- **Acceleration, incubation and mentoring programmes:** most accelerators and incubators that target SMEs in low-income countries, and particularly those that target impact SMEs, are reliant on grant funds in some way. They provide forms of advice to accelerate business growth, often in

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growth. The Impact Programme. 2015. *The Survey of the Impact Investment Markets 2014*. London: The Impact Programme.

<sup>89</sup> Injaro Investments <http://www.iachl.com/>

<sup>90</sup> Novastar Ventures <http://www.novastarventures.com/>

<sup>91</sup> Unitus Seed Fund <http://usf.vc/>

<sup>92</sup> Acumen <http://acumen.org/>

<sup>93</sup> The Impact Programme. 2015. *The Survey of the Impact Investment Markets 2014*. London: The Impact Programme.

<sup>94</sup> Traditionally these donors were bilateral donors, but increasingly private foundations are also active in this space. For example, Mastercard Foundation now has the Fund for Rural Prosperity (focused on financial inclusion), Omidyar Network is a funder of the Global Innovation Fund.

<sup>95</sup> A. O'Riordan, J. Copestake, J. Seibold, D. Smith. 2013. *Challenge Funds in International Development*. London: Triple Line Consulting <http://www.tripleline.com/wp-content/uploads/2013/12/Challenge-Funds-in-International-Development.pdf>

<sup>96</sup> Africa Enterprise Challenge Fund <http://www.aecfafrica.org/>

<sup>97</sup> Vietnam Business Challenge Fund <http://www.vbcf.org.vn/>

<sup>98</sup> Enterprise Challenge Fund for Pacific and South East Asia <http://www.enterprisechallengefund.org/>

<sup>99</sup> <https://www.globalinnovationexchange.org/funding/innovation-action-challenge>

<sup>100</sup> Business Innovation Facility pilot projects <http://www.inclusivebusinesshub.org/page/all-business-innovation-facility>

<sup>101</sup> Shell Foundation <https://www.shellfoundation.org/>

<sup>102</sup> Omidyar Network <https://www.omidyar.com/>

<sup>103</sup> SEED <https://www.seed.uno/>

<sup>104</sup> Sankalp Awards <http://www.sankalpforum.com/awards-1/>

<sup>105</sup> Ashden <https://www.ashden.org/>

cohorts, usually face to face, but also online. A global research programme has started to assess the effectiveness of accelerators, and has identified over 50 such programmes.<sup>106</sup>

- 🌐 **Matchmaking programmes:** matchmaking happens both online and at events. Sankalp Africa for example provides a venue for Sankalp winners to pitch to investors, while IB Accelerator provides an online platform for SMEs to share information with investors.
- 🌐 **Business advice:** there are conventional business advisory services in emerging markets, some of which are conventional and commercial. Some are more focused on socially oriented SMEs, sometimes with an element of grant support for the intermediary or discounting for the SMEs. Open Capital Advisors<sup>107</sup>, Intellectap Advisory Services<sup>108</sup>, offices of the international accounting and consulting firms and a host of smaller business advisory firms all fall into this category.

It is quite common to see the same enterprise recur in different portfolios as they proceed through innovation awards, to accelerators and challenge funds and then impact investment. For example, sanitation business Sanergy has received grant funding from Sida, USAID, the Bill and Melinda Gates Foundation amongst others and now also has investment from Acumen and Novastar Ventures.<sup>109</sup> Solar energy enterprise d.light has received grant funding from DFID, USAID and Shell Foundation and now has various investors ranging from philanthropic investors (e.g. Omidyar Network) to venture capital firms (e.g. Nexus Venture Partners).<sup>110</sup> Agri-processing business Hortinet<sup>111</sup> has been a SEED winner in 2015 and has now registered for the Connect programme. Village Energy<sup>112</sup>, also a SEED winner in 2015, has been part of the cohort of the SPRING accelerator. Banapads<sup>113</sup>, producing sanitary pads from banana fibre, was a grantee of the Innovations Against Poverty challenge fund and is now also in the SPRING cohort. Enterprises transition through the support landscape, theoretically from softer funding to more commercial funding. While this transition may not be linear, it is generally between different sources of financial support with some investment readiness.

It is clear that where the main focus is SME growth, tools are seeking mainly to increase access to finance (commercial and grant), improve the business model (through acceleration and related services), and to some extent boost profile and thus networking. There is relatively little explicit focus on partnership brokering or innovation transfer. However, recent trends suggest some shifts:

- 🌐 **Money is not enough.** Although finance is the primary tool of many initiatives, technical assistance is recognised by investors as critical and it is increasingly programmed into challenge fund and other programme design. Traditionally, challenge funds focused purely on a competitive financial mechanism, a grant. More recent challenge funds are increasingly 'hands-on' to also provide technical support. AECF has gone furthest by establishing AECF Connect, which helps investees to find follow-on finance. DFID's Impact Fund<sup>114</sup> provides early stage investment alongside technical assistance and DFID is exploring a sister fund to focus solely on investment readiness. The Grassroots Business Fund<sup>115</sup> provides patient capital and business advisory services. The Sankalp awards are another example of an initiative that has moved from awarding cash only to integrating the award as one component into a wider enterprise support programme

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<sup>106</sup> The Entrepreneurship Database Program at Emory University recently published detailed data based on 4,125 early stage ventures whose founders applied through more than 50 different programmes and channels Social Enterprise Goizueta. 2016. *The Entrepreneurship Database Program at Emory University* [https://c.ymcdn.com/sites/ande.site-ym.com/resource/resmgr/GALI/2015\\_Year\\_End\\_Summary.pdf](https://c.ymcdn.com/sites/ande.site-ym.com/resource/resmgr/GALI/2015_Year_End_Summary.pdf)

<sup>107</sup> Open Capital Advisors <http://opencapitaladvisors.com/>

<sup>108</sup> Intellectap <http://www.intellecap.com/>

<sup>109</sup> Sanergy. Partners <http://saner.gy/about-us/partners>

<sup>110</sup> D.light. Investors <http://www.dlight.com/about-us/solar-energy-investors/>

<sup>111</sup> Hortinet, SEED winner <https://www.seed.uno/awards/all/2015/1827-hortinet.html>

<sup>112</sup> Village Energy <http://www.villageenergyuganda.com/>

<sup>113</sup> Banapads <http://www.inclusivebusinesshub.org/page/project-profile-banapads>

<sup>114</sup> DFID Impact Programme <http://www.theimpactprogramme.org.uk/>

<sup>115</sup> Grassroots Business Fund <http://www.gbfund.org/>

(Intellicap's Angel Network) in which the profiling (i.e. the Sankalp award) is just one element of a programme with the overall objective to get enterprises investment ready.

- **Programmes are adapting based on emerging lessons.** For example, the evaluation of the World Bank's Development Marketplace (DM) finds that there is a need for the programme to address gaps and challenges in supporting innovation<sup>116</sup> – something noted in a number of interviews with implementation staff and partners. Additional support to DM winners is now a focus, through a combination of technical assistance and facilitated links to investors. Thus non-cash support is increasingly valued, and to a significant extent that seems to be needed for innovation and partnership.
- **Some explicit focus on partnership building.** Some challenge funds focus partially on partnership potential, such as the Support to Clusters Window (SCI) of the Enterprise Innovation Challenge Fund (EICF)<sup>117</sup>. The objective of the SCI is to enhance the competitiveness of the productive sector by supporting clusters and value chains to compete in regional and global markets. The early design of the Business Innovation Facility pilot explicitly aimed to broker 'linkages' for inclusive businesses. And an evaluation of FORSA, a mentoring programme implemented in MENA within the Deauville Partnership, identified that identifying good local partners, whether corporates, business membership organisations (BMOs) or government SME agencies makes programmes such as FORSA more effective.<sup>118</sup>
- **Increasing focus on investment brokering.** One particular type of linkage recurs as a theme, which is linkage to investors for follow-on finance. This is somewhat different to brokering other kinds of B2B partnerships in the value chain. A clear example is AECF Connect, established as a specific mechanism to broker support.

### 5.2.2 Scale, reach and results of SME support programmes

Despite the growing plethora of programmes that fall into the categories summarised above, the reach of each tends to remain small with perhaps a few programmes reaching over a thousand SMEs, a few reaching over a hundred, and many reaching less than 100 (this excludes SME banking, which is no doubt much larger but not covered here). Challenge funds typically may have a portfolio of 40 -80 or so. Some, in particular if running over a multi-year period reach higher numbers. An accelerator cohort may have a few dozen; an impact investor in East Africa may do 2-5 new investments per year. An awards programme may have between 10-30 winners per year. Examples of different types of programmes and their respective reach are included in figure 5.

**Table 2: Examples and reach of SME support programmes**

Programme type	Programme example	Number of SMEs and beneficiaries reached
Challenge Fund / Quasi Challenge Fund (the most well established ones)	Development Marketplace	Awarded \$60 million in grants to more than 1,200 innovative projects over 15 years. <sup>119</sup>
	Development Innovation Ventures (DIV)	Invested nearly \$70 million in over 145 solutions in nine sectors and 36 countries since 2010.
	Africa Enterprise Challenge Fund (AECF)	Invested \$144 million in 202 projects by the end of 2014. <sup>120</sup> Directly benefited nearly 7 million rural people in 2014 alone.

<sup>116</sup> IMC Worldwide. 2014. *Evaluation of the Development Marketplace Program 2009-2013*. London: IMC Worldwide

<sup>117</sup> SCI window of the Enterprise Innovation Challenge Fund <http://competecaribbean.org/program/enterprise-innovation-challenge-fund/support-to-clustering-initiatives-sci/>

<sup>118</sup> DFID Development tracker. *Deauville Partnership - Small and Medium Sized Enterprise (SME) Mentoring Initiative for the Middle East and North Africa (MENA) Region* <https://devtracker.dfid.gov.uk/projects/GB-1-203792>

<sup>119</sup> IMC Worldwide. 2014. *Evaluation of the Development Marketplace Program 2009-2013*. London: IMC Worldwide

<sup>120</sup> African Enterprise Challenge Fund. 2015. *AECF Impact Report 2014*. Nairobi: AECF

Debt/ investment with TA	Grassroots Business Fund	Funds 19 active clients, which have reached 1.3m direct beneficiaries. <sup>121</sup>
Business Development Services (Training)	Malaysia Magic	Created a working community of 92 start-up founders and trained close to 14,000 entrepreneurs since April 2014.
Business Development Services (Incubation)	Villgro	109 enterprises incubated since 2011 <sup>122</sup> have generated around 4,000 jobs, secured US\$16.8m in follow-on funding, and touched over 15 million lives.
Accelerator	SPRING	Supported 18 enterprises in its first cohort. <sup>123</sup>
Awards	SEED	Announced 27 winners in 2015 and has supported 200 enterprises over the past 10 years, which have reached more than 12.3 million beneficiaries at the BoP. <sup>124</sup>
	Sankalp	Profiled 13 finalists to investors in 2016 at Sankalp Africa and has supported over 900 social enterprises over the past seven years. <sup>125</sup>
Investor matchmaking	Inclusive Business Accelerator	Lists 203 ventures online of which 65 marked as currently raising capital. <sup>126</sup>

There are several problems in understanding or interpreting the results reported by these programmes:

- ④ Results reported are often ad hoc and not easily comparable.
- ④ Much of the data that is shared and comparable focuses on numbers of people reached which is a reflection of a few factors: the maturity of the businesses within the portfolio, the share of ICT and non-durable consumer services/products within a portfolio, and the methodology of the portfolio for counting people. It is a poor indicator of the success of the intermediary organisation and reveals relatively little about enterprise success or impact of the programme.
- ④ There is a general lack of transparency and comparability in the sector. A distinct few prioritise lesson learning and transparency but most programmes do not.<sup>127</sup>
- ④ Many of these initiatives support SMEs at the pre-profit stage. So there is no clear indicator of success.
- ④ Those that engage during profitability (investors) are more likely to operate behind confidentiality barriers.
- ④ SMEs often engage in multiple programmes. So enterprise growth cannot be attributed to any particular input.

<sup>121</sup> Grassroots Business Fund. 2014. *Grassroots Business Fund 2014 Impact Report*. Washington D.C.: Grassroots Business Fund <http://www.gbfund.org/wp-content/uploads/2014/11/GBF-2014-Impact-Report-.pdf>

<sup>122</sup> Villgro <http://www.villgro.org/>

<sup>123</sup> Spring Accelerator <http://springaccelerator.org/>

<sup>124</sup> C. Ehrensperger. J. Liebl. J. Rudnik. M. Zurker. 2015. *Turning Ideas into Impact*. Berlin: Adelphi Research

<sup>125</sup> Sankalp. 2015. <http://www.sankalpforum.com/winners/>

<sup>126</sup> Inclusive Business Accelerator. *Ventures*. <https://iba.ventures/ventures/>

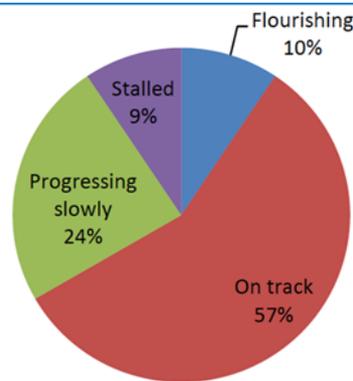
<sup>127</sup> Reporting results has been prioritised by Grassroots Business Fund, Innovations Against Poverty, Business Innovation Facility (pilot). But in other funds, lack of public reporting has been identified as an issue. The Vietnam Enterprise Challenge Fund scored A++ for its delivery on innovation support, but B on lesson learning and sharing<sup>127</sup>. Development Marketplace lacks programme and project data. AECF now shares useful data but only made its Annual Report and results public in 2015 after seven years of operation.

### 5.2.3 Mixed and variable SME performance

It is clear that mixed results among grantees/investees are delivered, and indeed expected. Several funds are explicit on this. The Business Innovation Facility pilot supported 40 businesses with technical assistance over 1-3 years. At the end of the programme period, roughly 5 per cent were flourishing, 40 per cent progressing well, 30 per cent progressing slowly, and 20 per cent either stalled or iced.<sup>128</sup> The Enterprise Challenge Fund (ECF) for the Pacific and Southeast Asia ran competitions for private sector applications offering innovative solutions to address market failures and stimulate long-term inclusive pro-poor economic growth. With 24 projects approved and 21 completed, ECF reported 14 projects (58 per cent) commercially sustainable. Between 2010 and 2013, 12 per cent performed very well (already being replicated or support other new businesses); 42 per cent performed well or adequately (by increasing income or employment but less likely to be replicated or support other businesses without some change); 33 per cent performed less well; 12 per cent were discontinued after grants were approved but before significant implementation.<sup>129</sup>

Data from three somewhat different initiatives – Business Innovation Facility, Innovations Against Poverty and Business Call to Action offering SMEs technical assistance, grants and profiling respectively – has been aggregated to illustrate overall success rates, as shown in the pie chart below.

**Figure 3: status of grantees in three portfolios, late 2014<sup>130</sup>**



N=117

There is a new but growing appetite for achieving greater comparability of data from different portfolios. For example, since 2013, the Entrepreneurship Database Program at Emory University has been partnering with accelerators and entrepreneur support programmes to collect detailed data from entrepreneurs during their application processes. And observations from data collected in 2013, 2014 and 2015 based on 4,125 early-stage ventures was published in May 2016. The most recent results report positive results for SMEs within acceleration programmes: “several rounds of follow-up surveys indicate that ventures participating in accelerators programmes grow revenues significantly faster during their year of acceleration than those not accepted into programmes. Moreover, their average increase in total investment (equity, debt and philanthropy) was \$34,528, which was significantly greater than the average increase of \$11,255 for ventures that applied but were not accepted.”<sup>131</sup> (p.2)

Fifteen accelerator programmes supported by Village Capital did not show a statistically different variation in revenue or employee growth in the first year between accepted and rejected entrepreneurs. But there was a statistically significant difference in 1-year investment growth (\$54,000

<sup>128</sup> C. Ashley, T. Harrison and C. Schramm. 2014. *The 4Ps of inclusive business*. London: Business Innovation Facility

<sup>129</sup> Coffey International Development. 2013. *Enterprise Challenge Fund for the Pacific and South-East Asia: Project Completion Report*. Australian Agency for International Development

<sup>130</sup> C. Ashley. 2014. *Spotlight: Is inclusive business showing results?* London: The Practitioner Hub for Inclusive Business

<sup>131</sup> Social Enterprise Goizueta. 2016. *The Entrepreneurship Database Program at Emory University* [https://c.ymcdn.com/sites/ande.site-ym.com/resource/resmgr/GALI/2015\\_Year\\_End\\_Summary.pdf](https://c.ymcdn.com/sites/ande.site-ym.com/resource/resmgr/GALI/2015_Year_End_Summary.pdf)

compared to \$6,000). However, results were highly variable, including negative, and mixed developing and developed countries, tech and non-tech portfolios.<sup>132</sup>

**Box 6: key findings from early research on accelerators**

Early findings from analysis of accelerator performance highlights the value of applicant experience, and partnership orientation, and found that accelerator time is more effectively spent on communicating, networking and organisational design rather than financial acumen.

Analysis of data from 15 acceleration programmes supported by Village Capital generated evidence to support the hypotheses that:

- ④ The quality of the accelerator partner (focus on putting the entrepreneurs first) improves performance of the portfolio.
- ④ The quality of the applicant pool affects performance of the portfolio. In the high-performing programme, there were fewer applicants but they had more intellectual property, more educational, entrepreneurial and senior management experience.
- ④ Entrepreneurs should not spend too much time working on or with the acceleration programme. In the high performing enterprises, the entrepreneurs spent more time working on their own (around half their time) compared to in the low-performing businesses).

The research gave limited support to the following predictions:

- ④ Networking amongst cohort members improves performance. High performing programmes were somewhat more partnership oriented with more peer-to-peer involvement
- ④ Emphasis on financial acumen improves performance. In fact the high performing programmes spent less time working on finance, accounting and formal business planning, and more time on presentation, communicating, networking, organisational structure and design.

Source: What's working in start-up acceleration?<sup>133</sup>

Shell Foundation report a dramatic change in success rates from changing their strategy to a greater focus on business-led solutions via long-term collaboration. "In our inception phase – where we largely provided short-term project-based support to multiple not-for-profit organisations – 80 per cent of the initiatives we supported failed to achieve scale or sustainability".<sup>134</sup> Since adopting their new strategy, "to focus on co-developing and implementing new business models with a few carefully selected strategic partners"<sup>135</sup> the ratio has been reversed.

In summary, the performance of SME support programmes is not easily quantified. Given the variety of programmes and SMEs, it would be impossible to benchmark typical progress in terms of SME growth achieved by such a range of intermediaries. It is clear that some positive results are being achieved, however, that results take some time, and mixed performance in a portfolio is to be expected.

**5.2.4 Findings and gaps**

There is a wide range of initiatives seeking to support SME growth – probably some hundreds of initiatives reaching thousands of SMEs that collectively reach some millions of client beneficiaries. The main focus is on increasing their access to finance – grant or risk-taking commercial capital. There is a growing focus on technical support to get the business model right, which may implicitly involve innovation or partnership. But only a few explicitly target either.

<sup>132</sup> P. Roberts et. al. 2016. *What's Working in Startup Acceleration?* Emory University, ANDE, Village Capital.

<sup>133</sup> P. Roberts et. al. 2016. *What's Working in Startup Acceleration?* Emory University, ANDE, Village Capital.

<sup>134</sup> C. West and C. Woodcraft. 2010. *Enterprise Solutions to Scale*. London: Shell Foundation p1

<sup>135</sup> *ibid.* p3

There is evidence that SMEs supported by these programmes have mixed progress, with successes and failures. The evidence is broadly positive, but not strong enough to determine the effectiveness of different tools or initiatives.

### 5.3 Approaches to supporting innovation and innovation transfer: trends, examples, lessons, gaps

#### 5.3.1 Most commonly used mechanisms

A number of programmes include a focus on 'innovation'. Indeed we have identified around 28 that have some focus on innovation, operate in the South and are related to SME/market development. Relatively few explicitly focus on 'innovation transfer'. Few, if any, focus on the adopter of innovation rather than the innovator.

Private sector development programmes are hard to categorise as often they apply a range of different tools for enterprise support, which are often not clearly explained on websites and in other publicly accessible documentation. With this caveat, the main types of programmes that have an explicit focus on innovation and encompass SME growth based on our analysis are:

- 🔍 **SME support programmes, challenge funds and other grant-making programmes focused on innovative SMEs:** challenge fund examples include Africa Enterprise Challenge Fund, Vietnam Business Challenge Fund, Malawi Innovation Challenge Fund<sup>136</sup>, Innovations Against Poverty<sup>137</sup>, Enterprise Innovation Challenge Fund, Development Innovation Ventures<sup>138</sup> and the Development Marketplace. They may combine finances and some form of TA or training, or in a few cases focus only on TA support, e.g. Business Innovation Facility pilot that supported the design and implementation of 'innovative inclusive business models' through hands-on technical assistance. Then there is a wider range of programmes funded by a range of different stakeholders ranging from foundations (e.g. Shell Foundation's Accelerating Access to Energy programme and DBS Foundation) to more traditional donor programmes (e.g. Market Development Facility in Asia Pacific<sup>139</sup>, Feed the Future Innovation Engine Kenya<sup>140</sup>).
- 🔍 **Awards/prizes:** usually comprise grants (e.g. Innovation Prize for Africa<sup>141</sup>) and increasingly also mentorship/advisory support (e.g. Sankalp India launched their first 'Innovation Challenge' in 2016). Awards and prizes usually aim to profile existing innovations/business models in order a) to enable the enterprises to gain more recognition/attract growth finance and b) to promote innovations beyond the enterprises per se.
- 🔍 **Impact investors:** these are seeking to fund and scale 'breakthrough' enterprises with above average growth potential. Implicitly these are likely to be innovative, though innovation may not be an explicit criteria or goal.
- 🔍 **Making Markets work for the Poor (M4P) or market system programmes:** these aim to create changes in value chains or market systems, including engagement with SMEs. Some examples include the Business Innovation Facility, Market Development Facility (MDF) or the Msingi programme, jointly funded by DFID and the Gatsby Foundation and the Private Sector Innovation Programme for Health. It is important to note that there are a range of other types of programmes not classified as M4P that also intend to achieve market level systemic change.

<sup>136</sup> Malawi Innovation Challenge Fund <http://micf.mw/>

<sup>137</sup> Innovations Against Poverty <http://www.sida.se/English/partners/resources-for-all-partners/Challenge-Funds/Innovations-Against-Poverty/>

<sup>138</sup> Development Innovation Ventures <https://www.usaid.gov/div>

<sup>139</sup> MDF <http://marketdevelopmentfacility.org/>

<sup>140</sup> Feed the Future <http://www.kfie.net/>

<sup>141</sup> Innovation Prize for Africa <http://innovationprizeforafrica.org/>

- **Innovation transfer programmes:** examples include Collaboration for Impact, Millennium Alliance<sup>142</sup>, South-South Global Assets and Technology Exchange<sup>143</sup>, India-Africa Agricultural Innovation Bridge<sup>144</sup>.

The first three of these share similar approaches to innovation, while the last two differ. The way in which innovation is supported is explained in the following sub-sections.

### 5.3.2 Approaches to innovation in SME support programmes

Approaches to innovation in the SME support programmes, challenge funds, quasi challenge funds and accelerators tend to include innovation as one criterion for support. They aim to stimulate the private sector to innovate and often state their focus on 'innovative business ideas'. In their review of 50 challenge funds for international development, Triple Line identify risk sharing to promote innovation as one of seven challenge fund characteristics and use the term 'enterprise challenge fund' to refer to funds that promote innovation and enterprise oriented to serving the 'bottom of the economic pyramid' or 'making markets work better for poor people' and note that "nearly all challenge funds invite applicants to be innovative rather than risk averse in project design".<sup>145</sup>

Beyond this broad focus on innovation in applications, there is rarely an explicit approach to cultivating innovation. But implicit logic seems to be of three kinds:

- **Co-financing for innovation to cross the pioneer gap:** for several challenge funds and quasi funds, the explicit rationale is to help entrepreneurs 'across the pioneer gap,' i.e. to the point where the model is proven, cost-efficiencies reached and commercial capital can be tapped. Innovations Against Poverty is an example. The concept of the pioneer gap is essentially a market failure that results in a lack of financing for testing and proving innovation. Programmes that invest in the pioneer gap can thus be seen as investing in the development of innovation on grounds of its positive externalities.
- **Screening based on innovation so as to pick winners:** some investors and support programmes use innovation as a criterion to identify the entrepreneurs most likely to succeed (see examples from SEED and Novastar below).
- **Support to scale-up and replicate innovations that can work,** as a means to create impact. Scaling up impact can be both or either through the original applicant, or through encouraging uptake of innovation by others. Examples include Development Innovation Ventures, Global Innovation Fund, Human Development Innovation Fund and various awards that profile the innovation as well as the innovator. Terminology tends to be on scaling or replicating impact rather than replicating innovation but adoption and adaptation of innovation is the means to scale. This logic thus overlaps with innovation transfer.

In the first and second of these, innovation plays a strong part in selection criteria – an applicant needs to show it already has something innovative. But innovation does not need to be a focus once support is committed. The aim is to grow the business that has met criteria without necessarily focusing on further innovation processes or transfer. Only a few quasi challenge funds explicitly support the innovation process, particularly those focused on 'human centred design'. The SPRING Accelerator<sup>146</sup> (funded by DFID, USAID and the Nike Foundation) and Amplify (funded by DFID with IDEO) are clear examples.

<sup>142</sup> Millennium Alliance <http://www.millenniumalliance.in/>

<sup>143</sup> SS-GATE <http://ss-gate.info/>

<sup>144</sup> India-Africa Agriculture Innovations Bridge Program <https://www.usaid.gov/india/news-information/press-releases/united-states-and-india-help-improve-farming-africa>

<sup>145</sup> A. O'Riordan, J. Copestake, J. Seibold, D. Smith. 2013. *Challenge Funds in International Development*. London: Triple Line Consulting p12

<sup>146</sup> Spring Accelerator <http://springaccelerator.org/>

Some programmes are explicit that innovation is a predictor of success. A few years ago, SEED had an internal review considering whether innovation should still remain a criterion for selection, (partly driven by the widespread but vague use of the term by so many stakeholders). The team came to the conclusion that innovation is indeed and inherent an important part of business success, hence still a criterion. Nowadays with some sectors/business models getting more and more mature, SEED getting around 50 proposals on briquettes and another 50 on cook stoves per year, the level of innovation is a very important factor for selection and also often closely linked to business success, i.e. the more innovative ones being more likely to succeed. Their definition of innovation is broad, covering product, technology, market, business model or partnership.

The impact investment fund, Novastar, reveal similar thinking in how they explain their focus and typical investee. The venture capital model seeks investees that are highly innovative because they need to have potential for rapid growth relative to their SME peers. The text below from Novastar's website indicates how they perceive the link between innovation and exceptional entrepreneurs.

**Box 7: Novastar Ventures website text on innovation and enterprise<sup>147</sup>**

Novastar is a venture catalyst firm assisting the next generation of exceptional entrepreneurs who are designing and executing innovative business models to profitably serve East Africa's aspiring mass market.

These 'New Stars' are the catalysts for innovation, accountability, efficiency and the accumulation of wealth for the common good.

While we are managing a pool of capital, we do not think of ourselves primarily as fund managers. The fun and focus of our work is partnering with entrepreneurs to help bring ideas to life and multiply their impact.

We deploy distinctive capabilities to support exceptional entrepreneurs who are creating and growing breakthrough business in East Africa.

Initiatives that focus on scaling-up innovations that can work, as a means to create impact, often explicitly focus on testing innovative products and services in the market to explore their potential for sustainability. For example, the Innovation into Action Challenge, provides the opportunity to test a product or service in the field. The programme criteria include a) that the product or service must be beyond the idea stage and have generated at least one transaction, and b) that the business model must be scalable, and have generated less than \$5 million in revenue in the past year.<sup>148</sup> Another example is the Global Innovation Fund<sup>149</sup>, which prioritises innovations that can scale through either a private or public sector route. It is the scaling of the innovation not of the applicant that ultimately matters. For this reason, generating evidence is prioritised, although in different ways for innovations that expect a private sector route to scale rather than a public sector route.

What is missing from all these approaches, is support to adopters of innovation. They support the innovator to scale, not the adopter who needs to find and integrate innovation to improve.

**Box 8: Definitions of innovations**

Several programmes that screen for or support innovation provide definitions. Most of these explicitly embrace different types of innovation – in the product or process.

- 🔗 IAP and BIF both categorised innovation based on 'new in the world, new in the country, new in the market' and accepted any of these.

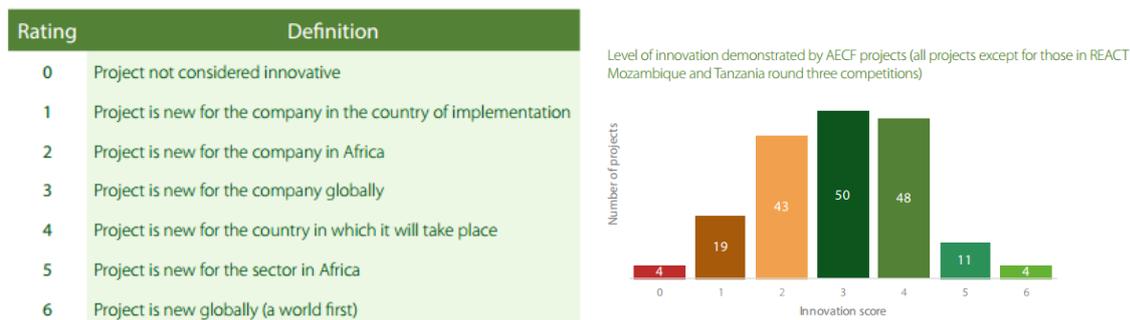
<sup>147</sup> Novastar Ventures <http://www.novastarventures.com>

<sup>148</sup> Innovation Into Action Challenge <https://dai.forms.fm/innovation-into-action-challenge>

<sup>149</sup> GIF <http://www.globalinnovation.fund/>

- ④ The Enterprise Innovation Challenge lists 'innovative merit' as one of their selection criteria referring to "the factors of differentiation of the proposed new project or service with respect to what is already available in the destination market. Technological impact also will be considered where applicable"<sup>150</sup>
- ④ The Human Development Innovation Fund defines innovation as "an approach, idea, technology or service delivery method that is new to Tanzania and/or the world, or offers an improvement or scaling up of such an innovation".<sup>151</sup>
- ④ The Africa Enterprise Challenge Fund categorises each project at application stage using the AECF innovation scale ranging from 0 (Project not considered to be innovative) to 6 (Project is new globally (a world first)). More innovative projects are expected to have a greater potential for market systems impact. In their 2014 portfolio review, 35 per cent of projects categorised had at a minimum been new in the country in which they take place (see figure 7 below).<sup>152</sup>
- ④ The Global Innovation Fund (GIF) uses innovation as one criterion, and defines it as 'more cost effective than existing practice'. This definition means that boundaries change over time - innovation is not a one-time judgement at the start, but an intended aim as the grantee/investee evolves towards scale.
- ④ The Innovations in Gender Equality programme in Tanzania, which aims to catalyse innovation to enhance women's participation in the agricultural sector and help improve food security has a similar approach. Innovation is defined as 'a solution that reduces time and labour burdens for agricultural tasks particularly for women.' While it is a criteria for selection of grantees, the provision of grants and TA focus on increasing innovative capacity amongst farmers to become more 'inventive' through the provision of technology design training.<sup>153</sup>

**Figure 4: AECF innovation scale and level of innovation demonstrated by AECF projects (2014)**



### 5.3.3 Approaches to innovation in M4P programmes

Traditional M4P programmes aim to "stimulate investment and encourage firms to innovate, reduce costs and provide better quality jobs, goods and services to more people"<sup>154</sup>. The market development process often starts with a comprehensive initial market/sector analysis to identify constraints to the poor for effectively operating in the target markets. Programme interventions are then designed to address these challenges by identifying and piloting innovative private sector-led market activities often involving innovative partnerships and some element of investment, grant funding and/or TA. For example, the Business Innovation Facility has recently analysed the tourism sector in Myanmar and came to the conclusion that lack of innovation in the sector was one of the key constraints to poor

<sup>150</sup> Compete Caribbean. Innovation Window. <http://competecaribbean.org/program/enterprise-innovation-challenge-fund/innovation-window/>

<sup>151</sup> Human Development Innovation Fund. *What is Innovation?* <http://www.hdif-tz.org/en/faqs/index#faq2>

<sup>152</sup> African Enterprise Challenge Fund. 2015. *AECF Impact Report 2014*. Nairobi: AECF

<sup>153</sup> <http://www.landolakes.org/Where-We-Work/Africa/Tanzania/Innovations-in-Gender-Equality-to-Promote-Househol>

<sup>154</sup> DFID & SDC. 2008. *A Synthesis of the Making Markets Work for the Poor (M4P) Approach*. Bern: SDC

people benefitting. Programme facilitation now focuses on working with small tourism operators to explore to what extent existing innovations from elsewhere, e.g. the operation of night markets selling handicrafts in Thailand, or organisation of cycling and walking tours to local villages generating income earning opportunities to people living remotely in Cambodia, offer a viable business opportunity in Myanmar.

Market system programmes aim to enable industry or sector-wide impacts. Therefore, the diffusion and adoption of innovation beyond 'first mover' enterprises is often a key programme objective. For example, Msingi, an East African industry development organisation funded by the Gatsby Charitable Foundation and DFID, will apply technology transfer within its wider Industry Programmes at two levels: a) through working with pioneering firms in East Africa to enable them to adopt proven international technology, and b) through enabling industry-wide technology diffusion and innovation in order to achieve overall competitiveness improvements. Msingi's work in technology transfer will be based first on the need for technology upgrading in high potential industries, rather than driven by a technology supply-side push.

Although diffusion of technology to adopters is a priority within this approach, the choice of technology that 'needs to be diffused' is a product of the market analysis, rather than any individual entrepreneur's need.

#### 5.3.4 Approaches of innovation transfer programmes

Beyond market development programmes there are relatively few programmes that have an explicit focus on innovation transfer and SME growth. Five leading examples include:

- 🌐 **Millennium Alliance (DFID):** Launched in 2012, aiming to identify, test and scale innovative solutions being developed in India to address development challenges that will benefit BoP populations elsewhere (in India or other countries). Millennium Alliance takes a broad approach to defining innovation: "Both new products and improvements to existing services or business models qualify."<sup>155</sup> The programme focuses on the innovation source, and provides seed funding, grants, incubation and accelerator services, networking opportunities, business support services, knowledge exchange and TA and facilitates access to growth capital. Indian local private and non-governmental entities, Indian for profit and non-profit educational institutions as well as private individuals who are legal residents of India are eligible to apply for programme support. The programme has published information about awardees from three selection rounds so far. No further impact information is available. Funding for Stage 1 grants is fixed at US\$44,780, where US\$14,900 are designated for capacity building. Stage 2 grants may be awarded up to US\$149,270.
- 🌐 USAID has granted financial awards to three Indian organisations through its **India-Africa Agriculture Innovations Bridge Program**. USAID, in partnership with Indian non-profit organization Society for Research and Initiatives for Sustainable Technologies and Institutions (SRISTI) aimed to transfer three types of low-cost mechanization and processing equipment to Kenya (supply driven). Scalable innovation proof of concept in India prior to transfer was not a criterion of those to support. Indian and African organizations will demonstrate new technologies and promote local manufacturing to ensure long-term sustainability. The programme has continued in the dairy sector in Kenya entitled India-Kenya Dairy Innovation Bridge Program.
- 🌐 **South-South Global Assets and Technology Exchange (UN):** a transaction and services platform that facilitates exchanges of technology (innovation), assets, services and financial resources for inclusive growth of developing countries. It is a global system that encourages private sector, public sector and civil society groups to engage in market-driven exchange of goods and services. The SS-GATE system also provides services in the form of market research, legal, technical and consulting services, and financing. SS-GATE facilitates business transaction through a market

<sup>155</sup> Millennium Alliance. FAQs. <http://www.millenniumalliance.in/Faqs.aspx>

mechanism, offering both on-line and off-line end-to-end supporting services, including: project listing, project matchmaking, business facilitation.

- **Kosmos Innovation Centre:** an innovation exchange centre in Ghana focused on the nexus between information and communications technology (ICT) and agriculture, with the goal of inspiring entrepreneurs to transform Ghana's agriculture sector. Created in 2016, KIC uses a three-part approach: Collaboration, Incubation, and Acceleration. Through workshops, conferences, and other events, the KIC brings together experts and innovators from business, technology, finance, academia, and more, to develop solutions together. Through formal competitions focused on innovation, the KIC challenges young entrepreneurs to use technology to develop commercially viable solutions to development challenges within the chosen sector. Selected entrepreneurs receive seed funding, technical assistance, and mentorship to help them turn their ideas into reality. Capital investment is also available to accelerate development of small businesses.
- **Collaboration for Impact (USAID):** Launched in 2016 and aims to facilitate innovative partnerships between corporations (from anywhere) and small and growing businesses in East Africa. The facility will help businesses discover partnership opportunities; match and curate partners; build operating models; facilitate formalisation of partnerships; and drive scale-up of partnerships. Innovation is mostly focused on the type of partnership, i.e. the facilitated partnership would not have happened without support. Advisory support is provided by implementing agency Intellectap, worth up to \$50,000 financed by USAID and at least 50 per cent matched funding from the enterprise partners. Establishing the partnerships, in particular the development (and eventually piloting) of business cases for each partner is a core focus of the facility's value proposition. For USAID, a key programme focus is on learning on how innovative and commercial partnerships emerge and work: "We are interested in learning and collecting lessons from corporate-enterprise partnerships through this facility that can help others to replicate these kinds of partnerships."<sup>156</sup> The programme will track partnership specific KPIs such as new products launched, revenue/growth, and additional clients served.

The first two of these focus primarily on the innovator who has an innovation to share or scale. The last three support both the innovator and adopter to come together, by providing a match-making process with varying amounts of follow up support. None start with the adopter who needs innovation. Indeed, in discussion, a member of the Bridge programme team commented that the programme had not been demand driven programme which had made transfer slower and this is an area to look at more closely in future.

### 5.3.5 Progress in supporting, transferring and scaling innovation

There is minimal reporting by any of the initiative above on progress in supporting innovation per se. The enterprise support programmes report progress of the enterprises and the numbers of people reached, as already described in section 5.2.2. For example, Feed the Future Innovation Engine in Kenya reports progress in terms of innovations supported: since 2012, 17 innovations have been awarded (including 13 private sector firms) investing over \$1.2m and benefitting over 17,000 smallholder farmer households in 13 counties across Kenya. However, this is not very different from the reporting by other challenge funds of the number of innovative entrepreneurs supported and their reach.

Innovations Against Poverty shared some data illustrating the difference between innovation processes and business growth at the completion of the 3-year pilot. Of the 29 Innovation Against Poverty (IAP) grantees reporting in 2013, two found through their IAP funded research and market testing that their inclusive business models are not viable. The companies will continue to operate, but their inclusive business initiatives will not continue in their current form. I.e. the innovation was found not to work.

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<sup>156</sup> S. Raikundalia. 2016. *Collaboration for impact: partnership connects corporations and social enterprises*. Hyderabad: Intellectap

One third expects that despite significant challenges to date, its initiative will be successful (and indeed break-even within a couple of years) as a result of learnings from, and changes in, the project.<sup>157</sup> I.e. the IAP-supported process had led to useful lessons to improve the business innovation, though had not achieved viability at this point.

The Business Innovation Facility pilot shared some findings on how grantees catalysed innovation by others. Four types of systemic impact or innovation influence were identified in 2014:<sup>158</sup>

- ④ Adoption or adaptation of the grantee's innovation by others in the same value chain. E.g. expansion of O-gas saw competitors sell similar stove tops
- ④ Response by regulators to innovation: e.g. growth of 3S Shramik toilet system led to state governments engage in discussion for new sanitation models
- ④ New innovations enabled by the first innovation: success of JITA rural sales network led to new research with companies on potential for more socially beneficial goods
- ④ Innovation within different markets: expansion of I-school e-learning catalysed development of apps for health and literacy by other companies that can be incorporated by i-school clients.

Such reporting is different from conventional SME progress reporting, but still reveals little about pathways of innovation transfer or the process by which the adopter incorporates and adapts the innovation.

Other initiatives such as Millennium Alliance, Collaboration for Impact and Global Innovation Fund, which have the most explicit foci on innovation scale or transfer began too recently to be able to report results.

We have not found any reporting of impact on innovation adopters to date, although the expanding areas of in-depth impact assessment within M4P programmes may focus on innovation adopters.

### 5.3.6 Findings and gaps

A minority of programmes that engage with SMEs and the private sector focus on innovation. But there is a clear set of programmes that do either prioritise or support innovation. They either:

- ④ Screen for innovation so as to select entrepreneurs with high growth potential
- ④ Prioritise support to innovative models so as to correct market failure and enable development of innovation, or scaling of innovation
- ④ Broker innovation transfer, generally by starting with the innovator that has interest to scale.

There is relatively little support for the innovation process per se within a firm. And while there are half a dozen interventions that support innovation transfer or partnership, none start with the adopter.

## 5.4 Approaches to supporting partnership: trends, examples, lessons, gaps

### 5.4.1 Most commonly used mechanisms

A number of programmes include a focus on 'partnerships'. We have identified around 27 that operate in the South and are related to SMEs. About half of them also have an explicit focus on innovation, and a handful make reference to 'partnership' in the programme title. Many programmes, e.g. M4P programmes, do not explicitly focus on partnership brokering as a programme objective but partnerships tend to be part of supported business models. There are many different types of partnerships, which are supported by a range of programmes.

<sup>157</sup> SIDA. 2013. *From Paper to Practice: learning from the journeys of inclusive business start-ups*. Stockholm: SIDA

<sup>158</sup> C. Ashley et. al. 2014. *Adding value to innovation? Lessons on donor support to inclusive business from the Business Innovation Facility pilot*. London: Business Innovation Facility

- 🔗 **Donor-business partnership:** e.g. the Business Partnerships Platform<sup>159</sup> supporting Australian businesses to invest overseas by offering matched grant funding of US\$100,000 to US\$500,000; GIZ partnering with a business under its DeveloPPP programme<sup>160</sup>. These are one type of PPP, in which the public partner is a donor. The southern business is more likely to be medium or large.
- 🔗 **Northern to southern B2B partnership:** these initiatives link northern/donor country to southern. E.g. US-ASEAN Connect programme<sup>161</sup> to strengthen trade relationships, or the Austrian Aid Programme Business Partnership supporting innovative<sup>162</sup>, long-term investments of enterprises from European Economic Area (EEA) and Switzerland in any emerging or developing country. They are not particularly focused on SMEs.
- 🔗 **Public Private Partnerships (PPPs)** in emerging markets within value chains or specific sectors: there are a number of programmes that seek to broker partnerships across a value chain, usually public-private partnerships and usually for investment. E.g. the Competitive African Rice Initiative<sup>163</sup> (CARI) (supported by GIZ) has a Matching Fund, which supports PPPs to improve productivity, efficiency, access to finance, and smallholder benefits in the rice value chains. SMEs such as rice processors are likely to be critical to this. There are also higher level coordination/facilitation platforms that act as umbrella organisations for such initiatives. E.g. Grow Africa<sup>164</sup> brokers collaboration between governments, international and domestic agriculture companies, and smallholder farmers in order to lower the risk and cost of investing in agriculture, and improve the speed of return to all stakeholders. It supports more specific partnership platforms such as CARI, SAGCOT, the Beira Corridor, the Cassava Platform.
- 🔗 **Multi-stakeholder value chain partnerships:** initiatives foster multi-stakeholder partnerships as a way to secure sustainability and scale of inclusive business and market systems: e.g. the Shell Foundation aiming to transform agricultural supply chains, the cluster window of the Enterprise Innovation Challenge Fund, DFAT's Seed Pacific brokering partnerships between businesses and local organisations (businesses, social enterprises, civil society organisations, universities) to develop commercially viable ventures that deliver development impact. SMEs are a key focus.
- 🔗 **Public private alliances:** organisations have been established which are themselves a public private (and often third sector) alliance, and builds collaboration as part of their mandate. They may focus on a specific sector, development challenge, or geography. E.g. the Toilet Board Coalition, the Global Alliance for Improved Nutrition, the Southern Agricultural Corridor of Tanzania (SAGCOT).
- 🔗 **MNC to SME or NGO partnership:** e.g. the Business for Development Initiative links farmers with large food companies, Collaboration for Impact, Business Linkages Challenge Fund.
- 🔗 MNC to several SMEs: e.g. IFC linkage development programmes around mines, supporting SMEs in the supply chain.
- 🔗 **Partnerships between SMEs and investors:** while these can be called B2B partnerships, they are really investment brokering and different to our focus. Examples include AECF Connect, and the Inclusive Business Accelerator. Note there are numerous business development service providers whose support includes investment brokering. This category is not explored further here.
- 🔗 **Innovator entrepreneur partnerships.** These are increasingly brokered through online and offline matchmaking networks. The newly launched Kosmos Innovation Centre aims to bring together innovators and entrepreneurs in agriculture in Ghana<sup>165</sup>. Its AgriTech Exchange provides

<sup>159</sup> Business Partnerships Platform <http://dfat.gov.au/aid/who-we-work-with/private-sector-partnerships/opportunities/Pages/business-partnerships-platform.aspx>

<sup>160</sup> DeveloPPP <https://www.developpp.de/en>

<sup>161</sup> <http://asean.usmission.gov/factsheet02172016.html>

<sup>162</sup> <http://www.entwicklung.at/en/austrian-development-cooperation/actors/ada/>

<sup>163</sup> Competitive African Rice Initiative <http://cari-project.org/our-work/overviewstrategybenefits/>

<sup>164</sup> Grow Africa <https://www.growafrica.com/>

<sup>165</sup> Kosmos Energy Innovation Center. 2013. "Kosmos Energy Under its Kosmos Innovation Center Programme Hosts Inaugural Two-Day Agritech Exchange Event in Accra" <http://www.kosmosinnovationcenter.com/kosmos->

matchmaking events and then will offer mentoring partnerships that emerge. The South South Global Assets and Technology Exchange<sup>166</sup> offers online and on-site business matchmaking space.

The different types of programmes that support such partnerships fall into four broad groups. Few have SME growth as a main objective, but often as part of their strategy. Broadly speaking, the roles of programmes are:

- ④ Acting as a partnership or alliance, to foster further cross-sector collaboration across a value chain. E.g. Grow Africa, Toilet Board Coalition.
- ④ Providing technical support and facilitation to catalyse specific business relationships. E.g. Collaboration for Impact, Market Development Facility, IBA LINK in Mozambique, Business Linkages Challenge Fund
- ④ Funding partnerships, e.g. challenge fund cluster window
- ④ The donor acting as a partner with business to scale a development solution (e.g. DeveloPPP).

#### 5.4.2 Trends and emerging lessons in partnership support

The growth in programmes and alliances that are premised on partnership building reflects development trends: recognition of the need for partnerships as a way to tackle complex global problems, and to achieve more than any single actor can alone; emphasis on the role of the private sector as a development actor; thinking on how to achieve the SDGs. Public-private collaboration is a particular area of focus.

As part of these trends, there is a growth in partnership action research, such as by The Partnering Initiative (focusing on cross-sectoral partnerships at an international/national level) and the PPPLab (focusing on food and agriculture partnerships). There is also growth in partnership facilitators. For example:

- ④ Partnership Brokers' Association (PBA)<sup>167</sup>: there are over 1,300 alumni from the courses of the Partnership Brokers' Association (PBA) around the world. Some act as facilitators and others are inside companies working on partnership.
- ④ The Promoting Elective Partnering (PEP) Facility is a project of the Dutch Government undertaken during its time as co-chair of the Global Partnership for Elective Development Cooperation (GPEDC). PEP has been initiated by a partnership of a number of organisations: The Collective Leadership Institute; Partnership Brokers' Association; Partnership Resource Centre; Partnerships in Practice and The Partnering Initiative. PEP exists to support the work of development professionals and practitioners so that they collaborate ever more effectively to achieve the SDGs.<sup>168</sup>
- ④ Building Partnerships for Development<sup>169</sup> (a non-profit, focused in WASH) supports the creation of locally-owned and run country level platforms or Hubs that systematically bring together government, business, donors, the UN and NGOs to demonstrate the alignment of interests, facilitate innovation and directly support 'win-win' partnerships.
- ④ Building Markets<sup>170</sup> is an organisation providing business matchmaking support services with the aim to connect local enterprises (SMEs) to new business opportunities. Focus is on supplier

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energy-under-its-kosmos-innovation-center-programme-hosts-inaugural-two-day-agritech-exchange-event-in-accra/

<sup>166</sup> United Nations Office for South-South Cooperation. South-south global assets and technology exchange (ss-gate) <http://ssgate.ssc.undp.org/>

<sup>167</sup> The Partnership Brokers Association <http://www.partnershipbrokers.org/>

<sup>168</sup> The Partnership Brokers Association. 2010. *The necessity of transformation*. London: The Partnership Brokers Association

<sup>169</sup> Building Partnerships for Development in Water and Sanitation <http://www.bpdws.org/>

<sup>170</sup> <http://buildingmarkets.org/>

relationships and according to the company website, since foundation in 2004 the organisation has assisted local SMEs in winning over 17,000 contracts worth \$1.3bn<sup>171</sup>

- There are private companies now offering bespoke partnering support, such as Partnerships in Practice<sup>172</sup>, which focuses on WASH sector and builds on previous work and staff of BPD.

Key lessons shared by partnership brokers and facilitators, including The Partnering Initiative, are that partnering is difficult, takes time, needs attention, benefits from active facilitation and can challenge organisations. For example, TPI publications<sup>173</sup> cover steps for partnering, and how to check if organisation culture is conducive to partnering. Tips on how to build strategic alliances have been shared by other organisations, such as the Toilet Board Coalition, reflecting on their first year of operation. Tips for businesses on how to use partnerships for delivery of their business models have been identified, such as in publications from the Business Innovation Facility pilot.<sup>174</sup>

As the SEED Programme has evolved, its approach towards partnership support has evolved. At the beginning of SEED, criteria for who could apply were rather rigid. Up until 2009, one partner from each of the sectors (NGO, private, government) could apply. From 2010 onwards, there was more flexibility, e.g. it is now also possible for three NGOs to apply in partnership. The majority within the current portfolio are enterprise-NGO partnerships. SEED recognise that some entrepreneurs are just not made for partnership, but still find it a useful application criteria and indicator for likelihood of success. The programme does not specifically track B2B partnerships and their impact. But every allocation of TA support (15 days in total) for winners kicks off with a 3-day partner workshop. In some cases it is the first time that 'partners' all come together in the same room; either because they weren't real partners previously or because there may have been bilateral conversations but not all together.

While lessons are emerging on the challenges and tips of partnering, there has been very little analysis to date of the results of partnership programmes, and particularly of SME partnerships. SMEs and challenge funds are not reporting progress of partnerships per se, but of businesses. Platforms aimed at supporting PPPs can report progress in terms of numbers of deals and investment leveraged. Grow Africa, for example, reports US\$10billion of investment committed, US\$2.3 billion actually in the ground, reaching 10 million smallholders and creating 88,000 new jobs. Action researchers, such as at IDS, are starting to critique PPPs and their achievements, noting progress but lack of much evidence to date.<sup>175</sup> As noted above, analysis and reports that focus more specifically on business partnerships have generated useful typologies and some examples, but very limited data on effectiveness.

A valuable exception is the evaluation of a DANIDA funded B2B partnerships programme published in 2011.<sup>176</sup> The B2B Programme provided grant support to Danish companies and their partners in eligible countries of up to DKK 5 million (\$750,000) with the aim to promote the establishment of long-term, sustainable and commercially viable partnerships between companies in Danida's programme countries, including Egypt and South Africa, and Danish companies, with the aim of

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<sup>171</sup> <http://buildingmarkets.org/our-impact>

<sup>172</sup> Partnerships in Practice <http://partnershipsinpractice.co.uk>

<sup>173</sup> The Practitioner Hub for Inclusive Business and The Partnering Initiative, Inclusive Business Partnership Know-how page <http://www.inclusivebusinesshub.org/page/know-how-partnerships-for-inclusive-business>;

The Partnering Initiative's Partnering Agreement Scorecard <http://thepartneringinitiative.org/tpi-tools/the-partnering-agreements-scorecard/>;

C. Ashley. 2016. *Editor's Choice March 2016: A practical tool for navigating Partnership Culture*

<http://www.inclusivebusinesshub.org/profiles/blogs/editor-s-choice-march-2016-a-practical-tool-for-navigating>

<sup>174</sup> T. Harrison. 2013. *Inside Inclusive Business: Take your partners: large companies and collaboration in the Business Innovation Facility portfolio*. London: Business Innovation Facility

<sup>175</sup> J. Thorpe, and M. Maestre. 2015. *Brokering Development: Enabling Factors for Public-Private-Producer Partnerships in Agricultural Value Chains*. Assesses PPPPs in agriculture in 4 countries. (The fourth 'P' is producers).

<sup>176</sup> Danida (2011). *Evaluation of Danida Business-to-Business Programme 2006-2011*. Synthesis Report. Ministry of Foreign Affairs Denmark

strengthening local business development. The evaluation came to the conclusion that the programme was efficient in delivering matchmaking and stimulating initial partnerships and transfer of knowhow due to active work by the programme stakeholders, combined with the liberal subsidies. However, it found low programme efficiency in creating sustained and commercially viable partnerships beyond the programme support period, as only about 27% of the 445 supported partnerships continued, or were considered as likely to continue after the support ceased. And based on a random sample of local companies involved in the partnerships, the vast majority showed more or less the same performance as prior to programme engagement. The lower efficiency in creating sustained partnerships was mainly ascribed to the high grant element in the project phase in combination with a weak due diligence of proposals by the embassies.

#### **5.4.3 Findings and gaps**

In conclusion, the use of the term partnership, including in titles of programmes, is fairly high. But the term is used somewhat loosely, where any kind of collaboration can be called a partnership. There is growing recognition of the need for partnerships, particularly in agriculture and health where public goods, pre-competitive collaboration and value chain transformation are seen as vital. But the major focus is on PPPs and multi-stakeholder alliances. Relatively few initiatives focus on B2B partnership, and even fewer on B2B of southern enterprises partnership. None have been identified as focusing on partnerships for the purpose of promoting innovation transfer, beyond the five transfer programmes identified in the previous section. There is a scarcity of information on effectiveness of partnerships and partnership brokering at every level.

## 6 Conclusion

The current literature suggests that SMEs have a critical role to play in generating growth, employment, and solutions for people at the base of the pyramid in emerging economies. SMEs also face many constraints. They lack access to finance to grow. But more fundamentally, questions are raised by investors and business experts, on whether they have the value proposition their clients need, the ability to innovate, or the talent to manage and grow.

Under the radar innovation is continuous in the SME sector. Frugal innovation has developed successfully in some sectors, particularly in India. Innovation is an important contributor to enterprise growth. But there appears to be a lack of B2B innovation transfer and several constraints including lack of 'network pathways' for innovation diffusion. There is also a lack of evidence on how innovation transfer happens and whether it is effective. This suggests that programmes that seek to support innovation uptake, such as Connect to Grow, need to operate as one kind of 'network pathway' and assess how to provide that pathway most effectively.

The same can be said of partnership. Partnership is identified as a success factor for SMEs. But there are many kinds of partnership and little evidence of the effectiveness of different partnering structures or brokering mechanisms.

Amongst the hundreds of initiatives that exist to support SMEs, the majority focus on SME growth, with a major focus on improving access to finance. A minority explicitly support innovation, and a handful explicitly support innovation transfer. Of these, most focus on supporting innovators to scale or replicate rather than supporting adopters of innovation to find and absorb innovations into their business. This is despite innovation having been identified as a core mechanism for enterprise competitiveness and growth.

Of the multiple programmes that focus on supporting enterprise to engage in partnership, the majority focus on PPPs or multi-stakeholder alliances and relatively few on B2B partnership brokering. Those that do support B2B partnerships include the objective of supporting innovation transfer amongst several other objectives. None start the partnership building from the perspective of the innovation adopter.

Thus while the evidence on SME growth highlights the crucial role that innovation plays in building competitive advantage, becoming investible, and developing a proposition that can scale in base of pyramid markets, this is not matched by the focus of current initiatives. Several seek to help the most innovative entrepreneurs to expand, or to replicate their innovation through others, but they do not focus on helping other aspiring SMEs to tap into innovation to add value to their own enterprise. This suggests there are gaps in an otherwise fairly crowded space, but also gaps in understanding of what works and for which kind of enterprise.

## Appendix 1 Methods and definitions

### A1.1 Innovation

In line with most recent studies of innovation, we adopt the OECD definition of innovation in this document:

*"An innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method or a new organisational method in business practices, workplace organisation or external relations"*<sup>177</sup>

Innovations are commonly classified by three dimensions as summarised in **Error! Reference source not found.** and our review embraces all these types of innovation.

**Table 3: Three dimensions to classify innovation**<sup>178</sup>

Types of innovation	Degree of novelty	Nature of innovation
Product or service innovations	New to the firm	Incremental
Process innovations	New to the market	Radical
Marketing innovations	New to the world	Disruptive
Organisational innovations		

Within the Connect programme, the facilitation and diffusion of innovation is intended to support commercial enterprise growth, hence our adopted definition should be interpreted in the context of successful commercialisation of novel ideas as opposed to development and application of innovation with no such intention, e.g. innovation in governance or public administration.

### A1.2 Innovation transfer

We review both innovation transfer and innovation diffusion. Neither is well defined in the literature, but we focus on innovation transfer as the adoption - or more likely the adaptation - of a particular innovation to a new context. The innovation moves from one defined entity to another, through an identifiable channel. Innovation diffusion is more ambiguous, relating to the uptake of innovation by others, who may not be aware of the original innovator or specific channels.<sup>179</sup>

Our focus is transfer or diffusion where the adopter is an SME(s) and where innovation supports the SME to overcome challenges to growth.

### A1.3 SMEs

Our focus is on Small and Medium Enterprises (SMEs) that actively seek growth. Their numbers of employees and/or their financial assets most commonly define SMEs<sup>180</sup>. SMEs can further be divided into survivalist and entrepreneurial. Survivalist SMEs are run by necessity entrepreneurs, who are pushed there by lack of other options. Entrepreneurial SMEs are run by opportunity entrepreneurs, who see potential for business growth. They are the focus of this report and Connect to Grow. The emerging literature and set of instruments to support 'small and growing business' (SGBs<sup>181</sup>) is similar in focusing on growth SMEs, and so is also relevant to this report.

<sup>177</sup> Organisation for Economic Co-operation and Development (OECD). 2009. *Innovation in Firms: A Microeconomic Perspective*. Paris: OECD <http://www.oecd.org/berlin/44120491.pdf>, page 11

<sup>178</sup> J. Mitasiunas. 2012. *Innovation and Technology Transfer*. Vilnius: Vilnius University

<sup>179</sup> K. Nichols. "Technology Transfer and innovation". *Public Administration and Public Policy*. VOL II

<sup>180</sup> For example, the OECD defines SMES as having between 10 to 250 employees and no more than €10 million sales about (\$13.1 million U.S.) or annual balance sheet total.

<sup>181</sup> Small and Growing Businesses (SGBs) are defined by Aspen Network of Development Entrepreneurs (ANDE) as commercially viable businesses with five to 250 employees that have significant potential, and ambition, for

#### **A1.4 Impact oriented enterprises**

There are a growing number of businesses that deliver solutions to address development problems while also generating profit. There is a plethora of different terms to describe them including impact enterprises, social enterprises or inclusive businesses. Our focus is not on definitions but on businesses that are commercially minded and socially motivated.

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growth. Typically, SGBs seek growth capital from \$20,000 to \$2 million. Aspen Network of Development Entrepreneurs. <http://www.andeglobal.org/?page=AboutANDESGBs>