



Executive Summary

EVALUATION OF ALTERNA'S DIRECT SUPPORT TO VENTURES

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Results in development

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Background to Alterna and the Evaluation

Alterna is an **innovative and smart non-governmental organisation (NGO)** that supports locally-driven entrepreneurship to provide sustainable, market-driven and context-relevant solutions to development challenges faced in Guatemala and in the Central American region. Alterna mostly supports ‘missing middle’ entrepreneurs who own Small and Growing Businesses (SGBs) that are not yet well positioned or ready to scale but have the potential to grow and achieve meaningful impact with adequate support.

Itad was appointed by the Argidius Foundation (AF) to undertake an independent evaluation of Alterna’s Direct Support to Ventures Programme in Guatemala. The Evaluation focuses on **assessing the results of Alterna’s cultivation services delivered to SGBs in Guatemala between January 2017 and the end of December 2018**. However, interlinkages with Alterna’s other areas of work and the preceding time period (2014–2016) are analysed where appropriate. The Evaluation assesses the contribution that Alterna made to successful outcomes; the impact of job creation on employees; short- and medium-term results; and factors that have positively and/or negatively influenced results. It makes recommendations to inform Alterna’s replication and expansion of its cultivation services in the region.

The **Evaluation has applied a mixed method approach** to collect and analyse primary and secondary data through: desk review of programme reports; extensive consultations with Alterna staff; analysis of Alterna data; stakeholder consultation via conference calls/Skype and face-to-face; and case studies with 16 beneficiary SGBs.

Findings

KEQ1: To what extent are Alterna’s objectives aligned with funders’, partners’ and Guatemala’s strategic development priorities and SGBs’ needs and priorities?

Alterna is well aligned with its primary stakeholders’ strategic priorities (beneficiary SGBs and partner from the public/private/third sector). In particular it does not engage with any partner (for programme design, delivery or funding) with whom there is not a strategic fit. Alterna addresses SGBs’ most pressing needs, in particular their need for access to knowledge and information. This is critical for early stage SGBs to define their business model and create a value proposition. It is also essential for more mature SGBs that need to consolidate their business and their impact models.

Further, Alterna has been an active ally to the Government of Guatemala, as an advisor and delivery partner, in its recognition of the crucial role of entrepreneurship in the Guatemalan economy.

KEQ2: To what extent does Alterna’s design enable the programme to achieve its objectives and its conceptual theory of change?

Alterna divides the Cultivation Programme between two types: basic cultivation and advanced cultivation.

- **Basic cultivation targets SGBs in traditional/subsistence sectors and rural areas more and the targeted SGBs are generally managed by entrepreneurs with less formal education (the so-called inclusion SGBs)**. The cultivation service can be delivered either directly by Alterna staff (direct cultivation) or through a partner that has acquired the cultivation methodology (indirect cultivation). SGBs that have benefitted from basic cultivation services have in some cases met their needs. For instance, SGBs that benefited from cultivation services under the Thrive Programme highlighted that capacity building was not a priority (or a conscious need) for them when they first engaged, but access to financing was, recognized the value ex-post. **Basic Direct Cultivation (BDC) delivered during 2017 (pilot phase) to Friendship Bridge** was generally viewed as being successful in **meeting their needs**. However, the BDC delivered to Friendship Bridge SGBs during **2018 did not meet SGBs’ needs** because the profiles were selected by partners and the cultivation was too technical and high level for the targeted entrepreneurs (lower education level).

Advanced cultivation is provided to ‘dynamic SGBs’ that have the potential to achieve social and/or environmental impact. These businesses are owned by more educated/driven and motivated

entrepreneurs, with higher possibilities for accessing social and financial capital. Businesses can be from idea to post-revenue stage with some accelerator and incubator elements. Advanced cultivation can be either cohort based or individual. Generally, dynamic SGBs that received a mix of Advanced Thematic Cultivation (ATC) and/or AIC indicated that the cultivation services generally met their needs. In particular this is especially true, for those that received advanced individual cultivation services in 2013-2014, as senior Alterna staff provided them directly.

Given the wide scope of Alterna's activities, there is no organisation that could be considered a direct competitor of Alterna; however, some other organisations compete with Alterna for specific services. Differences between Alterna cultivation services and other BDS providers comprise: innovative teaching that doesn't follow a traditional academic approach, sector specific programmes (ATC), motivation of participants and no fee. Alterna ATC services are shorter than other similar ones in the market.

KEQ3: To what extent is Alterna delivering the right products and services to the right SGBs in an effective way?

Alterna has been generally successful in identifying the right SGBs to benefit from their cultivation services - in many cases partnering with organisations across the public, private and third-party sectors. However, the level of success has varied depending on the type of service (basic and/or advanced cultivation), related to: i) the role that Alterna plays (and time devoted) in the identification/selection of participant SGBs; and ii) the level of commitment and education of the entrepreneur.

Alterna has a complex model to deliver both types of cultivation services and it has been based on a mix of demand-driven initiatives by partners and proactive strategy by Alterna to attract SGBs. Positive aspects of Alterna cultivation services are: flexible cultivation approach; cross pollination of SGBs across services; facilitation of development of social capital, networking and access to financing; excellent quality; talented Alterna staff with outstanding capacity; and, besides cultivation services, Alterna offers complementary services, events and continued social innovation. Alterna are experiencing some delivery shortcomings, including a diversity of delivery models that are becoming increasingly complex to manage amongst other challenges internally (high staff turnover, talent retention, weak knowledge management systems, lack of key organisational functions, mixed roles and responsibilities amongst staff, uncertainty as to how to leverage the Board and monitoring issues) and externally (articulating Alterna's value proposition and lack of clarity on role of the Latin American Impact investing Forum (Foro Latinoamericano de Inversión de Impacto-FLII) and more generally on complementary services so SGBs can leverage them).

Interviewed SGBs are very satisfied or satisfied with Alterna's cultivation services. The Evaluation Team (ET) found that, in general, Alterna-supported SGBs are willing to pay for business development services, regardless of the type of cultivation service and the socioeconomic status of the entrepreneur.

KEQ4: What are the effects (intended and unintended, positive and negative) resulting from Alterna's programme?

With regards to the effects of Alterna's cultivation programme on beneficiary SGBs that benefited from Alterna during 2017-18 period, **positive behavioural changes and improvements in performance have been achieved (short outcome level).** Of relevance is Alterna's instrumental role in supporting SGBs to develop and consolidate their business model and value proposition, especially in terms of defining product/service key differentiation (for inclusion SGBs mostly) or preparing to grow and scale (for dynamic SGBs). In addition, as a result of Alterna's intervention, several SGBs have: i) improved their financial, budgeting and analytical costs skills leading to a better price setting of their products/services; ii) reinforced their supply/distribution chain while helping to attract new clients; iii) improved their operational efficiency; iv) improved their product quality (inclusion SGBs) and v) mainstreamed social and environmental impact into their business model and practices (dynamic SGBs).

SGBs attending cultivation programmes during 2017-18 have generally seen improved outcomes post cultivation, namely revenue growth, job creation and investment. However, the contribution of Alterna's services to these results varies depending on the number, type and intensity of cultivation received. The

contribution of Alterna to SGBs' outcomes is higher for those that received advanced cultivation services. Findings from analysing 320 SGBs from the database shows that:

- **Revenues from the SGBs that benefited from cultivation services during the 2017-18 period have grown by 63%, mostly attributed to SGBs that received only advanced cultivation services.**
- When comparing revenues of these SGBs before they started receiving cultivation services with revenues in December 2018, these have grown by 126%, explained mainly by urban SGBs revenue growth. But both rural and urban companies almost doubled their sales after benefiting from cultivation services.
- **The 320 SGBs that benefited from cultivation services during the 2017-18 period created 276 jobs during this period:**
 - Full-time employees increased by 16% and part-time employees increased by 14%;
 - SGBs that received advanced cultivation services achieved a 31% increase in jobs, (representing more than 50% of the sample analysed).
- **When comparing the employment situation of these SGBs before they started receiving cultivation services with employment in December 2018, these have increased both full-time and part-time employment by about 25%, generating around 430 jobs, of which 225 are full time.**
- **The number of SGBs accessing investment increased from 32 (2014–2016) to 52 in 2017 and 80 companies in 2018.** 60% of interviewed SGBs specifically mentioned that Alterna's cultivation programme enabled them to gain social capital and networks.

KEQ5: What are the effects of well performing SGBs on new and existing employees?

All new employees interviewed were in a worse financial situation before starting working at their companies. New employees in 4 of the 6 impact SGBs were young people just graduated from school and this was their first job and first source of income. In two of the three inclusion SGBs, new employees were informal workers, working mostly in temporary jobs and earning significant lower wages. Most new employees received fewer social benefits than old employees and most of them earned near the minimum wage. However, new employees were grateful for the career and growth opportunities provided by the SGBs. Those working in dynamic SGBs, also appreciated significantly the chance to work in a purpose-driven SGB.

Overall, **the ET team found mixed evidence of the effects (financial and non-financial) on employees of SGBs** that benefitted from Alterna's cultivation services. There is limited evidence of increased wages and social benefits for existing employees (with one inclusion SGB paying employees below the minimum wage). However, employees are generally satisfied with their jobs overall. More positively, there is evidence of: i) increased training opportunities; ii) increased access to financing for more established employees; iii) employment leading to increased education for employees (and their children) and greater leisure expenditure; and iv) for the four dynamic SGBs interviewed, all employees valued the social and environmental focus of the company and some employees have been adopting some of these practices domestically. These findings are based on the six impact-level SGBs interviewed.

KEQ6: To what extent is Alterna's model sustainable?

Alterna has been very successful in attracting funding from a diversity of partners to increase volume, demonstrate the value of its cultivation methodology and gain credibility and reputation in the market. Alterna has also been smart in leveraging on FLII events and on core funding from donors to maximise the delivery of its cultivation services while developing a service that can be sold at a market-based price (social franchise model). However, Alterna has used many sources of annual funding with tailor-made cultivation approaches to achieve their scale, which that reflects how start-ups operate at early stages but has resulted in high transaction and opportunity costs.

Alterna is not yet a sustainable organisation. It operates as a hybrid organisation combining subsidised revenue and, to a lesser extent, market-driven models and depends on core funding from donors to operate. Alterna's aim is to continue operating as a hybrid organisation with diversified sources of income, offer its menu of cultivation services to targeted SGBs and strong focus on social and environmental areas while developing a 'sustainable regional business model'.

KEQ7: To what extent does Alterna learn from others in the sector, and contribute lessons to the sector, including replicability of the model?

Alterna is learning in the following three ways:

- i) **internally:** though the delivery of their activities, including cultivation services, focusing on capturing key lessons learned. Alterna is aware that it still needs to gain a better understanding of how its methodology is affecting entrepreneurs at an individual level and knowledge management in Alterna is weak, reflecting its early development stage.
- ii) **from others in the sector:** Alterna is constantly engaged with the sector in Guatemala and the region to identify useful learning to improve its programming. Its partnership approach to delivering cultivation services has put Alterna in an excellent position to understand main players' interests and initiatives as well as SGBs' needs and capacity.
- iii) **from AF:** as a mentor, AF has guided Alterna strategically. Alterna highly values AF's efforts to share and contribute to learning as well as to develop the ecosystem in Central America.

Conclusions

Although Alterna has only been operating in the ecosystem for six years, it has successfully managed to position itself as a **leader in the Business Development Service (BDS) area in Guatemala and in the region**. Alterna is perceived as a **credible and trusted organisation** that is actively contributing towards building the ecosystem through its numerous successful cultivation initiatives with renowned partners, its leadership on the FLII in the Central American region and its social innovation initiatives to tackle entrepreneurial development challenges. Through the cultivation programme, Alterna's **talented and dedicated staff** have used a flexible approach to address the evolving needs of targeted SGBs, and the level of commitment of entrepreneurs to deliver **excellent quality services**. Alterna has also placed strong emphasis on **generating social and environmental** impact through its cultivated dynamic SGBs.

During the 2014–17 period, Alterna has gained an **impressive volume and track record** by following an opportunistic approach, leveraging **partners** across the public/private/third party sectors with access to entrepreneurs and/or sectoral knowledge/funding, to minimise costs while testing cultivation approaches. This has resulted in Alterna adapting its business model in a recurrent manner over time to address: i) SGBs' context and needs; ii) Alterna's strategy; and iii) partners' and core funders' demands. Alterna has been a **fast and smart learner** and this is quite unique for such a young company. As a result, Alterna has a **complex model to deliver cultivation services** – basic and advanced – based on a mix of demand-driven initiatives by partners and the proactive strategy by Alterna to attract SGBs.

Alterna, however, has faced **some organisational and capacity issues** (i.e. talent retention, organisational performance, Monitoring and Evaluation (M&E) function) which have limited its ability to absorb findings and deliver services. This has affected its performance. This reflects the pace at which Alterna has been growing (with a high number of partners compared to its scale) and the organisational structure that supports delivery. Alterna has acknowledged most of the issues and plans to address most of them going forward.

Recommendations

Regarding organisational strategy and effectiveness, there is a need for Alterna to: focus and prioritise during the scale-up phase, using fewer delivery models; professionalise and enhance its organisational structure, as already discussed with AF, including creating greater job specialisation; ensure that Board Members provide active support; and improve its talent identification and retention.

There are several successful aspects of the support provided by Alterna that can be replicable during the scale-up phase in terms of delivery model. For basic cultivation services, the ET recommends

continuing to work with partners who target traditional/subsistence businesses run by low-educated entrepreneurs, but with Alterna being more proactive in selection, management and follow-up of SGBs. For advanced cultivation services, the ET recommends continuing to focus on dynamic SGBs with social and environmental impact and for ATC to continue delivering cohort-based specific thematic cultivation that focuses on a sector or a value chain. It is recommended to: continue using the eight-module methodology to deliver ATC and basic services; link cultivation services with seed capital or financing to a maximum extent; sell the Basic Cultivation (BC) methodology to third parties in new countries; replicate the Impulsa selection process; and integrate business networking opportunities into advanced cultivation services. Additionally, Alterna should partner with a renowned organisation in new countries to gain credibility.

Alterna needs to invest in analysing its monitoring systems, processes, roles and responsibilities and data quality and gaps. This would be the first step towards defining an effective monitoring framework that will allow Alterna to collect data systematically and rigorously and track progress and results.

To improve its learning, Alterna needs to: identify, store and disseminate lessons learned systematically, including actions from learning; publish success stories about spill-over (or trickle-down) effects of Alterna's services; develop and publish a results dashboard; develop a knowledge management system; share learnings more with other ecosystem actors, including organisations supported by AF.

In terms of sustainability, Alterna should continue applying its hybrid funding model, reflecting its target market and focus on social and environmental impact. However, it needs a **long-term strategy** that clearly defines which activities should be funded by donors and which activities can be market-driven, taking into account the social mission of Alterna. In doing so, Alterna needs to take into account the social and environmental risk of allying with corporate partners, by selecting those which follow its own agenda. Alterna should start charging for cultivation services, as most SGBs are willingly to pay for them.