Theory of Change



Impact objectives of the SANAD Fund for MSME

The fund's mission is to finance micro, small, and medium enterprises and low-income households in the Middle East, North Africa, and selected countries in sub-Saharan Africa via qualified local lenders. SANAD thereby fosters economic development and job creation — including youth employment, agriculture, affordable housing, and innovations in finance and financial technologies.

In working towards its mission, the fund focuses its activities on specific target regions and groups:

- 1. Target regions: SANAD's activities focus on the regions that are challenged with economic insecurities and at the same time have substantial potential for economic growth. Overall, they exhibit a high need for investment that focuses on inclusive economic development, particularly providing opportunities to youth and women.
- 2. Target groups: The fund targets micro, small, and medium enterprises (MSMEs), including in the agricultural sector, as well as households with

limited access to affordable housing. The **local financial sector** that serves MSMEs plays a key role in closing the fund gap, and thus also represents an important target group for SANAD.

Impact at a socio-economic level

In line with its mission, the fund aims for a positive contribution in the following impact areas:



Supporting income generation from self-employment & entrepreneurship

Foster the ability of MSMEs to start, maintain, and grow their business activities



Fostering employment stability & growth

Contribute to sustaining and creating jobs in MSMEs



Improving livelihoods

Support low-income households in improving their housing conditions and starting/consolidating a development pathway

Impact on financial systems

Core to SANAD's impact strategy is strengthening the ability of local financial institutions to provide much-needed financing to the fund's target groups. By strengthening financial intermediaries and helping them to enhance their MSME lending, the fund strives to increase access to finance at scale and in a sustainable manner. At the same time, it seeks to further the development of inclusive and responsible financial systems, ultimately benefiting economies at large.

SANAD pursues these aims by extending debt and equity **financing** to local partners, such as microfinance institutions (MFIs), leasing companies, commercial banks, fintechs, and other financial intermediaries that share the fund's interest in serving the target groups. In addition, the fund supports the local financial sector in building its **capacity** to serve the needs of MSMEs, including in agriculture, and low-income households. Finally, SANAD's activities contribute to developing the wider **ecosystem**



for economic development, such as the regulatory environment or support services for entrepreneurship.

Contribution to the SDGs

SANAD's activities have been mapped toward the Sustainable Development Goals (SDGs) at an SDG target level. Based on these, six have been selected as core SDGs:

SDG SANAD's contribution



SANAD contributes to eradicating poverty by meeting the basic financing needs of MSMEs and low-income households.



SANAD contributes to improving agricultural productivity and the livelihoods of smallscale food producers through secure and equal access to financial services.



SANAD contributes to improving gender equality and women's empowerment by facilitating access to financial services and training for female entrepreneurs and women-owned enterprises and supporting female jobs.



SANAD contributes to economic development and job creation by enabling entrepreneurs to grow businesses, especially young entrepreneurs and MSMEs in rural areas.



SANAD contributes to inclusive industrialization by upgrading small-scale enterprises through improved access to finance and innovative solutions.



SANAD contributes to economic inclusion by sustaining and growing business income among marginalized entrepreneurs, such as youth, refugees, and rural populations.



As a blended finance fund, SANAD brings together public and private investors for sustainable development.

The path to impact: Theory of Change

The Theory of Change (ToC) demonstrates how the fund's activities are expected to result in fulfilling its mission as described above. The focus here is on the "in-between", the mapping of processes that SANAD's activities aim to trigger and how these ultimately lead to the intended impacts. These processes are interlinked and reinforce each other to drive transformation and systemic change in the market.



SANAD's ToC considers the following levels:

Final Impact	This level contains the final socio-economic impacts at a regional level to which the fund aims to contribute.
Outcomes	This level includes systemic changes that are expected to occur in the short and long-term based on the activity-induced outputs.
Outputs	This level summarizes the tangible results that the fund's activities produce.
Activities	This level contains the fund's own activities — each with its own route towards achieving the final impact.

The ToC was constructed based on a causal analysis, drawing on available evidence, and is used to frame the fund's impact measurement and management efforts. Underlying assumptions are continuously verified through SANAD's impact assessment.

Elements outlined in the ToC can be, to a large extent, directly under the control of the fund or influenced by both the fund and external factors. This spectrum is indicated in the ToC as an "Area of control", "Area of influence", and "Area of interest". 1 Given the nature of the fund's work and the complex environments in which the fund's investees and stakeholders operate, SANAD does not attribute the change happening at an outcome and final impact level solely to its contributions. The ToC therefore defines how the fund contributes to causing the observed outcomes and final impacts.



 $^{^{1}\,\}text{This}$ distinction is often used in defining ToCs to differentiate between attribution and contribution.

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Area of interest

Intermediate outcomes

Area of influence

Area of control



Economic development and job creation in the Middle East, North Africa and selected countries of sub-Saharan Africa, in particular by: Supporting income generation Fostering employment stability Improving livelihoods & growth from self-employment & entrepreneurship Long-term outcomes Facilitating change for SANAD's target groups: Inclusive financial systems and a conducive ecosystem for economic development are rooted in SANAD's target region, benefitting (agri-) MSMEs and households (Agri-) MSMEs in the target region start, Households in the target region improve their grow, and sustain their business activities housing conditions and access to affordable housing Integrating SANAD's priorities into target (financial) markets: Deep and inclusive financial systems: Conducive ecosystem for economic

- FIs increasingly finance (agri-) MSMEs and housing
- Fis enhance their capacities to responsibly deliver MSME, agricultural and housing finance
- NFIs leverage fintech and agtech to bring improved/additional services to the target groups
- FIs, NFIs and sector players promote innovation in finance and financial technology, and foster financial inclusion, including for youth and women entrepreneurs

Conducive ecosystem for economi development:

- Sector players support entrepreneurship and the ongoing development of small businesses, including for youth and women entrepreneurs
- Sector players have increased understanding of and support for SANAD's strategic priorities

(Agri-) MSMEs and households have increased access to non-financial services from FIs and sector players, allowing them to better manage their financials and position themselves when approaching FIs

(Agri-) MSMEs and households have increased access to a range of financial services

Enhancing resources & services available for (agri-) MSMEs and households:

Fis take up debt financing in line with the fund's eligibility criteria (N)FIs take equity and seek guidance to establish or expand business activities (N)Fis leverage TA to strengthen capacities to serve SANAD's target groups

Sector players leverage TA to promote access to tailored services for SANAD's target groups SANAD facilitates networking, knowledge sharing and coordination among sector players

An integrated approach to economic development:

Extend targeted debt financing to suitable financial institutions that (can) responsibly serve (agri-) MSMEs & households Provide equity and strategic guidance to suitable (non-) financial institutions that (can) responsibly serve (agri-) MSMEs & households Deliver tailored technical assistance to suitable (non-) financial institutions that (can) serve (agri-) MSMEs & households Conduct technical assistance projects and applied research with sector players

Offer a platform for aligning efforts, promoting dialogue and raising awareness on strategic priorities among sector players

Mobilize resources from public and private investors

Direct effect

Indirecteffect

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