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Evaluation of Private Sector Development Assistance:

Trends, Challenges, and Opportunities

AFRICAN DEVELOPMENT BANK GROUP

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from knowledge to action...
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A robust private sector is widely recognized by the international development community as an engine of sustainable and inclusive economic growth.

Donor support for private sector development varies: While some donor institutions focus on the enabling environment for private sector growth, others focus on providing direct and indirect financing to private enterprises.

Each approach has its own benefits, weaknesses, and risks. What does development evaluation tell us about the different approaches and their outcomes? What works, what does not work and why? More importantly, what are the challenges in evaluating private sector development assistance and what can we do about them? What are the good practices that can be emulated?

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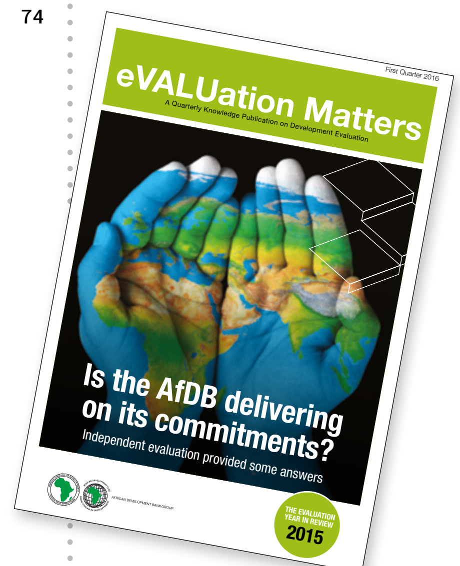

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From the Evaluator General's Desk

Private-sector-led, public-sector-enabled has been the growth mantra for economies for several decades now. Easier said than done, as the old adage goes. It is precisely with this rationale that this issue of eVALUation Matters examines the challenges and opportunities as well as the emerging trends of private sector development.

While the debate over the respective roles of the private and public sectors continues to evolve, the private sector has received its fair share of attention and resources in the international development community. Leveraging private sector financing is an essential part of the efforts to achieve global development goals and commitments. The global trend continues to shift away from public funding to leveraging private sector operations as a means of achieving the Sustainable Development Goals (SDGs).

The African Development Bank is committed to working with its development partners to support private sector development and thus has been promoting it for over 40 years. The Bank's Long Term Strategy and the High 5s[1], launched by President Adesina, consider private sector development as a key pillar to realize the continent's full economic potential mainly by providing the private sector the means to effectively drive the industrialization process in Africa.

To strengthen developmental results, the Bank mainstreams private sector development across all its operations with three key objectives: (i) supporting regional member countries in improving business-enabling environments, and strengthening their international competitiveness; (ii) broadening participation and inclusion in the private sector and supporting local enterprise development for spurring robust employment creation and improving social well-being; and (iii) encouraging social and environmental responsibility.

In developing the private sector, some donor institutions focus on the enabling environment for private sector growth, while others prefer to provide direct and indirect financing to private enterprises. Each approach has its own benefits, weaknesses, and risks. This edition looks at some of the conclusions that some development evaluations have reached about the different approaches and their outcomes. It presents the findings about what works, what does not work and why. It also focuses on the challenges in evaluating private sector development assistance and proposes ways to address them.

This issue also reviews the role played by three MDBs in supporting SME development and how this role has evolved over time. The benchmarking review attempts to compare MDBs new approaches and instruments in providing financing to SMEs including how policies and strategies are formulated and the emerging trends in this area. The AfDB's recently

[1] Light up and power Africa, Feed Africa, Industrialize Africa, Integrate Africa, and Improve the quality of life for the people of Africa.

completed evaluation on SMEs also concludes that monitoring and evaluation of SME assistance operations is challenging, requiring design of appropriate measuring tools and the collection of a significant mass of data.

Emerging trends in evaluating private sector operations are also discussed. ECG recently debated the harmonization of a common approach for both the public and the private sector. The exercise in this area revealed that while there are some commonalities, the differences reflect the unique features of public and private sector interventions. For example, on the public sector side, MDBs client relationships are ongoing and multi-faceted, whereas relationships with private sector clients tend to be shorter term and opportunistic. Credit risk (of the project or client) is a primary risk for private sector investments that is not the case for public sector operations. Yet, the harmonization is worth pursuing and thus some MDBs, such as the Inter-American Development Bank, are piloting a harmonized approach.

This issue of eVALUation Matters also discusses partnership among development institutions and increased collaboration among stakeholders and MDBs to harmonize the indicators and methods used to evaluate private sector investments to advance the development agenda.

Clearly there is no silver bullet in terms of methodology and therefore the debate on what to measure and how to measure private sector interventions is far from over. The evaluation community will continue to seek answers on ways to effectively evaluate private sector operations in this dynamic and rapidly changing landscape until a common framework among MDBs is finally developed.

Happy reading!

Author's Profile

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Tracking development effectiveness indicators for private sector operations

Richard Schiere
Chief Quality Assurance Officer, Quality Assurance and Results Department, African Development Bank

Introduction

The Addis Ababa conference on Financing for Development in 2015 clearly emphasized the need to leverage private sector financing to achieve the Sustainable Development Goals (SDGs). This is all the more important as concessional financing is limited due to structural budgetary challenges in many traditional donor countries. Indeed, there are only a handful of countries that have officially committed to maintaining the 0.7 percent of national income target dedicated to ODA. The global trend is therefore shifting away from ODA to leveraging private sector operations as a means of achieving the SDGs. While MDBs have long experience in measuring the development effectiveness of public sector operations, they are often weak at tracking the development effectiveness of private sector operations.

This paper focuses on four main areas. It:

1. discusses the rationale for private sector operations in MDBs;
2. examines some of the main challenges of integrating development effectiveness monitoring tools in private sector operations;
3. reviews how MDBs track private sector development effectiveness indicators, both at corporate level and in the project cycle; and
4. discusses some of the emerging issues and trends.

Rationale for MDB private sector operations

Most MDBs have private sector operations – referred to as Non-Sovereign Operations – that facilitate private sector investment to creditworthy projects and have a positive impact on development (AfDB, 2014)[3]. To ensure a positive impact of the private sector in developing countries, MDBs emphasize five principles for their non-sovereign operations:

1. additionality;
2. crowding-in;
3. commercial sustainability;
4. reinforcing markets; and
5. promoting high standards (DFI, 2013).

For emerging developing countries, MDB financing can have a catalytic impact on private-sector funding, which can help finance long-term investments or address short term liquidity challenges. These financial constraints are particularly evident for Small and Medium size Enterprises (SMEs) – which typically create jobs and are a major source of innovation – and are considered riskier than established national or multinational corporations (IFC, 2009). This leads to a "missing middle" syndrome whereby the real sector is dominated by a few large multinational or national corporations on one side, and many small enterprises that operate in the informal sector on the other side (Perry, 2011). One of the main reasons for this "missing middle" is that small companies lack collateral and have to operate in an environment with unfavorable regulation (Ardic et al, 2011; Hsieh and Olken, 2014).

The rationale for MDB private sector engagement in emerging countries is therefore to alleviate some of the financial constraints which hinder firms from investing and expanding. In turn, these investments can have positive externalities such as addressing infrastructure gaps and generating employment. If these private sector operations are combined with policy advice, technical assistance and budget support operations, then regulatory issues that hamper business development can equally be addressed. Other justifications for private sector operations in specific industries are that it addresses negative externalities at a global level, such as investment in climate change resilience or cleaner energy sources. This means that the MDB private sector cannot only help financially constrained firms; it must also contribute to positive externalities such as job creation, environmental protection, and critical infrastructure, and promote exports.

It is equally important that private sector operations are a source of internal financing for MDBs. These institutions therefore have an incentive to provide loans. This is reinforced by the reduction in the concessional financing of traditional donors. As a result, many MDBs are refocusing their efforts and use private sector operations to leverage resources and enhance the impact of their interventions through, for example, PPPs, or combining

[3] MDBs have similar criteria for Non-Sovereign operations which are: (a) the borrower is a private enterprise or an eligible public sector enterprise; (b) the proposed operation is commercially viable; (c) there is at least a good expectation of positive development outcomes, including strengthening opportunities for private sector development; and (d) the Bank has positive additionality (AfDB, 2014).

them with policy advice and budget support operations. This leads to the need for results tools and instruments to capture the results of private sector operations as MDB shareholders require public accountability. In practical terms, this means the introduction of development effectiveness indicators in the corporate score cards and the project cycle of private sector operations. The advantage of this approach is that MDB stakeholders can see the development impact of private sector operations and how it contributes to achieving the SDGs.

Challenges for measuring private sector development results

The need to improve development results reporting is part of a global trend to promote accountability and better manage the achievement of development outcomes. This includes not only MDBs, but also private sector companies – such as commercial banks and equity firms – which support the drive to report on social and environmental impact. This was part of the broader social corporate responsibility agenda, which started with the adoption in 2003 of the Equator Principles that were used to determine, assess, and manage environmental and social risk by the private sector (Morra and Rist 2009). In 2008, the Impact Reporting and Investment Standards (IRIS) were created by a group of leading investors. The standards were aimed at improving consistency, transparency, and credibility in how funds define, track, and report on social and environmental performance. The IRIS indicators and standards are also used by the Inter-American Development Bank (IaDB, 2012; IaDB, 2013).

The challenge for Monitoring and Evaluation (M&E) systems for private sector operations is that they have traditionally been focused on tracking financial performance and risk management. More fundamentally, MDBs need to strike a balance between long term financial stability and national development objectives, on the one hand, and

...safeguard policies focus on minimizing the possible negative effect of investments in the project area on people and the environment; development effectiveness empahasizes macro level impacts such as reducing electricity prices for households, improving revenue generation for the government and increasing competitiveness of businesses

the short term financial objectives of their client companies that they fund, on the other hand (IEG-World Bank, 2012). It should also be emphasized that some investment instruments – for example, unfunded risk participation – do not have clear development objectives or a clear theory of change. This is in contrast with public sector operations which generally emphasize development outcomes, while risk management is considered less of a challenge.

Only in the beginning of the 21st century did some MDBs emphasize development – or in the case of the EBRD transition – outcomes of private sector operations. These monitoring systems have often been used to track socioeconomic and environmental issues as part of a broader safeguard policy, but not necessary development effectiveness. The difference is that safeguard policies focus on minimizing the possible negative effect of investments in the project area on people and the environment, while development effectiveness emphasizes the macro level impact such as reducing electricity prices for households, improving revenue generation for the government and increasing competitiveness of businesses. Despite some progress there are still challenges in gathering the necessary data from client firms that receive MDB financing. Often the internal audit and monitoring systems are geared toward the tracking of financial performance, risk management and if need be, safeguard policies. However, private sector companies rarely track development effectiveness and this imposes additional operational costs for data collection.

The challenge for a comprehensive results monitoring system for private sector operations is in stark contrast with the one for public sector operations that have coherent and comprehensive systems for collecting, tracking and measuring development impact. This is also easier because in general public sector operations' overarching goal is to achieve development outcomes, rather than financial performance and risk management. Moreover, at the national level, public sector operations are often integrated in national development plans and assessed by national M&E frameworks. With the global trend of leveraging private sector development as highlighted by the Financing for Development conference in 2015, the national M&E frameworks will likely gradually evolve and monitor the development impact of private sector operations.

Tracking the development effectiveness of private sector operations will therefore become more important in the near future. This can only be done efficiently by focusing on a few key development indicators that will limit financial costs for client firms. The advantage is that such a system will generate information for strategic planning, improve development impact, increase the efficiency of business processes and enhance accountability and learning. Moreover, the basic data enhances the understanding of the contribution or limitation of the private sector operations in achieving overarching development objectives or addressing externalities.

Tracking private sector development effectiveness indicators

MDBs have improved the tracking of the development effectiveness indicators of their non-sovereign operations in the last decade – with the paradigm shift towards leveraging resources and supporting development outcomes through private sector operations. Different results tools have been integrated in the corporate reporting system and in the in various stages of the project cycle. A review of the results reporting systems

and tools of MDBs[4] highlights the following issues and trends:

- **Corporate scorecards and results reporting.** Corporate scorecards are macro indicators that are used at corporate level to report on results and track progress on strategic priorities. They are also used as accountability tools to report to shareholders on achievements by MDBs. An effective reporting system requires an IT platform to ensure that results are not only reported at completion but can also be tracked during implementation of projects. Both the EBRD and IFC – through the Transition Impact Monitoring System (TIMS) and the Development Outcome Tracking System (DOTS), respectively – have implemented systems for "live" reporting of results (EBRD, 2013; IFC, 2011). MDBs with a large public sector portfolio – such as the AsDB, AfDB and

[4] African Development Bank (AfDB), Asian Development Bank (AsDB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), International Finance Corporation (IFC) and Inter-American Development Bank (IaDB)

IaDB – generally use the same development effectiveness indicators for public and private sector operations in their corporate scorecards. The advantage of this approach is that it allows the tracking of common indicators as part of a "One Bank" system with the objective of fostering synergies.

- **Harmonization of development effectiveness indicators for private sector projects.** Indicators used to monitor development effectiveness through the project cycle should be similar to the ones in an institution's corporate scorecard. Despite the specific mandates of MDBs, there are attempts to harmonize private sector indicators among 25 MDBs and other financial institutions under the Harmonized Indicators for Private Sector Operations (HIPSO) initiative. This initiative proposes to integrate 38 indicators across 15 different sectors among all institutions (MoU, 2013). Equally important is the harmonization of indicators with private sector financiers that are applying the IRIS indicators. As mentioned above, a good example is the IaDB, which already applied the IRIS in their operations (IaDB, 2012, 2013). The harmonization of indicators is important as private sector financing is often undertaken jointly with MDBs and other commercial banks and will therefore limit the costs for client companies that they would otherwise be obliged to monitor and report on.
- **Ex-ante simulation of project's development impact.** The EBRD and AfDB are the only institutions that undertake an ex-ante simulation of the likely outcomes and additionalities of operations prior to Board approval. In practice, this means that their respective economic research departments undertake an independent assessment and simulation of the likely development impact of private sector operations, in terms of, for example, job creation, government revenue or competitiveness. Other MDBs have a more limited approach and the assessment is undertaken by the appraisal teams themselves. The advantage of the ex-ante simulation, which is undertaken by the independent research department, is that it provides comfort to the Board that private sector investments will indeed have a positive development impact.
- **Indicators in project appraisal reports.** Most MDBs have a pre-defined set of indicators that should be integrated in the appraisal reports based on generic sectors such as financial services, infrastructure, manufacturing, etc. In short, investment officers have to select some of the development effectiveness indicators from a set "menu" alongside more customized indicators directly related to the project. The EIB is the only institution that has indicators by specific financing instrument. The challenge is that there is a trade-off between relevance and standardization of indicators in results monitoring. On the one hand, relevant indicators are often specific to individual projects, but will be difficult to aggregate at corporate level. On the other hand, standardized indicators are key to track progress at corporate level, but are not necessarily relevant for the project.
- **Tracking of progress during implementation.** Ideally, the monitoring of the development effectiveness indicators that were identified at

appraisal should be tracked during implementation. The EBRD tracks the same indicators identified ex-ante by the independent research department, while most other MDBs monitor the indicators as identified in the results log-frameworks. These development effectiveness indicators are subsequently tracked alongside financial performance and risk indicators in the extended supervision reports which are normally undertaken every year. The IFC's DOTS, undertakes annual surveys on the active portfolio of the private sector and these results feed into their corporate scorecard. The challenge for investment officers is that client companies sometimes do not always have sufficient human or financial resources to track all the necessary development indicators adequately.

- **Results reporting at completion. At completion,** MDBs undertake an internal assessment of the achieved development and financial performance of projects, which is part of the extended supervision reports. These reports are generally prepared 18 months after the last disbursement and when the final audit reports have been received. Often these assessments focus on outcomes and outputs. Impact evaluations are undertaken selectively by an independent department often because of the time and costs involved in conducting these evaluations. Only the EIB systematically undertakes an impact evaluation five years after the initial extended supervision reports.

Conclusion and emerging issues

In line with the global trend to leverage private sector investment to enhance development effectiveness, many MDBs are improving the tracking of development effectiveness indicators, both at corporate level and in the project cycle. Some MDB results reporting systems are comprehensive, automated and track development effectiveness indicators through the whole project cycle; others have their independent research departments only undertake ex-ante simulations on likely impact. A review of the various approaches taken by various MDBs to integrate development effectiveness indicators highlight the following observations and emerging trends:

- First, the EBRD is the only institution that has completely integrated development and transition effectiveness indicators throughout the whole project cycle. The TIMS tracks the same indicators that were identified in the ex-ante simulation assessment in the annual supervision and completion reports. Indeed, the EBRD had already designed methodology in 1997 and integrated it in its operations in 2003 (Perry, 2011). The reason for being the "first" is most likely that the EBRD is solely focused on private sector operations and was only established in 1991 and therefore did not have any institutional or policy legacy issues. The advantage of this completely integrated approach is that the ex-ante simulation can gradually be improved as there is a system of feedback on the actual realized results at completion. This is one of the

limitations of the AfDB's current ex-ante ADOA system, which only focusses on ex-ante simulation without looking at the actual impact during implementation or completion.

- Second, there are clear attempts to harmonize private sector indicators among public and private sector financial institutions. This is evident from both the HIPSO and IRIS initiatives that aim at a common set of indicators so that client companies are not burdened by the different reporting requirement of different MDBs and private financiers. This is all the more important as private transactions often include various MDBs and commercial banks. At the corporate level, this also means that indicators will be similar among MDBs.
- Third, private sector projects should have indicators at impact, outcome, output and input levels. This would demonstrate the "theory of chain" in projects. However, some MDBs – such as the DOTS of the IFC – have opted to implement systems that track only outputs and outcomes. Most likely this is linked to the fact that the DOTS is an annual survey that "extracts" results from the active portfolio, which is time-consuming for individual investment officers and client companies. This is less of a challenge if these development effectiveness indicators are integrated in the extended supervision reports, which means that they are tracked at the same time as financial performance and risk monitoring of the project.
- Fourth, there needs to be a balance between the standardization of indicators for corporate reporting and the needs for flexibility to tailor-make indicators when projects are designed. Corporate reporting requires a few indicators that can be easily aggregated, while project level indicators require flexibility to ensure that they are relevant. Any reporting system will therefore need to have a mix of mandatory and non-mandatory indicators.

These emerging issues will have to be considered to ensure that development effectiveness indicators are adequately tracked both at corporate level and in the project cycle of private sector operations. This will lead to a more effective and efficient leveraging of private sector operations by MDBs with the ultimate objective of achieving the SDGs.

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Why the private sector matters for development effectiveness

Hadiza Sidikou
African Development Bank

The development paradigm has shifted towards private investment and during the last decade, the private sector has been widely recognized as a key partner in development. Expectations are such that the private sector has become central to development strategies, thus contributing to broader economic development. Increasingly, development partners, including the African Development Bank, are working directly with the private sector in developing countries to deliver programmes to fight poverty in the continent.

The private sector as a development actor

In recent years, African economies have shown steady growth and improvements in political stability, governance, and the pursuit of sounder economic policies. These positive developments notwithstanding, Africa must confer a more dynamic role to the private sector and to the promotion of both foreign and domestic investments. This is important as the private sector is now widely recognized as one of the main drivers of economic growth and employment creation – key dimensions of the international community's work to promote sustainable development and poverty reduction. Donors have increased their engagement with the private sector community in areas such as enterprise development, aid for trade, financial sector and investment climate reform to catalyze contributions to development objectives. However, more needs to be done to draw lessons from past development experience in the private sector.

As a key development actor, the private sector may be

(i) a direct recipient of aid for investments and activities such as subsidies and loans to SMEs;

(ii) a contractor in implementing aid projects such as in project financing;

(iii) a provider of aid-equivalent development resources in areas such as enterprise development, aid for trade, financial sector policy and investment climate reform; or

(iv) a partner as in public-private partnerships to combine the strengths of different stakeholders.

It is thus critical for the private sector to prove its relevance as a key player in the development community.

In recognition of the crucial role that the private sector plays in development dynamics, the African Development Bank (AfDB) formulated its first comprehensive strategy for private sector development in 2004. The strategy highlighted the importance of adopting a Bank-wide approach to private sector development and has served as the primary road map for Bank interventions in the private sector over the past few years. As a result of this strategy, there was a sevenfold increase in the Bank's non-sovereign lending operations from 2004 to 2007 and a much stronger emphasis on development impact as the business driver. The Bank, like other IFIs, counts on the private sector as a key partner to leverage funding to meet the continent's development needs, such as infrastructure investments (sums that are estimated in the trillions), provide better services in a cost-effective manner through public-private partnerships, and be an engine of growth through job creation.

"We recognize the central role of the private sector in advancing innovation, creating wealth, income and jobs, mobilizing domestic resources and in turn contributing to poverty reduction"

Busan Partnership for Effective Development Cooperation

Evaluating support to private sector development helps us understand the role of the private sector in the development arena. It also sheds some light on what works and what does not work, ensures accountability and promotes learning on the use of both public and private resources. These evaluations can also help private sector entities demonstrate their contributions and impact on development. However, there are specific challenges as private and public sectors rely on different drivers. Issues such as profitability, investment outcomes, additionality, benefits for the host economy, job creation must be addressed by the evaluations.

Evaluating support to private sector

The MDBs Evaluation Cooperation Group (ECG), through the Good Practice Standards (GPS), has developed a systematic approach for evaluating private sector operations with a clear objective of promoting rigor and objectivity in evaluations. The GPS were originally formulated in response to a call for harmonization of evaluation methodologies by the Development Committee Task Force in 1996. In 2001, the ECG issued the first edition of the GPS, followed by second, third and fourth editions in 2003, 2006 and 2011, respectively. Each subsequent edition was informed by the findings and recommendations of a benchmarking exercise, which assessed members' practices against the GPS. Since then, and with the growing portfolio of private sector operations in the Bank as well as in its partner institutions, most ECG members have partly or fully mainstreamed the private sector GPS in their evaluation framework and progress has been made to provide evidence on the impact of these operations.

Evaluating private sector operations or programmes promotes a better understanding of the potential contribution of private sector interventions to development. Sharing evaluation findings raises awareness about private sector potential among development agencies. In practice, it is worth noting that all IFIs are still grappling with private sector evaluation, especially with respect to harmonizing results indicators and the ex-ante approach. With its ADOA framework, the AfDB is a pioneer among peer institutions in ex-ante evaluation of private sector operations. The framework provides an estimate for development outcomes and additionality that private sector projects are expected to achieve. Launched in 2008, ADOA addresses two issues pertaining to the private sector:

- First, what do development finance institutions (DFIs) bring to private sector financing that commercial lenders cannot or do not bring?
- Second, what are the expected development outcomes?

The recent revision of the framework – in 2015 – has refined the methodology by addressing operating realities. This ex-ante tool has proven useful in facilitating the monitoring and evaluation of the Bank's private sector operations, with indicators aligned with the Bank's long term strategic priorities. ADOA has also sought to ensure alignment with many results measurement initiatives both within the Bank and in sister institutions. A recent working group on the harmonization of the indicators was launched by IFIs to further improve the methods and the indicators used to assess private sector interventions. Further work and discussions are needed on methods and standards related to evaluation of private sector support. Clearly there is no silver bullet in terms of methodology, but enhanced collaboration is needed for the learning process already underway. The AfDB's Independent Development Evaluation (IDEV) Department has produced a number of private sector evaluation reports[5]. Through these efforts to improve accountability and learning in the private sector area, IDEV endeavors to contribute to the dialogue on the real impact of the private sector on the ground.

[5]Independent Evaluation of Non-Sovereign Operations, 2006–2011 | Independent Evaluation of Bank Group Equity Investments | Evaluation of Bank Assistance to Small and Medium Enterprises (2006–2013)

There is a common understanding about specific drivers to look for in assessing private sector interventions. It is clear that all MDBs want to know the effect of their investments and how the private sector impacts the development agenda. However, IFIs still differ on the approach and on how to calculate the metrics.

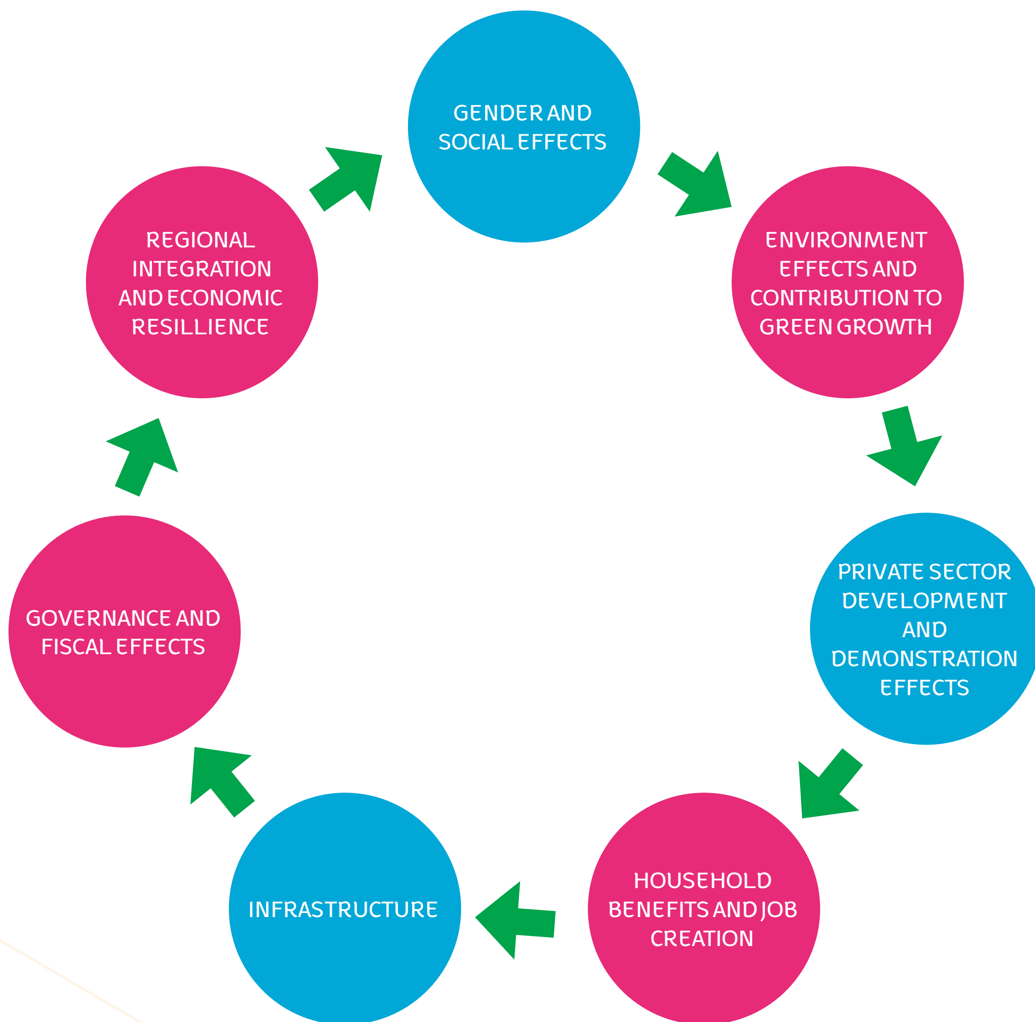
What to look for in private sector results / outcomes

Additionality: What does the Bank, along with other participating DFIs, bring to private sector projects that commercial investors cannot? Did the Bank demonstrate additionality in its intended interventions? Since private sector IFIs are operating in an open market for credit and investment, all IFIs are concerned with additionality as they do not want to crowd out financing from the market. Financial additionality, for example, measures the value – added of the Bank beyond what purely market sources would provide. It measures the extent to which the Bank provides financial support that is not otherwise available from commercial sources, catalyzing funding from other providers; or reducing perceived risks to investment in the company or sector. It mostly addresses the additionality brought by DFI financing by reducing commercial operators' exposure to credit, liquidity, or market risk, in ways that cannot be achieved using private sources and commercial players alone. Financial additionality depends on the overall reduction in commercial risk relative to the counterfactual scenario of no DFI participation.

Financial additionality is associated with key drivers such as long-term financing, improved currency matching or capital mobilization, including lead arranger role in syndications and catalytic effect. However, questions still remain on the methodology for assessing additionality, calling for further development of approaches. Non-financial additionality in mitigating other risks (for example, political risk), providing industry or technical expertise, or helping the client establish higher standards of governance, transparency or environmental and social sustainability, is also a relevant criteria. Holding IFIs to account for their additionality has been a driving force behind the adoption of their strategies and their increasing focus on low-income and high-risk countries over the past decade.

Catalytic role: crowding in other sources of financing is also a form of additionality. It is important to analyze how other investors are attracted to the project – sometimes other financiers or investors only participate in the PSO because of the comfort provided by the Bank's presence. So the question "Was the Bank able to attract other partners in its interventions" is very relevant. DFIs can mobilize resources by playing an active role in the fundraising process or providing a positive signal to private investors. In practice, this can be done by initiating contacts with potential investors such as pension funds, or assisting commercial investors in the due diligence process. Leveraging brings different parties together for the same investment. How will we assess who leveraged whom, who led the initiative, and who made it happen? And does that matter, or shall we focus on each party's contribution and how effectively it played its role?

Impact: The Bank finances the private sector as a means of achieving its



objective of broadening the economic development of its regional member states. It is therefore an imperative to assess the outcomes (intended and unintended) that the projects produced. For all DFIs, it is important to highlight the contribution of the private sector in a series of development outcomes that are predefined in accordance with their respective strategic priorities. For example, to corroborate the belief that the private sector is an engine of growth through job creation, the latter is an indicator to measure when assessing PSOs. Depending on the complexity and type of project (infrastructure), both direct and indirect job creation should be assessed, but this is still difficult to measure with objective standards. For the Bank, ADOA has defined seven categories of outcomes that match long term strategic priorities (see below graph).

Business Success and Profitability: The first indicator measures the fulfillment of the project financial objectives while the second assesses whether or not the Bank preserves its financial integrity. Private enterprises typically measure their performance in terms of growth in market share and revenues, earnings or profitability, firm productivity, financial

viability, and competitive position. Project business success measures and compares the project's actual and projected financial impact on the project's financiers (lenders and equity investors) over the economic life of the project, the project's contribution to other business goals articulated at appraisal and the project company's prospects for sustainable growth. The assessment can be done on a "with versus without" project basis, or on a "before versus after" project basis. The principal indicator for business success is the financial rate of return (FRR) based on real, after tax cash flows for project loans or the return on invested capital (ROIC) in the case of corporate investments.

For the Bank to continue to be sustainable, the investments it makes, whether in the form of loans or equity have to be profitable. It is clear that private sector operations require that the Bank operates on a commercial basis in its investment operations. This means taking the same commercial and business risks as other lenders and investors, and requiring investment returns that are commensurate with these risks. The evaluation framework therefore measures these investment returns, their adequacy in light of the risks, and their contribution to institutional profitability. Metrics of market share, profitability, and capital growth are straightforward in signaling who is successful and who is not. However, metrics are not always consistent and shared among IFIs to ensure similar yardsticks and foster learning from one to another.

Most IFIs still face some challenges in monitoring and evaluating private sector operations and in reporting development outcomes. For example, some attempts have been made to capture indirect effects using various methods in specific

sectors such as infrastructure, but a more rigorous methodology is called for. Many challenges still lie ahead despite the initiative to launch a working group on harmonizing indicators.

Challenges and way forward in evaluating private sector operations

The standards recognize the specificity of private sector evaluation, such as the competitive environment in which the private sector operates or the importance of the financial sustainability of projects, but some challenges remain. These include the need for more evidence to show the effects of private sector operations on the ground; for example, there is a need to come up with best practices and solutions on how to measure demonstration effects; catalytic effects, competition and linkages, how to better deal with attribution issues and beneficiaries' targeting, including SME definition and measurement. Indeed, there is a relatively weak evidence base in areas such as development outcomes and effects on end-beneficiaries arising from SME financing and PPPs. There are also ongoing discussions on how to better frame, provide guidelines and document both financial and non-financial additionality. Several IFIs are going through restructuring and change practices that may affect the implementation of the harmonized indicators. There is no silver bullet in terms of methodology. While others are already implementing the harmonized indicators list, some are looking forward to refining the definitions of some of the indicators (for example, taxes). Data quality and continuity are challenges facing IFIs and it is envisioned to go beyond project monitoring to impact evaluation.

Next steps:

- Set tracking systems to collect, monitor and evaluate development outcomes. DFIs can leverage their involvement in a project by requiring sponsors to commit to development targets. The Bank has succeeded, through its many years of experience, in getting a number of sponsors to agree to implement a development outcome tracking system. In spite of this progress, the Bank continues to challenge itself to improve its reporting mechanism.
- Increase evidence and impact by focusing on results: refine the indicators and their definition. For example, a common approach is needed to measure the social, environmental and financial impacts of projects. A project's development outcome rating is based principally on observed results on the ground, judged against market-based and company-specific benchmarks that test a project's commercial viability, economic and E&S sustainability, and demonstration effect. While the achievement of project objectives is considered, it is not the only criteria because delivery of the planned project infrastructure or services (at the point of completion) is no guarantee of the project's long-term viability or sustainability.
- Develop a 5th edition of the GPS. The ECG should do this, taking into account recent developments in each institution and in the evaluation field. For example, more instruments, such as trade finance or guarantees, are being introduced, but it is still unclear how and which metrics will be used to evaluate them in the future.
- Develop partnerships: Identifying next steps for increased collaboration with the private sector and the different stakeholders is necessary to improve measurement on development returns and its weight in the trade-offs between financial returns and risks; such measurements can then also be used as incentives for implementers.

The Bank continues to be an active member of a DFI-wide working group seeking to advance the estimation, collection and reporting of development outcome indicators, including those measuring inclusive growth. A list of harmonized indicators has been established and should guide the monitoring and reporting of all IFIs involved. In addition, two work streams are being pursued within this working Group: One on conversion methodologies to define a methodology to capture indirect development effects. The second on how to better conceptualize inclusive growth, green growth and impact investing and how to measure these effects. The implementation of the harmonized indicators will simplify project benchmarking and facilitate the sharing of best practices and lessons learned among IFIs.

- Draw on many years of experience to generate lessons to inform the role of the private sector in development and improve dissemination strategies. To foster learning, it is imperative to ponder the following questions: How can one project learn from the other inside the Bank and how can one IFI learn from the other? What do past experiences or recent evaluations tell us about financing private sector operations? It is important to always discuss

lessons from recent evaluations and evaluation approaches for support to private sector development programs, especially in the areas of private-public partnerships and support to small and medium enterprises where the challenges are many.

Private sector development initiatives are an essential part of efforts to achieve global development goals and commitments. Measuring, monitoring and evaluating PSOs help assess the effectiveness of the investments and improves future operations. It also helps to report on the Bank's performance in ways that reinforce public trust. Evaluation is mostly designed to meet reporting and accountability purposes to add value to the business; it is essential for the decision making process. However, the discussions on approaches and methodology are ongoing given the many challenges associated with private sector financing by multilateral development banks (MDBs). In fact, all development partners, including the private sector will have to rethink the metrics by which they judge success and failure of their investments and the impact on the development agenda. The evaluation community should urgently start paying attention to the growing use of private sector interventions to promote development and organize itself to play a strong role in the development of standardized tools to assess their results. In the meantime, the Bank with other IFIs will continue to contribute to this dialogue through the IFIs working group and other research and discussion forums.

Author's Profile

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Benchmarking support to SMEs in three multilateral development banks

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In spite of the importance of SME development and growth, relatively little research exists on whether, why and how banks, in particular, development finance institutions (DFIs), finance SMEs around the world.

This article analyses and benchmarks the policies, strategies, and operations underlining SME support schemes in three multilateral development banks: the World Bank Group; the European Bank for Reconstruction and Development; and, the African Development Bank.

Introduction

This article analyzes and benchmarks the policies, strategies, and operations underlining SME support schemes in three Multilateral Development Banks (MDBs): the World Bank Group – as the biggest and most innovative player; the European Bank for Reconstruction and Development (EBRD) – as it contains specific reference to Small and Medium Enterprises (SMEs) in its mandate/charter; and the African Development Bank (AfDB) – for its recent focus on private sector development, notably on SMEs. The World Bank Group is included as opposed to singling out the International Finance Corporation (IFC) because it remains a significant provider of SME finance and support through the International Bank for Reconstruction and Development (IBRD), in a complementary fashion to the support provided by IFC.

The article reviews the role played by the three MDBs in supporting SME development and how this role has evolved over time. It also provides a benchmarking review of SME-targeted operations, that is, where SMEs are the primary focus of the intervention; and assesses, at the operational level, financing and non-financing instruments (technical assistance and at the policy, business climate level), including how new approaches and instruments have evolved over time.

The methodology involved a desk-review of documents (including policies, strategies, operational documents, and analysis of targets for SME development), and interviews with staff at their respective head offices, with subsequent interactions to obtain more detailed information.

Structure of the article

First, the article provides a brief operational overview of the AfDB, WBG (IFC & IBRD) and EBRD and compares the volumes of their financing and technical assistance operations to SMEs. Second, it compares the SME strategies and approaches of the three institutions as set out in strategy and policy documents, including how such strategies and policies have evolved over time, and reviews areas of interventions and instruments deployed, both financial and non-financial (technical assistance at the micro and at the policy and business climate levels). Third, it examines how SME activities are undertaken from an organizational/institutional perspective, in particular, the mix of operational/transactional units and strategy/policy units. Fourth, it provides an overview of the emerging trends in this area.

Operational overview

In spite of the importance of SME development and growth, relatively little research exists on whether, why and how banks, in particular development finance institutions (DFIs), finance SMEs around the world[6] and on impact assessment[7] in the sector. Efforts to collect comprehensive data on SME financing have been scaled up within the G-20 framework (Consultative Group to Assist the Poor, 2010).

International Finance Corporation (IFC) support to SMEs began in 1981, showing a continuing commitment to developing local financial markets focusing on micro, small and medium enterprises (MSME), although it has no dedicated SME strategy. It is part of the WBG that has the widest range of SME instruments and support mechanisms. Only IFC has an official definition of SMEs, although this is not always used in practice. Defining SMEs is essential for an appropriate strategy to serve them to be formulated. IFC identifies SME support as a strategic objective based on job creation potential. It has the largest number of SME specialists, with hundreds of staff – this probably explains why it is considered the most innovative IFI in SME financing and technical assistance. Regionally, Sub-Saharan Africa and the Middle East and North Africa (MENA) are two of the three priority regions for SME targeting.

The African Development Bank (AfDB) recognized the importance of SMEs as long ago as 1986 in its Industrial Sector Policy Guidelines. However, at present the AfDB does not have a dedicated SME strategy and SME-related interventions are guided by the institution's general and private sector development strategies and policy documents. The Bank's 2003 Financial Sector Operations Policies proposed the use of financial intermediaries for targeting SMEs, via Lines of Credit (LOCs). This use of LOCs was expanded further in the 2004 Private Sector Development Strategy, which strongly stressed the importance of SME support via financial intermediaries. The newly created Financial Sector Development Department in the AfDB is expected to take over responsibility for SME-related operations through financial intermediaries that were handled by the Private Sector Department of AfDB until 2014.

The documents establishing the EBRD in 1991 state that the Bank shall, in member countries, "[…] promote, through private and other interested investors, the establishment, improvement and expansion of productive, competitive and private sector activity, in particular, small and medium sized enterprises" (Bronstone, 1999, pag. 177). The EBRD is the only MDB that has a very high-level specific commitment to SMEs in the form of a dedicated

[6] Notable exceptions are Kwakkenbos and Romero (2013), Calice, Chando, and Sekioua (2012), Dalberg (2011), Perry (2011), and Beck, Demirguc-Kunt, and Peria (2008, 2010).

[7] With respect to impact evaluations of SME programs, notable exceptions are Giorgi and Rahman (2013), López-Acevedo and Tan (2011), Bah, Brada, and Yigit (2011), López-Acevedo and Tinajero (2010), Castillo, Maffioli, Monsalvo, Rojo, and Stucchi (2010), Tan (2009), Tan and Lopez-Acevedo (2005), World Bank (2010), and Oldsman and Hallerg (2004).

SME strategy. At the end of 2013, EBRD adopted a radical new approach to SME in its Small Business Initiative Review (SBI), which contains, inter alia, a more strategic approach, a wider range of instruments, and more efficient, faster processes and approval procedures. In 2012, EBRD expanded operations in North Africa following the Arab Spring.

SME strategies and approaches

The three institutions have a similar range of financial instruments to support SMEs through financial intermediaries, as well as technical assistance and policy dialogue (investment climate reform and support structures for SME etc.). While the AfDB provides only indirect forms of support, IFC and especially EBRD also have significant portfolios of direct investments in SMEs.

With respect to policy and strategic orientations, both EBRD and IFC have been innovators in private equity, sponsoring a number of SME-focused investment funds that are the first of their kind geographically or by target market, whereas AfDB has been investing alongside such funds and those sponsored by other development institutions. IFC has a major competitive advantage in sourcing investment projects as it can bundle investment operations and technical assistance together. It is noteworthy that while IFC is moving towards bringing even closer together its advisory (technical assistance) and investment services activities under the premise that combined projects have better development and financial outcomes, AfDB appears to be moving towards more stand-alone technical assistance activities.

IFC's relevance and potential contribution is greatest where the financial sector (or other service markets) is weakest in serving SMEs that is, addressing market failures. Geographically, relevance seems to be greater in projects in frontier markets.

SME activities from an organizational / institutional perspective

With respect to organizational aspects, technical assistance activities in all three financial institutions involve SME specialists. IFC has by far the largest number of staff working on SME transactions, with its MSME Finance and Access. IFC's organizational approach to SME operations changes approximately every four or five years, indicating that an optimal operating structure has not yet been identified. The World Bank Group as a whole also has a global vice presidency for financial and private sector department that is also, inter alia, involved in SME operations. EBRD also has a significant number of SME specialists. It has advanced further in bringing together the coordination of its SME activities with the recently announced establishment of its Small Business Initiative Department. Compared with IFC and EBRD, AfDB has a relatively small number of staff working on SME operations.

Emerging trends

With respect to emerging trends, the AfDB is planning to expand the scope and volume of its technical advisory services to SMEs several fold. It is also planning to be more innovative in the use of financial instruments. The recently launched Africa SME Program provides a possible model for reaching SMEs in a more efficient and appropriate manner. There is also a move towards the use of stand-alone technical assistance facilities that can be tailored to specific sectors and/or countries, alongside umbrella programs.

IFC is likely to lead the way in the innovation of new investment and advisory services products. However, it does in one way appear to have a more limited approach to SME projects in that it looks at development results primarily through the lens of job creation. IFC is likely to continue to undertake direct SME investments on a selective basis.

The 2013 World Bank Group Strategy stresses "Working as One World Bank Group", including an increase in the number of projects involving two or three WBG

member institutions. It notes that in poorer countries, small SMEs predominate as private clients, served primarily through financial intermediaries, and IFC and MIGA often support foreign investors for direct investment. Furthermore, the Strategy stresses the importance of projects with strong private sector demonstration effects.

The most important development in SME support at EBRD has been the 2013 Small Business Initiative that provided a more coordinated strategy and approach to its SME activities, which encompasses country by country SME Action Plans. The recently set up Small Business Initiative (SBI) unit has developed an enhanced "toolbox" of product services across five pillars. Key innovations/developments include significant increases in targeted SME credit lines, the use of risk sharing and guarantee instruments, especially the Medium-size Co-financing Facility, the use of local currency denominated instruments, and the use of TC for developing the SME capability of financial institutions.

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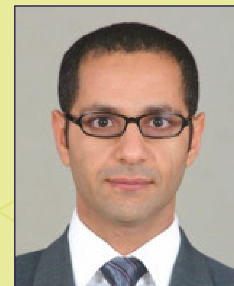

Independent evaluation of AfDB assistance to small and medium enterprises (2006–2013)

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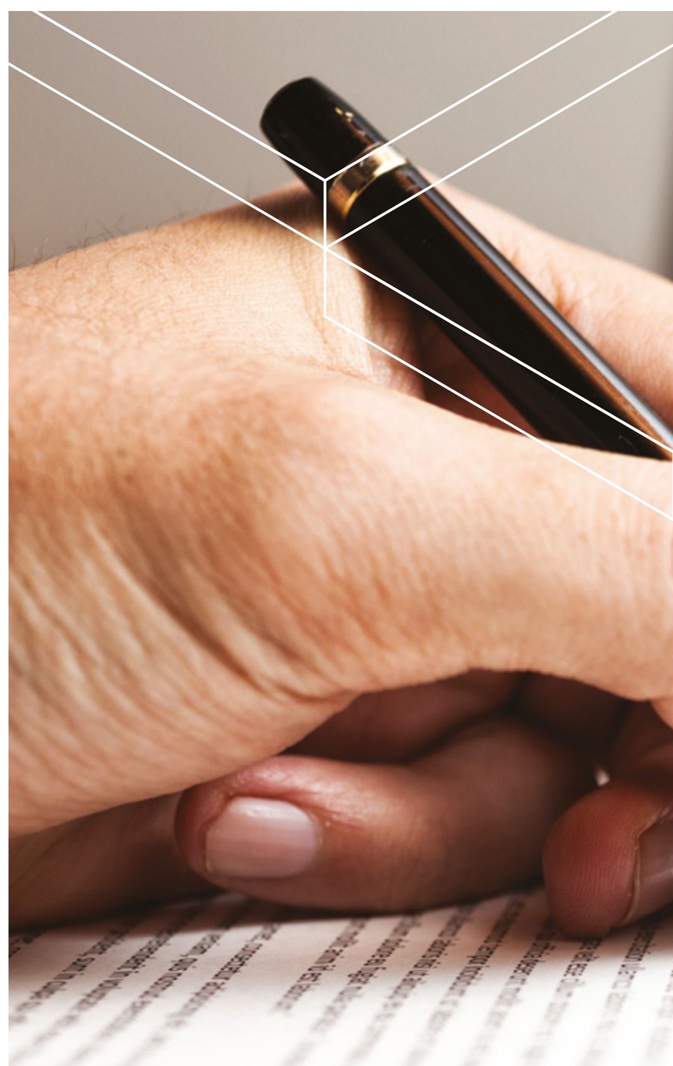
This evaluation was conducted to inform the Bank's future assistance to Small and Medium Enterprises (SMEs). The purpose of the evaluation is three-fold: 1) assess the relevance, effectiveness and sustainability of Bank assistance to SMEs; 2) evaluate how efficiently the Bank's structure and procedures have supported the design and delivery of operations; and, 3) identify potential areas for improvement.

Findings

- **Relevance of the Bank's strategic orientation is rated as satisfactory.** The importance of SME development in Africa has long been recognized by the Bank, and SME development has been a recurrent theme in strategic and policy documents. However, no dedicated SME strategy exists and SME assistance lacks a unified conceptual framework. This is partly reflected by the absence of a harmonized definition of SME, often preventing proper identification of target groups. The themes addressed by the Bank are highly relevant for SME development. However, when compared with other MDBs, the Bank is more focused on improving conditions for SME finance, and pays less attention to other areas of interventions (such as investment climate reform, financial market infrastructure, market access). One persistent gap in the Bank's product mix is the limited use of local currency lending, which limits its ability to effectively reach SME beneficiaries.
- **Relevance of SME assistance operations is rated moderately satisfactory.** The relevance of SME assistance operations is often undermined by weaknesses in design. In some cases, there was a limited appreciation of client's financial needs, which resulted in project cancellations. Financing agreements often did not appropriately specify eligibility criteria for sub-loans. This provided ample room for risk-averse banks, a substantial subset among recipients of the Bank's SME assistance, to utilize loan proceeds for safer corporate lending. As a result, a significant share of Bank assistance was nominally targeted at SMEs, but in practice can be better described as generic private-sector development assistance. However, since 2013 the SME focus has been considerably strengthened, and operations channeled through the ASMEP (Africa Small and Medium Enterprise Program) and the African Guarantee Fund are much more aligned with SMEs' financing needs. Another positive feature has been the frequent combination of investment and technical assistance operations, although the latter were not always squarely focused on SMEs.
- **Effectiveness of SME assistance operations is rated moderately satisfactory.** Due to design weaknesses, the Bank's ability to reach SMEs was limited, with the majority of projects performing well below target. Out of the sample of 17 operations for which detailed data are available, 10 missed their targets by more than 25 percent, three performed on target, and four over performed. These projects provided financing to 1,800 firms. While 90 percent of these beneficiaries can indeed be reasonably characterized as SMEs, they received less than 40 percent of the US$622 million disbursed. The rest went to large enterprises, each receiving on average about US$2 million, compared with an average of US$150,000 for SMEs. Only a few financial intermediaries expanded their SME portfolio and even fewer introduced new financial products for SMEs. On the positive side, the majority of projects performed well in financial terms, experiencing little or no defaults. The effects of the Bank's

SME assistance are difficult to gauge, partly due to the lack of information. In the case of the 15 operations for which accurate data on employment were available, a crude before-and-after comparison suggests an increase in employment of some 25,000 people, of which about 15,000 were in SMEs and the remainder in large enterprises.

- **The additionality of the Bank's intervention is rated as moderately satisfactory.** Provision of long-term resources enabled financial intermediaries to match the demand for term credit (medium to long-term lending). The Bank was also an important investor in a dozen equity funds, contributing to their commercial viability. However, the Bank rarely played a catalytic role. Most intermediaries were recipients of or were concurrently receiving substantial support from other MDBs/DFIs. In the case of equity funds, the Bank was rarely a first-round investor, and again other MDBs/DFIs also provided substantial funding. Non-financial additionality is rather modest. The majority of banks receiving credit lines from the Bank were also supported with technical assistance, but these interventions did not significantly influence project results.
- **Sustainability** – Little can be said about sustainability due to the limited number of completed projects and the paucity of development results sustained. Therefore, it was not possible to rate this criterion.
- **Efficiency of the organizational set-up and procedures are rated as moderately satisfactory.** Over the study period (2006–2013), the average time required to process an investment operation was about 10–12 months, i.e. about twice the average approval time at the International Finance Corporation and the European Bank for Reconstruction and Development. Similarly, the Bank had about twice as many approval gates, with a particularly laborious project clearance process. Finally, there is limited sharing of experience between the various units involved in SME-related work. However, some improvements were recently introduced for operations undertaken in the framework of the ASMEP, which provides a streamlined approval procedure. No particular issues emerged regarding disbursements of investment operations, whereas problems were found with technical assistance operations, with the



complexity of procurement procedures being the subject of criticism from clients. The Private Sector and Microfinance Department of the Bank, responsible for investment operations and related technical assistance, handled the bulk of SME assistance operations.

- Appropriateness of monitoring and evaluation arrangements are rated as moderately unsatisfactory. The monitoring and evaluation of SME assistance operations is challenging, requiring design of appropriate measuring tools and the collection of a significant mass of data. The matter is further complicated by the two-tiered structure of most SME operations, which in principle requires information from both immediate beneficiaries (banks, equity funds, etc.) and ultimate beneficiaries (the SMEs). Tools for measuring the performance of SME assistance operations were developed in the framework of the ASMEP. However, serious problems persist in data collection, with client financial institutions showing little inclination to provide data in a timely manner and Bank staff sometimes hesitating to put pressure on clients.

Where do we go from here?

1. **Develop a comprehensive conceptual framework** (e.g., dedicated strategy) for SME assistance, accompanied by a revamping of analytical work, which could provide useful inputs both for policy formulation and for the design of specific operations.

2. **An official definition of SME should be adopted by the Bank** so that the target groups are clearly defined. The definition of SME put forward by the ASMEP, based on size, is a good starting point, as it differentiates between small and medium firms and countries at different levels of development. In the case of operations with financial intermediaries, the Bank may consider complementing the size-based definition with one based on loan size, which is likely to be more easily handled by PFIs.

3. **Expand the utilization of local currency financing,** which is currently envisaged under the ASMEP, and the Bank should definitely make efforts to translate this into concrete action.

4. **Improve the design of investment operations,** with a more accurate assessment of PFIs' financial needs, with the primary objective of drastically reducing cancellations. This should be accompanied by a more realistic assessment of PFIs' propensities and abilities to effectively serve SME clients, with the setting of more realistic targets.

5. **Diversify the range of client PFIs and countries of operations,** which is already envisaged by the ASMEP, and the Bank should definitely deploy efforts to translate this into concrete action.

6. **Strengthen eligibility conditions to ensure that SMEs are effectively reached.** In the case of PFIs, eligibility conditions must be clearly specified so that on-lending (a financial intermediary lending money borrowed from another organization) is aligned with the intended objectives.

7. **Improve the relevance of technical assistance and facilitate its implementation.** Technical assistance initiatives should be tailored to the specific needs of each intermediary and be more consistently aligned with the objectives of the associated lending or investment operations. In addition, to avoid delays in the deployment of technical assistance, the Bank should consider a simplification of procurement procedures to better match the capabilities of beneficiaries.

8. **Improve coordination among services involved in SME assistance** by establishing mechanisms (e.g., community of practice) to achieve a greater integration among the various Bank services concerned. This could be done through the creation of a community of practice, linking all the staff involved in SME-related operations and facilitating the sharing of experiences and best practices.

9. **Simplify project approval procedures by** building upon the experience gained through the simpler procedures exhibited in the ASMEP: reduce the number of project approval; streamline approval procedures based on no-objection mechanisms or on the delegation of powers to senior management.

10. **Improve the collection of information on project achievements** by requiring PFIs to provide at a minimum: (i) the number and basic features of the sub-loans; (ii) detailed data on the composition of their portfolio, with a separate indication of the number and value of operations with SMEs (based on a uniform definition of SMEs); and (iii) data on non-performing operations, again with a separate indication of the relevant parameters for SMEs. PFIs should also be required to collect information on client SMEs for at least some basic variables (turnover, employment, exports).

11. **Establish a system to monitor and report on development results.** Such systems are currently standard in most MDBs (e.g. the Development Outcome Tracking System in the International Finance Corporation, and the Transition Impact Monitoring System in the European Bank for Reconstruction and Development).

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Evaluating development assistance to the private sector: Uganda in perspective

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This article addresses the challenges faced in evaluating development assistance to the private sector in Uganda. It examines the concept of evaluation and development evaluation, in particular, while briefly addressing development assistance, its genesis, and approaches.

The private sector is generally recognized as an engine of growth through creation of wealth, income and jobs, and mobilization of domestic resources. It may be the recipient of aid, either directly or indirectly, and at times in the form of public private partnerships. However, development evaluation of what works and what does not work faces a number of challenges in assessing the contribution made by development assistance to the private sector. Hence, it is important to examine the criteria used in development evaluation as well as the process used in assessing outcomes of aided private sector projects. Improvements in development evaluation for private sector donor-funded projects will require revisiting best practices in development evaluation, emphasizing efficiency, effectiveness, impact and sustainability. This article is relevant for policy makers, donors and evaluators.

Introduction

Donors have over time realized the central role of the private sector in advancing innovation, creating wealth, income and jobs, mobilizing domestic resources and in turn contributing to poverty reduction. The private sector may be a direct recipient of aid for investments and activities in the form of subsidies and loans to small and medium enterprises (SMEs). It can be a contractor in implementing aided projects and a provider of aid-equivalent development resources. The private sector can be a partner as in public-private partnerships to combine the strengths of different stakeholders.

This is the situation in Uganda, where development partners/donor governments use a variety of instruments to provide direct support to private enterprises (World Bank, 2003). In this undertaking, it has, however, become increasingly difficult to ascertain the value for money and impact of the development assistance. Hitherto, donors have been more concerned with undertaking evaluations of projects than have governments and beneficiaries. Evaluating development assistance however poses some challenges.

Development Evaluation

Over the years, the concept of evaluation has taken on different shifts in its definition. Basically, an evaluation is an assessment, as systematic and objective as possible, of an on-going or completed project, program or policy, its design, implementation and results (OECD, 2008). The aim of an evaluation is to determine the relevance and fulfillment of objectives, developmental efficiency, effectiveness, impact and sustainability. An evaluation should therefore provide information that is credible and useful, enabling the incorporation of lessons learned into the decision-making process of both recipients and donors.

Therefore, an important purpose of evaluation is to bring to the attention of policy-makers success or constraints on development aid resulting from policy shortcomings or from rigidities on the donor or recipient side, inadequate co-ordination, and the effectiveness of other practices, such as procurement. In this case, evaluation promotes dialogue and improves co-operation between participants in the development process through mutual sharing of experiences at all levels.

Consequently, developmental evaluation (DE) is identified as an evaluation approach that can help social innovators develop social change initiatives in complex or uncertain environments (Patton, 2006). Its originators liken its approach to the role of research and development in the private sector product development process because it facilitates real-time, or close to real-time, feedback to program staff, thus facilitating a continuous development loop.

The definitions above of development evaluation contain five evaluation criteria that should be used in assessing development interventions: relevance, efficiency, effectiveness, impact and sustainability.

(i) Relevance underlines the extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, global priorities and partners' and donors' policies.

(ii) Efficiency looks at a measure of how economically resources/inputs (funds, expertise, and time) are converted to results.

(iii) Effectiveness deals with the extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.

(iv) Impact concerns the positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended.

(v) Sustainability delves into the continuation of benefits from a development intervention after major development assistance has been completed, the probability of long-term benefits and the resilience to risk of the net benefit flows over time.

Evaluation should be impartial and independent in its function from the process concerned with policy making, delivery and management of development assistance. Impartiality contributes to the credibility of evaluation and the avoidance of bias in findings, analyses and conclusions, and reduces the potential for conflict of interest, which could arise if policy makers and managers were solely responsible for evaluating their own activities.

Quite pertinent too is the recognition that both donors and recipients should be involved in the evaluation process. Since evaluation findings are relevant to both parties. Evaluation terms of reference should address issues of concern to each partner, and the evaluation should reflect their views of the effectiveness and impact of the activities concerned. Participation and impartiality thus enhance the quality of evaluation, which in turn has significant implications for long-term sustainability since recipients are solely responsible after the donor has left.

Development assistance

Moving beyond the definitional rigors of development evaluation, the processes that prompted its development need to be scrutinized. Not surprisingly, these changes have created major challenges for those involved in evaluating development assistance. The past 15 years have seen a series of major shifts in development thinking and practice, involving new ways in which development assistance is directed towards the developing world and the new relationship between donors and recipients.

Development assistance is now seen as a co-operative partnership exercise between donors and recipients. Developing countries are responsible for their own development and development assistance can only be subsidiary and complementary to the efforts of the recipient. Development assistance supports activities for which developing countries have final responsibility and ownership as reflected in national visions, development plans and strategies mutually agreed upon.

Prior to the 1990s, the 'project model' dominated development thinking and practice and provided the context for the theories and methods of development evaluation (World Bank, 2007). Development assistance was generally delivered in the form of projects, a

Fig. 1: A dysfunctional packaging machine is replaced by a dozen manual packers at a food processing company in Kampala, Uganda.

tightly bounded set of activities that typically took three years to complete. The focus in these projects was on project staff producing 'deliverables' (DANIDA, 2005). How these deliverables were to be delivered was set out in a 'logical framework' which defined the presumed links between the inputs, outputs and overall outcomes, as well as the assumptions underlying these links.

However, there has been a transitional phase in many countries, where separate projects are aligned with sector objectives. Increasingly, donor assistance takes the form of pooled support of both financial and technical assistance (Van den Berg, 2005). The argument is that development assistance is only one of many ways in which the developed and the underdeveloped world relate to one another, and that trade and private sector are in quantifiable terms much more important strands in this relationship (OECD, 2005).

Private sector

The key role played by the private sector in spurring economic development, often referred to as the "engine of growth" (World Bank, 2003), is common knowledge. The private sector is seen as a panacea for creating jobs, providing incomes, goods and services, advancing innovation, and generating public revenues essential for economic, social and environmental welfare. This is why development evaluation is strongly directed towards appraising and assessing the private sector. Moreover, as public resources for development assistance are scarce, the private sector is increasingly being looked at as an important additional source of external finance and domestic resource mobilization (Karlan, and Zinman, 2009).

Private sector development (PSD) has thus been receiving increased attention from policy-makers in the developing world and from the development community alike. The creation of an enabling business environment through reforms has been acknowledged as an important pre-requisite for unleashing a private sector response that leads to dynamic growth.

In Uganda, the private sector has been the leading source of growth in investments, in line with the country's policy of private sector led growth. Out of USD 4.8 billion worth of fixed investments in 2011/12, the private sector contributed

USD 3.6 billion (76 percent) (Uganda National Development Plan II, 2015/16-2019/2020). However, the private sector is performing rather poorly owing to several important facets of the business environment, including getting the relevant permits to start a business, the lack of reliable power supply, registering property, dealing with construction permits and trading across borders. The World Bank's Doing Business Indicators for 2014 ranks Uganda ranking 132nd out of 189 countries. The commercial lending rate for Uganda is 21.4 percent (June 2014), the highest in the region, compared to Kenya (15.1 percent), Rwanda (16.7 percent) and Tanzania (15 percent). Limited access to credit has been consistently identified as one of the major challenges to doing business in Uganda. It is against this background that we examine challenges in development evaluation in relation to the private sector in Uganda.

Challenges in evaluating private sector development assistance in Uganda

Evaluating support to private sector development helps understand what works and what does not work, and ensures accountability on the use of public resources. Evaluation tended to focus on whether or not these 'deliverables' had been delivered and whether the assumptions had held.

A recent attempt to evaluate Uganda's Poverty Reduction Strategy adopts a different strategy (Kakande, 2006). One of the core problems addressed in this evaluation is the multidimensional nature of poverty. The evaluation focuses on a group of 31 indicators of output and impact as well as another set of indicators to assess inputs and value for money. The result of the exercise shows that significant challenges remain in evaluating the relevance and fulfillment of objectives, development efficiency, effectiveness, impact and sustainability, especially in the private sector (Holvoet and Renard, 2007).

Perhaps the most difficult challenge is determining where the boundaries of the analysis should be drawn, given the complex intermingling of financial and technical inputs within a changing policy framework (Jacobs, 2005; Lister, 2006). The recurring problems is how far evaluators should restrict their activities to the actions and impacts of development agencies.

An obvious problem is that it is often difficult to distinguish between the impacts of these forms of development interventions in the private sector. An independent evaluation of the Uganda Integrated Program, Phase II (UIP II) – Agro-Processing and Private Sector Development in Uganda – implemented by UNIDO, with a total budget of about US$ 7.5 million (UNIDO, 2009), established that it is difficult to assess the direct impact or long-term effects of the UIP II on private sector development. Some of the initiatives are pursued because they are deemed essential, even if Uganda does not appear ready yet to absorb the results (for example, the switchover from analog to digital, the introduction of legal aid and alternative sanctions), with little or no far reaching effectiveness and impact.

Regarding the relevance criterion, several challenges are observed. It is difficult to evaluate the relevance of the funded projects given the huge pressure from international organizations and their agencies towards potential beneficiaries that their engagement through direct agreement is pre-arranged, with development assistance having become their main source of funding and continued presence.

Some even perceive this as their 'right' and seek to use even diplomatic channels to impose themselves, while on the contrary, opting for the direct agreement as the modality of implementation and the choice of the agency should be the right of the beneficiaries, based on their estimation of the suitability of the international organization/agencies and proven track record on performance.

There has been a 'supply-side' tendency in some areas for donors or project consultants to import development concepts wholesale from abroad, such as "Agribusiness" initiatives and Business Improvement Clinics, and then seek to make them fit the Ugandan legal, administrative or business system. Many of these interventions address aspects that are assumed to be critical for effective development yet are difficult to define and measure, and are not relevant to project objectives.

In the case of effectiveness, development evaluation has faced many challenges. The scope of a development evaluation can differ widely depending on the nature of the evaluator, the types of effects that might occur, as well as the choices that are made about the aspects to be assessed in detail. These choices can be determined by decision makers and/or researchers and may include the priorities of other stakeholder groups such as target groups against the intervention's objectives. In Uganda, a 2009 evaluation of UNDP development programs for the private sector in Uganda, found out that the expected outcomes did not adequately reflect the entire range of project results. Clarity of project objectives, indicators and overall contributions to goals was diminished. More so, baseline information crucial for an evaluation of results was lacking for most programs.

"Development evaluation also faces challenges relating to appraising efficiency, that is, a measure of how economically resources/inputs are converted to results (outputs and outcomes)."

Sometimes, the objective itself was unrealistic (for example, 'democratization' as the outcome from grant support for microfinance institutions). Many times even a two-year timescale is too short to assess performance for some types of intervention, especially those that train farmers in financial management by saving and credit society organizations (SACCOs). This is the case with starting cottage industries and industrial parks, most of which have not had sufficient time to fulfill objectives. In such situations, it is difficult to evaluate the effectiveness of development assistance on a two-year timescale whose effectiveness would likely to be felt after 10 years.

Development evaluation also faces challenges relating to appraising efficiency, that is, a measure of how economically resources/inputs are converted to results (outputs and outcomes). Efficiency is the relationship between resources and results: the input-output ratio. As such, it is a relative not an absolute concept, and requires a reference point to be meaningful. Efficiency is almost impossible to evaluate for the whole private sector, in the absence of comprehensive data on spending (based on actual disbursements, not budget or contract values), and aggregate

performance indicators for the period. This is a major hurdle in the private sector where data is perennially and deliberately absent.

On the inputs side of the efficiency equation, feedback from different businesses that have received development assistance suggests that one of the hardest challenges in programming is to budget accurately for individual projects, especially knowing that implementation will not commence for a period between one and three years (depending on the donor and the procurement process), meaning that future conditions must also be anticipated.

Some of the donations made to businesses are also extremely small, with 75% of the grants being less than US$100,000, which is inefficient from the viewpoint of transaction costs (as well as impact). In assessing the price of development assistance, it is important to not only factor in the contract value, but also the hidden costs of administration by the donor and staff time and overheads (office, if provided) incurred by the beneficiary. It is not possible to estimate these costs within the confines of a development evaluation, but they are likely to be material, to use an auditing term. Inputs are also about quality, not just cost and timings.

Sustainability is also a major challenge for development evaluation. Not every development assistance to the private sector is expected to continue beyond the project's duration, by being mainstreamed with domestic funding. Some actions last for the lifetime of the project, but their benefits should endure – in new knowledge, skills and systems, better laws, higher standards. This is quite difficult for evaluators to measure.

While development funding is conditional, implicitly or explicitly, on committing the necessary resources to sustain outputs, there is little evidence of an organized approach by individual businesses to live up to these commitments. But what is difficult to measure is the resource commitment to continue or build upon development assistance projects that affect the private sector or facilitate the availability of increased external funding.

"Previously, evaluations were planned, implemented and produced for donors, but increasingly the evaluation process is seen as involving all the partners."

Furthermore, the changing relationship between aid givers and aid receivers complicates the role of the evaluator, and as does the new emphasis on partnership. Previously, evaluations were planned, implemented and produced for donors, but increasingly the evaluation process is seen as involving all the partners. What is being required of evaluators by these various partners is increasingly complex, and evaluators can now find themselves working to a range of audiences and masters.

Older principles of accountability and conditionality are now replaced with an increasing focus on the learning functions of the evaluation process. Evaluations are increasingly viewed as contributing to 'empowerment', which is now a central theme in contemporary development thinking. And in practice, while evaluators have always worked in a political context, the demands being made upon them are increasing in variety and significance.

More challenges remain. An obvious condition for development evaluation is the active involvement of researchers or evaluators in the intervention design and implementation phase in the private sector. This involvement is essential for baseline data collection as well as for quality control of randomization. In practice, however, many impact evaluations are commissioned after an intervention has been implemented and baseline data continues to be a problem. Other challenges include non-existent or poorly defined objectives, for example, intended outcomes are not stated as measurable change over time in target groups; unrealistic and/or conflicting objectives; and, lack of targets or measures of success.

Conclusion

Development assistance is growing as the role of the private sector in development is becoming more dominant and appreciated as more efficient compared to that of private institutions. Thus, good practice in development evaluations emphasizes that programs or interventions should be properly designed. Interventions must ensure that private sector players, for instance, have feasible business plans on which they base their operations, which is usually not the case. There should be clear baselines upon which evaluation is conducted. Development assistance must address specific benefits as well as intervention that are clearly measurable. Proper risk assessment must also be done. Costs and benefits should be quantified at the beginning of the programs. Lastly, end-of-project report should be made available.

Summary of key messages

- The private sector has access to development assistance through various avenues.
- Evaluating development assistance to the private sector ensures accountable and sustainable use of public funds committed.
- The private sector is still so underdeveloped in terms of data organization and access that development evaluation can do so little to be a meaningful undertaking.
- Development evaluation activities and those of funded projects are so intermingled that it is quite difficult to determine the boundaries of analysis.
- Development evaluation finds it difficult to delineate the impacts of development assistance to private sector given the unrealistic timelines of the funded projects.

"Development evaluation finds it difficult to delineate the impacts of development assistance to private sector given the unrealistic timelines of the funded projects."

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Private sector development program in Botswana: how SME's are facing challenges

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Historically, Botswana's economy is government-led and -run, with the private sector playing a peripheral role. In an effort to facilitate private sector activity, government institutions provide private sector development services such as training, mentoring, product development, market research and financial support. Nonetheless, the public sector employs over 40% of the formal workforce.

International Monetary Fund estimates indicate that the private sector's contribution to gross investment (measured as a percentage of Gross Domestic Product (GDP)) declined from 18% in 2007 to 8.9% in 2009 while the same ratio for the public sector increased from 7.8% to 15.1% over the same period. The private sector's contribution to gross savings declined from 20.3% in 2007 to 9.9% in 2009, while the public sector's contribution declined from 20.1% to 12% over the same period.

To a large extent, this situation reflects the impact of the global financial crisis and the vulnerability of the private sector to external shocks. To encourage the participation of the private sector in the economy, a privatization initiative was launched. In 2009, a Public-Private Partnerships (PPPs) framework was established to spur private sector participation in the economy. The Botswana Private Sector Development Strategy (PSDP) was developed after comprehensive discussions with the Ministry of Trade and Industry, Business Botswana, the European Commission and the experience acquired by CDE in the area of support for the private sector. This article provides insights on the Program whose overall objective was to increase the competitiveness of private sector small, medium and micro Enterprises (SMMEs) and Community Based Organizations (CBOs) by facilitating access to finance and to markets – resulting in greater participation and contribution to the local economy.

In March 2013, a Contribution Agreement was signed between the European Union (EU), represented by the European Commission (EC), and the Centre for the Development of Enterprise (CDE). The purpose of the Agreement was to contribute to the implementation of the Action entitled: Support to the implementation of the Private Sector Development Strategy (PSDS) of Botswana and the Economic Diversification Drive (EDD).

The PSDS, a framework for support to private sector development in Botswana, was elaborated in 2008 through extensive consultations with various stakeholders. The PSDS is built on four priority areas:

- Trade expansion
- Improving labor productivity
- Support to trade institutions
- Improving the business climate.

Implementation of the PSDP is expected to strengthen the competitiveness of SMMEs and CBOs as well as intermediary organizations (IOs) and sector associations to ensure that they contribute to the diversification of the economy. The program also aims to help the Ministry of Trade and Industry create an enabling environment for enterprise development under the framework of the EDD strategy. The following areas are targeted under the PSDP:

- Strengthening the capacity and competitiveness of SMMEs and Community-Based Organizations (CBOs), including value chains;
- Enhancing service delivery of targeted Intermediary Organizations (IOs) and Business Development Service Providers (BDSPs);

- Improving the business environment for enterprises (reduction of red tape and pilot on improved access to financing for SMMEs).

The Private Sector Development Strategy supports 100 SMMEs, including CBOs with a strong growth potential, and Intermediary Organizations (IOs) focusing on and supporting trade, and entrepreneurial groups that are likely to spur economic diversification, modernize the private sector and increase employment creation.

Beneficiaries were selected through a competitive process advertised through various media channels, including radio, television and newspapers.

After careful benchmarking and analysis of best practice SMME classifications and definitions, PSDP recommended the following criteria for selecting SMMEs under the PSDP framework:

SME Category	Turnover (Pula)	Assets (Pula)	Employees
Medium Enterprises	P3,000,001 – P5,000,000	P1,500,001 – P3,000,000	25 to 100
Small Enterprises	P1,500,000 – P3,000,000	P500,000 – P1,500,000	15 to 24
Micro Enterprises	Up to P1,499,999	Up to P499,999	1 to 14

A total of 100 companies was selected in the priority sectors:

The PSDP was developed within the framework of the PSDS by the Ministry of Trade and Industry (MTI) and Business Botswana, in partnership with the CDE. The program was officially launched in May 2013 in Gaborone, Botswana. The PSDP will run for three (3) years to address key areas of the PSDS and EDD strategy by building the capacities of institutions and human resources that support the private sector thus contributing to stimulation and sustained growth via a diversified economy. The EU is the contracting authority for the PSDP, the MTI is the supervising authority, CDE is the executing agency and BB is responsible for monitoring and evaluation (M&E) of PSDP.

SECTOR	SME	MIC	CBO	NUMBER OF BENEFICIARIES	TOTAL EMPLOY
Agro-industries	16	13	0	29	576
Manufacturing	19	8	0	27	1115
Tourism	8	6	2	16	270
ICT	11	0	0	11	297
Construction & Public Works	16	1	0	17	781
TOTAL	**70**	**28**	**2**	**100**	**3039**

Diagnostic: key action for assessment of challenges facing SMEs

Following the selection of beneficiaries, PSDP undertook a diagnostic audit of SMMEs in partnership with Botswana Intermediary Organizations (IOs). The identified challenges were shared with respective beneficiaries and IOs; and they facilitated the design of a capacity building roadmap to empower the SMMEs. The challenges varied from one business to another; however, some, like business financials and human resource management, were common among a majority of the businesses. The roadmap capitalized on partnerships with programs such as "Tokafala", which assists micro enterprises in the Gaborone area; international technical sector specialists and management consultants from Europe; and, teamed them with local mentors. Workshops were additionally planned to assist beneficiaries with business planning and human resource issues.

The model used in the diagnostic analysis considers the company at three levels:

1. **Strategic level**
   - Strategic Management
   - Management and Leadership
   - Understanding of the Industry

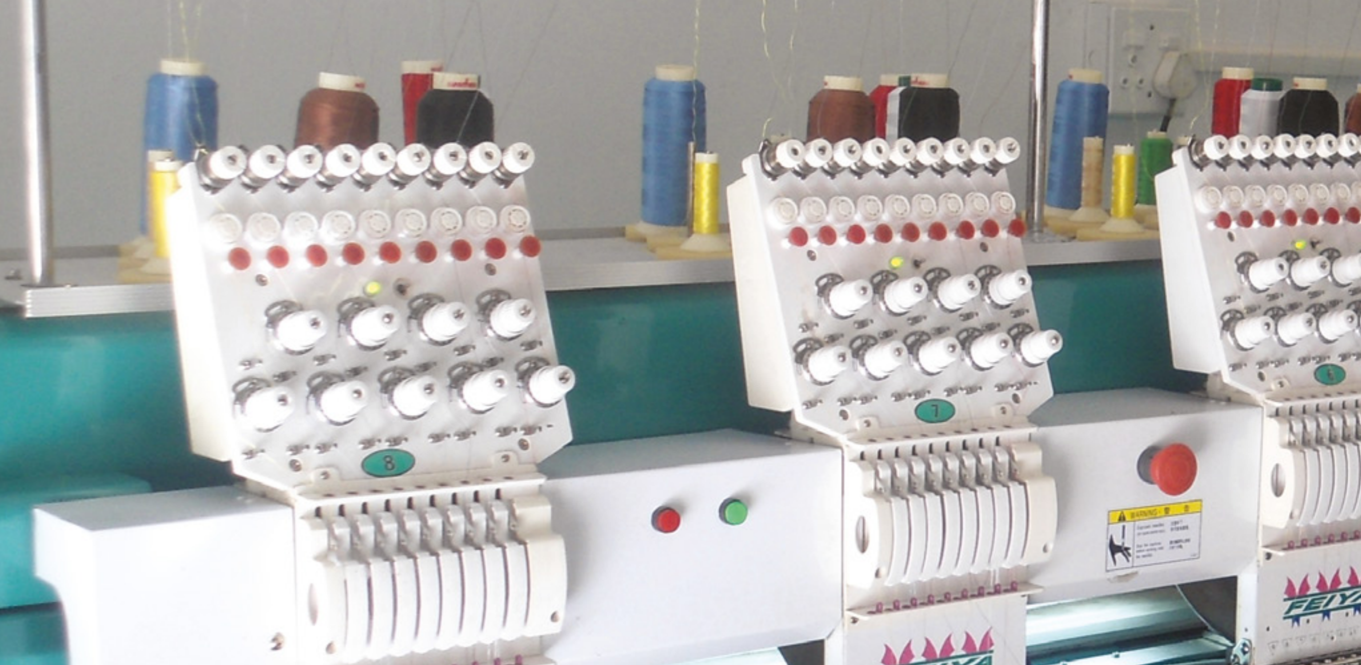
2. **Processes level**
   - Marketing and Sales
   - Production and Operations
   - Environmental Management

3. **Support level**
   - Organizational Structure
   - Financial Area
   - Human Resources
   - Information Management
   - Quality Management
   - Technological Innovation

To ensure sustainability, PSDP capacitated a number of pertinent IOs, including Botswana National Productivity Center (BNPC), Business Botswana (BB), Botswana Innovation Hub (BIH), Botswana Investment and Trade Center (BITC), Local Enterprise Authority (LEA), Citizen Entrepreneurial Development Agency (CEDA), Hospitality and Tourism Association of Botswana (HATAB), Human Resource Development Council (HRDC), Botswana Bureau of Standards (BOBS), Public Enterprise Evaluation and Privatization Agency (PEEPA), Botswana Institute for the Development Policy Analysis (BIDPA), PSDP Team and BDSPs. The intention was to engage the IOs and BDSPs towards beneficiary Diagnostic Reports. To date, several of the IOs and BDSPs have adopted the Diagnostic Tool to assist their future respective clients.

In general, each audit followed five steps: (1) preparation and desk reviews, (2) field interviews, observations and data collection, including financial statements, (3) preliminary assessment leading to the identification of company's strengths and major weak subareas, (4) validation with the company during a co-construction workshop and (5) the preparation and submission of the audit report during the closing visit with the company's management.

- A large proportion of the companies audited showed potential for growth: 38% of them are in fair condition but their performance is hindered by weak internal systems. Management systems are not formalized. Strategic management is informed spontaneously as opposed to through financial analysis. The capacity to anticipate (strategic management, information management, budgeting and monitoring on a regular basis) remains weak or inexistent. As a result, profitability is low and these companies face challenges in moving the business to the next level. To compete in an established market and improve profitability, they will require better business practices (consolidation).
- Six percent of the audited SMMEs have sound financial situations. These companies are ready to expand (expansion plan).
- Fourteen percent have erratic sales. These companies tend to rely on government tenders. Profit is low and cash flow is not consistent enough, preventing the company from seizing new business opportunities and maintaining their productive equipment. These companies tend to stagnate unless a stabilization plan is implemented. The same proportion (14%) represents companies that are still at an infancy stage. Sales are not picking up. No real plan was established at inception and the financial situation is not certain (start-up plan).
- Twenty-four percent of the companies required drastic measures to turn the business around in order to avoid closure. These companies face recurrent cash flow problems that prevent them from honoring their debts and financing their operations. These companies tend to survive on bank overdraft facilities or on owner's personal resources because they cannot generate enough sales and cash flow. It was observed that companies in the group tend to use asset valuation to "cover" the negative net worth (turnaround plan).
- Companies in the manufacturing sector seem to be doing well with 85% of them in a positive trend (expansion, consolidation and stabilization). Companies in Construction and Public Works show a reverse trend, with 57% requiring either a turnaround strategy or the development of a startup plan to provide a clear direction to the company. The assessment revealed that most of these companies have focused on product development without a good understanding of market trends and demand, particularly from the private sector segment of the market.



Business management capacity building needs

The diagnostic of the SMMEs reveal deficiencies in six critical subareas regrouped as follows, per the Michael Porter model: Finance (18%), Marketing and Sales (17%), Strategic Management (13%), Human Resources (13%), Production and Operations (11%) and Quality Management (11%).

At strategic level (1)

- Strategic Management (13%) encompasses mission & vision, strategic objectives and understanding of business environment.
- Finance (18%): cost structure, accounting records, financial administration, particularly working capital management and financing, budgeting and monthly financial production of financial statements and reporting to inform management decisions;
- Human resources management (13%): personnel policy, corporate climate and personnel motivation, staff performance management.

At process level (2)

- Marketing and Sales (17%): segmentation, target market and positioning, marketing strategy, sales management.
- Production and Operations (11%): inventory handling, plan layout (limited space for production or storage), technological level (aging machinery and equipment), and suppliers.

At support level (3)

- Quality Management (11%): procedure, quality control and product quality;

BUSINESS SECTOR	CHALLENGE # 1	CHALLENGE # 2	CHALLENGE # 3
Manufacturing	Marketing & Sales	Finance	Production & Operations
Agro Industry	Quality Management	Production & Operations	Marketing & Sales/Finance
Const. & P.W.	Finance	Marketing & Sales	Strategic Management
ICT	Marketing & Sales	Finance	Strategic Management/HR
Hotel & Tourism	Finance	Marketing & Sales	Strategic Management/HR

- **Note:** two subareas are listed in a column when their score is the same.
- Market segmentation, targeting and positioning has been highlighted as the weakest subareas for all sectors. It implies understanding the market, defining various segments using clearly identifiable criteria and targeting those with growth potential and developed differentiated marketing strategy (treating each market segment differently using the instruments of the strategy (product, price, promotion and place) to position the company in each targeted segment. The articulation between marketing and sales should also constitute the core of any interventions which aim at reinforcing the capacities of business managers in marketing and sales as they are recurrent throughout the audits.

In summary, most companies audited lack expertise or skills in the areas of strategic management and financial literacy, both instrumental for the success of any organization, making these priority areas of their needs – in addition to the understanding of processes, procedures, tools and or mechanisms in monitoring operations.

- Strategic Management enables companies to focus on where to go, how to get there step by step; and, to allocate and leverage resources efficiently. It also helps the company to align strategic objectives with structure and operations leading to improved performance and return on investment. Very few companies have a roadmap, even those that are in a growth phase and envision expanding into new markets. Proper bookkeeping, financial administration, product costing and pricing to secure adequate margin, as well as working capital management (stock, accounts receivable, accounts payable and cash) are the main topics to focus on for any capacity building interventions in finance for business managers. Marketing and Sales and Finance cross over all sectors and constitute the main leverage points for any follow-up interventions in terms of capacity building. Marketing and Sales appears as top priority for all sectors except the Construction & Public Works and Hotel & Tourism sectors whose development is held back by severe deficiencies in finance, particularly in the areas of product costing and pricing.

- Quality management is also decisive for companies in Agro Industry and Manufacturing. Interventions should focus on product certification with BOBS and the establishment of best practices in manufacturing and food safety. Production and operations are key leverage points and encompass inventory management and production planning in conjunction with the marketing and sales unit. Such a system enables speedy delivery and increases a company's ability to capture new opportunities.

- Human resources management is one of the key challenges. It entails setting a policy that promotes and values performance, participation of staff, transparency in rewards/sanctions; and, a sense of belonging. It is also related to the delegation system in the company. It was observed that companies in a growth phase lack strong line managers and because of this gap, the business cannot properly function in the absence of managers. Putting in place an effective system requires skills, time and resources. As companies are poised for short term returns, they tend to refrain from investing (train, align competencies and responsibility with resources and autonomy in decision making and evaluate performance) in their human resources. As a result, staff turnover is high, productivity is low and the business does not progress to the next stages.

Irrespective of the above mentioned challenges, it was noted that the business owners/entrepreneurs demonstrated extraordinary levels of courage and perseverance. Despite lack of business acumen, they have pursued their dreams of running their businesses in tough market conditions.

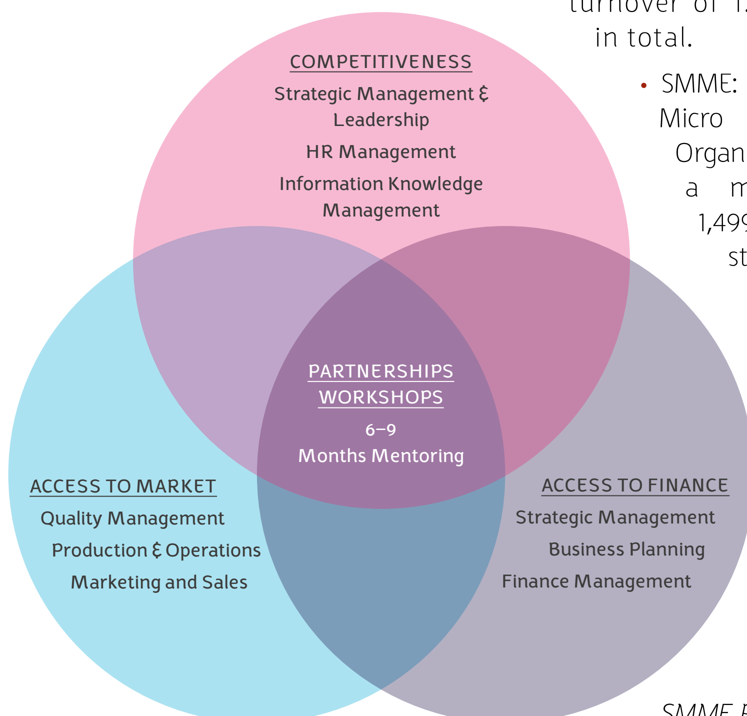
SMME Capacity Building Roadmap

With the advent of the SMME diagnostic tool providing the beneficiary areas of need, PSDP developed a roadmap designed to enhance and or facilitate access to market, access to finance and increased competitiveness – the pillars of the PSDP – amongst the PSDP beneficiaries with a combination of workshops and 6 to 9 months of mentoring.

Based on the PSDP pillars, technical assistance was designed to address the SMME issues identified by the diagnostic audits: prioritizing strategic management, including HR, finance management, and marketing and sales. Additionally, as micros and CBOs had different needs, their issues were to be addressed collectively through program and partner workshops. Beneficiaries with significant potential for impact were categorized as High Potentials (HiPos).

PSDP partnered with European-based service providers such as Senior Experten Services Germany, management experts, Managers Without Borders Germany to assist HiPos; the ACP-EU Technical Barriers to Trade program; and other, local like programs active in Botswana (Tokafala). Additionally, due to the differing organizational needs (size and scope) of the 100 beneficiaries, PSDP categorized them as follows to ensure that the technical assistance caters to their specific needs:

- High Potentials: these are organizations with the potential to make significant gains in all pillars of the program irrespective of turnover, staff complement and operational sector – in total there are 30 such organizations.
- SME: any sector independent small medium enterprise with a minimum turnover of 1.5MIL – 5MIL BWP60 in total.
- SMME: any sector independent Micro or Community Based Organization (CBO) with a minimum turnover of 1,499,999 MIL BWP and a staff complement of 1 – 14 people – 28 Micros and 2 CBOs.



SMME Roadmap Methodology

SMMEs with high potential

HiPos were provided with significantly more assistance as the organizations were identified to have the potential to fully leverage the provided assistance to achieve the objectives of the program. As such, the HiPos were provided with horizontal management and vertical sector support by international consultants/senior experts facilitated via partnerships with MWB and SES.

- Managers without Borders provided support to improve productivity, sustainability, operational and financial management of the selected SMMEs regardless of their operational sector.
- Senior Experten Services provided specialized sector-based technical assistance in the following sectors: Manufacturing, horticulture/agro-industry, including dairy, textiles and tourism, information and communication technology.

It was planned that both interventions would be followed up with an additional 6 to 9 months of local mentor support to drive action plans produced by MWB and SES experts.

Management-based assistance

Managers without Borders management consultants were engaged to ensure access to market and to finance and to boost competitiveness. The scope of the assignment included ensuring

- Acquisition of effective technical and operational management practices
- Acquisition of Integrated performance information
- Rigorous stewardship and businesses ownership
- Revamping and or establishing monitoring of Key Performance Indicators (KPIs) – i.e. dashboard

Finance

Paramount to all HiPos was financing. Most of them sought financing for capacity expansion while others needed financing for working capital in support of day to day operations. However, reluctance and insecurity to use bank financing was noted due to the lack of a viable business plan/strategy, lending institutions, lack of creative solution offerings, and, of course the aggressively high bank [interest]. Alternative solutions were discussed with beneficiaries are internal funding such as the liquidation of assets and or the implementation of improved working capital management – i.e. rigid receivable collection procedures, liquidation of obsolete inventory and or nonessential assets, leveraging trade credits; and, paying towards the end of a given payment term.

Cost calculation

Financial management proved to be a challenge to all HiPos and beneficiaries alike. All HiPos were in the dark over operational costs – i.e. overhead, depreciation, interest, insurance, travel, legal and general accounting. In some instances, companies did not keep track of their sales volumes. Invoices were sent to customers without the necessary details enabling historic data sets. On the other hand, beneficiaries conducted rudimentary cost accounting exercises arbitrarily establishing markups, such as: purchase price + 40% markup = sales price.

Working capital management

A lot of effort went into working with HiPos to improve working capital management as it was a major area of need amongst them. Lack of Accounts Receivables (A/R) by many HiPos put their respective businesses at a disadvantage by effectively financing customer purchases. The HiPos' working capital situation was further worsened by the general trend of allowing significant customer debt – i.e. overdue customer payments; whereas, payables (bills) were settled "too" quickly leading to a depletion of cash flow. Lastly, many HiPos often purchased goods on a prepayment basis as opposed to leveraging secure Letters of Credit (LC); and credit finance was not leveraged – HiPos were not practicing to secure goods on a credit basis. When promoters attempted to leverage volume discount, by buying in bulk, their actions only resulted in tying up much-needed cash and physical floor/storage space in workshops.

Human resources

Management was encouraged to "lead" and liaise with staff on a regular basis, and clearly communicate expectations. The introduction of HR policies signed by employees was strongly recommended; and trainings were encouraged to improve performance. Lastly, performance evaluation was mandated and linked to performance incentives; and or, the possibility of dismissal.

Sales strategy

Like working capital, HiPos' sales strategy required significant effort as sales were found to be a predominately passive exercise with no clear management direction; nor was it coupled with; and or, aligned with a marketing strategy. Sales staff typically had little to no sales training; neither were they familiar with market intelligence, facilitating better products, solutions and or understanding – critical respective industry success drivers. The situation was worsened by the fact that staff motivation was often low despite established sales target incentives. A compound effect was noted in organizations where business promoters did not lead by example. At the end of MWB consultations, the companies appreciated how a proactive and customer-focused sales approach is beneficial in overcoming issues such as seasonality, low capacity utilization while serving as a basis for future business growth.

Capacity utilization

Use of installed capacity is extremely low in some instances at an average of 50% due to one or more of the following:

- business seasonality
- erratic orders/sales with no dependable order/sales history towards a trend analysis
- the failure of equipment due to costly maintenance
- negative impact due to the shortage of water and electricity

Capacity expansion

Companies with plans to expand operations were assisted in developing an investment calculation tool using pertinent company information – relevant investment and working capital outlays, additional revenues and cost savings, interest on the loan and tax implications. With the tool in hand, companies were taken through how to determine an appropriate investment purely from a financial perspective. Many of the HiPos with the desire to expand operations came to the realization that they were not as positioned for expansion as they initially believed. MWB brought the realization that more pertinent effort was needed and required in management stabilizing operations. The key for all HiPos was for productivity to be increased and profits retained towards growing equity facilitating growth.

Sector based assistance

SSES technical sector experts assisted textiles, furniture manufacturing, ink manufacturing, tourism and ICT. Their core responsibilities were to provide tailor-made intervention in the following manner:

- Assess the situation of the HiPo and develop tailor-made action plans to effectively compete locally, regionally and internationally; where possible, in consideration of each respective HiPo's diagnostic audit.
- Assist each respective HiPo drive the newly provided action plan.

The sector-based missions (SES) were straightforward and concentrated on operational issues. The only challenge encountered was with some organizations in the tourism and textile sector. The respective sector experts felt some of the beneficiaries were at a very low level of development to assimilate the level of assistance provided within the action plan.

All companies expressed gratitude for the facilitation of sector experts as they were able to realize the potential towards significant organizational growth. In one such example, a sector expert was able to assist an ink manufacturer to prove wrongful termination of a government tender worth several million Pula when he demonstrated that it was their client's printing press that was responsible for poor printing and not the quality of the ink manufacturer. Another case where a sector expert helped a beneficiary achieve significant organizational growth is the complete redesign of a factory workshop and the introduction of new modular furniture facilitating more workspaces and increasing production efficiencies.

SMMEs with common challenges

Due to a significant number of SMMES facing common challenges, the Program organized the following generic technical assistance:

- Entrepreneurship Development to be implemented through partnership with the Tokafala Program
- Clean Energy and Construction and Public Works (CPW) consultancies
- Occupational Safety and Health (OSH) Workshops
- Quality Management Systems (QMS) certification in collaboration with the ACP-TBT Program

The Tokafala partnership

The Tokafala program was an ideal partner as it supports SMME's around the three pillars of access to market, access to finance and increased competitiveness. It provides 6–9 months of mentoring, for companies that demonstrated commitment.

This program has come across the same issues as the PSDP: It has also found that Botswana-based SMEs are at an early developmental level. Business owners/ promoters do not have entrepreneurial spirit and they are extremely dependent on the GoB institutions for issues that they must overcome – i.e. securing funds, strategic management, leadership and innovation.

Clean energy

The energy engagement was to capacitate beneficiaries on the best clean energy management practices towards the benefit of reduced, "greener" operational costs. The assessment findings revealed that none of the beneficiaries had an energy management plan in place let alone a clean energy plan. The beneficiaries were using high consumption mercury vapor lights in workshops and or plants with dark walls without translucent roofs sheets that allowed sunlight into their buildings; energy consumption was also not linked to production. None of the beneficiaries used solar power to reduce costs. There was wastage in all beneficiary sites from leaks in compressed air lines leading to the inefficient use of compressors, loss of Liquid Petroleum Gas (LPG), the loss of 20%–40% of powder coating due to poor housekeeping and floor layout. Many of the beneficiary production plants did not have documented process and procedures and there was significant need for OHS instruction. Action plans were developed and driven, business plan templates were drafted towards funding for plant upgrades and an OHS workshop was conducted.

All beneficiaries responded positively to the engagement and committed to continuing to drive action plans towards the betterment of their businesses; however, some noted the challenge of driving the plans due to the need for better skilled labor whereas others sent staff for training to drive the action plans – some sent upwards of 10 staff member to training.

Occupational Safety and Health (OSH)

The workshop's objectives were as follows:

- Sharing OSH experiences in the workplace
- Identifying potential OSH hazards in a work setting
- Undertaking a risk assessment
- Developing some key messages for improving awareness and commitment to safety at work
- Identifying the signs and symptoms of stress in the workplace
- Discussing simple measures that can be implemented to improve staff well-being
- Drafting OSH policies for participant enterprises
- Drafting action plans to improve occupational safety and well-being for participant workshops

Quality Management Systems (QMS) certification in collaboration with the ACP-TBT Program

The initiative was initially launched with a request from the Botswana Bureau of Standards (BOBS) for support in designing a National Quality Policy (NQP) to set the foundation for an adequate functioning national Quality Infrastructure (QI) enabling the participation of WTO/TBT-compliant operators/exporters in the global market. In addition, the program has built the capacity of BOBS staff, local service providers to assist PSDP beneficiaries in acquiring ISO 9001 certification.

Drafting of a National QI policy

- A team of experts supported BOBS in the drafting of a National Quality Policy setting the foundation for the proper functioning of QI in the country. The work included an initial phase of consultation with national institutions and assessment of existing National QI policies as well as direct support for the drafting. At the end of this phase a validation meeting with the participation of all relevant stakeholders was organized. The intention of the provided support is to facilitate the process of policy approvals.

Capacity building of BOBS staff

- A series of training workshops was arranged for BOBS staff on auditing and inspection competences, on standards that are specific to accreditation and conformity assessment (ISO 17020, 17021, 17065) and food safety management system (ISO 22000). A workshop was conducted with 20 participants. The majority of them were from the BOBS regulatory section involved with enforcement of some compulsory food standards. An Examination was administered at the end of the training session and all participants passed. Certificates are in preparation and these will be handed over to BOBS during the closing workshop.

Capacity building for local service providers

- Capacity building was carried out in subsequent phases: i) selection of existing national service providers able and willing to coach selected companies, ii) formal training, iii) coaching in selected companies and iv) follow up.

The PSDP furnished a list of 10 companies interested in acquiring ISO certification for coaching to attain the goal.

Micro and CBO's

As per the SMME roadmap, SMMEs and CBOs are to be capacitated through workshops t0 address the three main areas of deficiencies identified by the diagnostic audits; namely, general business and financial management and business planning – that is, translating a business strategy into an equitable business plan.

After assessing the organizations, PSDP developed a curriculum addressing beneficiary needs such as strategic, leadership, human resource, and financial management. Participants were engaged and actively participated in the discussions, and after multiple attempts, they shared their experiences. It was evident that they usually operated in isolation, reaching

out only to the GoB and or international organizations for assistance. There was significant interest in human resource management discussions; however, they were focused more on how to encourage/ motivate employees to work; and or how to prevent workers from being Absent Without Leave (AWOL) after receiving month-end pay.

Lessons learned

A good 90%+ of the beneficiaries have secured and worked their way through government assistance funds such as the Financial Assistance Plan (FAP), Botswana Development Corporation (BDC) unsecured equity investments/ grants, international donor grants and CEDA soft loans.

Most, if not all, beneficiaries applied to the program in search of grants and or soft loans; and they continue to request financial assistance despite the clear and consistent message that the Program does not provide funding and or financing. Some companies are in serious financial distress such that they don't need any operational support except financial bailout. There is a total lack of cluster collaboration or enterprise networks and a general dependency on government tenders.

A division between business owners and staff was noted due to business owner's lack of:

- Entrepreneurial spirit
- Any tolerance for risk
- Any innovation
- Requisite business and or staff/HR management skills.

A significant number of beneficiary promoters are not dedicated to their organizations; they do not work for themselves on

a fulltime basis. There is a general dependency on consultants via the requests for long term/permanent consultancies. SMME Staff have no patience in developing their career, no loyalty vis-à-vis their entrepreneurs. There is high staff turnover.

The following was observed on manufacturers:

- SMMES incurred high costs on internationally sourced materials despite being able to source locally.
- Machinery equipment supply and maintenance are a challenge as they are sourced internationally and there is no local technical back up support and or parts.
- Plant layout, material flow and housekeeping are persistently poor.
- There are issues of record keeping and costing in most enterprises.

Conclusion

The overall observation regarding PSDP beneficiaries is that they are generally at an early development stage and are challenged with basic needs stemming from the fact that business owners do not have the requisite ground level business skills – financial and business management basics – also known as requisite competencies. Without business or financial qualifications, many PSDP business owners are further challenged with risk mitigation, resulting in the inability to take calculated risks towards growth. A business strategy is possible only if the business owner/promoter understands how to mitigate risk. This is why the majority of the existing business plans/strategies are produced by external consultants to secure funding; however, in most cases management is not intimate with the details leading to poor performance and or bankruptcy.

Government developed several initiatives to support SMMEs. However, it created dependencies within the private sector affecting in-house growth and

innovation. Business owners are able to come up with a business idea without the knowhow to bring it to life. There is no proactive mentoring to assist SMMEs that have had funding approved. Known instances of mentoring have only been initiated once beneficiaries are in danger of financial collapse; if at all, perpetuating treatment of the symptoms instead of the condition.

In summation, few SMMEs have the competency to draft a comprehensive business strategy and management to effectively drive it. This explains the lack of innovation towards new markets, segments and or new products and services development.

Despite their relative challenges; some organizations have been able to realize significant revenue growth without quality controls, ISO certification guaranteeing quality products and or services. This phenomenon is directly due to the commensurate level of Botswana consumers. The consumer market has been developing relatively at the same pace as SMMEs and SMEs; however, it has been observed that consumers are becoming more aware of their purchasing power via access to regional and international markets. The more informed consumer market is steadily applying pressure on local businesses for much needed quality controls (ISO certification), introducing and or increasing competitiveness. The African, Caribbean and Pacific group of states – European Union Technical Barriers to Trade (ACP-EU TBT) Program supporting the drafting of a National Quality Policy and strengthening Botswana's Quality Infrastructure (QI) for compliance with the World Trade Organization (WTO)/TBT) requirements is appropriately timed to meet the growing demands of a more educated consumer.

HiPos were mentored by European service providers. The PSDP is satisfied with the competencies of the consultants, who assisted beneficiaries with the same work ethic as those from their home countries. The beneficiaries were well versed in exploiting the recommendations provided by European and local service providers.

PSDP beneficiaries have expressed deep gratitude for the interventions that been made to date. A number of beneficiaries have seen positive improvements in their business. Some are reporting increased turnover and profitability; employment of more personnel; while others have gained confidence in running their businesses. In addition, entrepreneurs are hopeful that more time will be allocated to handholding support for growth as they expand their operations. They are willing to consider contributing financially to the abovementioned support.

Over and above the assistance to SMMEs, the PSDP has undertaken and completed the value chains studies to provide comprehensive analysis of challenges, opportunities and areas that require action to improve the performance of the operators and to identify the growth potential towards diversification of the economy. These value chain studies are in the Beef, Tourism, Horticulture and the emerging sectors (Dairy, Poultry, Piggery, Goat and Leather).

Overall, PSDP has been fully operational and has adapted to the needs of beneficiaries while guiding service providers to ensure beneficiary impact; and, it has extracted associated lessons learned with a view to achieve expected results.

Abbreviations and Acronyms

ACP	African, Caribbean and Pacific
BSDPs	Business Services Development Providers
BEMA	Botswana Exporters and Manufactures Association
BIDPA	Botswana Institute of Development Policy and Analysis
BIH	Botswana Innovation Hub
BITC	Botswana Investment and Trade Centre
BNPC	Botswana National Productivity Centre
BOBS	Botswana Bureau of Standards
BTO	Botswana Tourism Organization
BB	Business Botswana [formally Botswana Confederation of Commerce, Industry and Manpower (BOCCIM)]
CDE	Centre for the Development of Enterprise
CEDA	Citizen Entrepreneurial Development Agency
EA	Executing Agency
EC	European Commission
EDD	Economic Diversification Drive
EDF	European Development Fund
EU	European Union
EOI	Expression of Interest
HATAB	Hospitality and Tourism Association of Botswana
HiPo	High Potential Beneficiary
IO	Intermediary Organization
LEA	Local Enterprise Authority
MFDP	Ministry of Finance and Development Planning
MTI	Ministry of Trade and Industry
MWB	Managers Without Borders
PSDP	Private Sector Development Program
SES	Senior Experten Services
SMMEs	Small, Micro and Medium Enterprises
TBT	Technical Barriers to Trade Program

Author's Profile

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He has proven experience in supporting the private sector in Africa. His vision of development is based on building the productive capacities of key operators (companies, professional organizations), focusing on training, mobilization of local resources and the creation of quality and competitive products and services.

Sid holds a Ph. D. in Economics and Management, and has published reference works on the construction industry and many articles on appropriate technologies and knowhow in developing countries.

"If you fail to plan, you are planning to fail"[1]
Can business plans reduce the high failure rate of SMEs?

Part one[2]

Felicia Avwontom,
Communications and Knowledge Management Expert, African Development Bank

One school of thought believes that a business plan is 'the GPS' of a business, and that it helps map out a company's journey from where it is today to where the owners want it to go – identifying milestones, obstacles, and desired routes along the way" (Simoneaux and Stroud, 2011). Another school of thought, reflected in the work of Sahlman (1997), cautions against over reliance on a business plan, stating that the problem with most business plans is that "most waste too much ink on numbers and devote too little to the information that really matters to intelligent investors". So, business plan or no business plan? Is there a performance difference between SMEs that prepare business plans and those that do not? What impact can business plans have on the little talked about issue of high failure rate of SMEs?

This article examines these and other issues related to SME performance and survival.

[1]Quote attributed to Benjamin Franklin

[2]This two-part article is excerpted from and adapted from a "Business Plans or Business Planning? A study of the Business Planning Practices of Small Businesses in North America," a dissertation submitted in part-fulfillment of the requirements for the degree of Master of Business Administration of the University of Warwick.

The growing number of development agencies that provide support for small and medium enterprises (SMEs) in Africa – as part of their private sector development strategy – is a tacit recognition of the critical role that SMEs play in the economies of most nations (see Table 1). Between 2006 and 2013, for example, the African Development Bank (AfDB) approved 70 operations specifically supporting SME development, with a total value of approved SME assistance of approximately US$1.9 billion, accounting for about 3.7 percent of all its project approvals during the period (AfDB, 2015). It is not surprising that SMEs are often described as the backbone of the economy (Dahlberg, 2011) and an engine of sustainable and inclusive economic growth (IDEV, 2014; Kurokawa et al, 2008).

Box 1: SMEs play a critical role in most economies

- The International Finance Corporation (IFC) states that there are 125 million micro and medium enterprises in the 132 economies it operates in.
- Agbor & Quartey (2010) report that SMEs in Ghana provide about 85% of manufacturing employment, contribute about 70% to Ghana's GDP, and account for about 92% of businesses in Ghana. They estimate that about 91% of formal business entities in South Africa are SMEs, which contribute between 52 to 57% to GDP and about 61% to employment.
- In the U.S.A, small businesses generate about 50 percent of the gross domestic product (Office of Advocacy, U.S. Small Business Administration, 2010), and are considered a major force in the U.S. economy. Indeed, most of the major players in the business world in the United States are or were once small business owner and they have had a profound impact on the business world and on the world economy in general: some of these well-known entrepreneurs include Bill Gates (Microsoft), Sam Walton (Wal-Mart), Steve Jobs (Apple Computer), Michael Dell (Dell, Inc.), Steve Case (AOL), Pierre Omidyar (eBay), and Larry Page and Sergey Brin (Google) (Office of Advocacy, 2010). It is generally believed that five entrepreneurs built and transformed the U.S. into what it is today – John D. Rockefeller, Cornelius Vanderbilt, Andrew Carnegie, Henry Ford and J.P. Morgan (Elumelu, 2015).
- According to the OECD, more than 95% of enterprises in the OECD area are SMEs, and they account for almost 60% of private sector employment, make a large contribution to innovation, and support regional development and social cohesion (Dahlberg, 2011).
- According to the European Commission, micro-firms (those with less than 10 employees) are the most common form of enterprise and account for between 78% of firms in Japan and 96% of all firms in Denmark, India, Netherlands, Spain and Sweden. An OECD study found that SMEs accounted for over half of all employees in all 27 OECD countries.

Key private sector operators in Africa also advocate more support for private sector development, with a special focus on the entrepreneurs behind SMEs. Tony O. Elumelu, a successful private sector operator in Africa, has called for entrepreneur-led development as a new model of development for Africa (Elumelu, 2015), underscoring that African businesses usually come down to individuals – and that behind most companies are an entrepreneur. Speaking at Georgetown University in Washington D.C. in May 2015, and at a White House event on global entrepreneurship hosted by US President Barack Obama, Mr. Elumelu highlighted the importance of global entrepreneurship as a development model: "humanitarian assistance and economic opportunity are two sides of the same development coin..." He further emphasized that "it is the economic opportunity side of the development coin that... will have more catalytic impact in driving development on the African continent."

"In the U.S., where about half of all U.S. adult workers are either self-employed or work for a small business only, about half of all new businesses survive five years or more and about one-third survive 10 years or more."

Small businesses contribute to national economies by creating jobs and providing people with opportunities to achieve success; they complement the activities of big firms by providing them with goods and services; and they also encourage innovation (U.S. Small Business Administration, 2010). This is no doubt the intent behind the growing support for SMEs in Africa. However, this is not yet the situation in Africa. Indeed, although Africa's private sector generates 70 % of the continent's output, 70 % of its investment, and 90 % of its employment; it is still largely composed of informal micro – and small enterprises, with limited capacity (AfDB, 2013). As well, although SMEs do play an important role in Africa's economies (in terms of GDP and employment), cross-country and micro-level research has not yet established a clear causal link between SMEs and economic development (Kurokawa et al, 2008). The evidence shows that both small and big firms contribute to growth; however, smaller firms may face larger and different constraints (Kurokawa et al, 2008). (See Box 1). Just as they adopt different approaches to foster SME development, donors use different approaches to eliminate constraints – with varying degrees of success. Efforts comprise both firm-specific interventions and upstream support for the enabling environment, defined by policies, laws and regulations affecting private sector development (Kurokawa et al, 2008). What seems certain is that, based on experience from other parts of the world with long experience in SME activity, donors and governments need to pay greater attention to such issues as the survival and sustainability of SMEs. This is important given the increasing public resources being allocated to SME development.

Box 2: Constraints facing SMES in Africa

Independent evaluations (AfDB, World Bank, Kurokawa et al, 2008, Norad) of donor support for private sector development find that constraints facing SMEs include high costs and poor access to financing, low access to electricity, corruption, tax burden, inadequate level of skills, lack of transportation, poor skills and knowledge on the operations of SMEs (such as lack of market knowledge).

Abgor & Quartey mention constraints such as lack of access to appropriate technology; limited access to international markets, the existence of laws, regulations and rules that impede the development of the sector; weak institutional capacity, lack of management skills and training, and most importantly finance.

Celine Kauffmann (2005) writes that "SMEs are weak in Africa because of small local markets, undeveloped regional integration and very difficult business conditions, which include cumbersome official procedures, poor infrastructure, dubious legal systems, inadequate financial systems and unattractive tax regimes." Some of the binding constraints stem from market and government failures.

The survival and sustainability of SMES is a problem even in countries with a long tradition of SME activity. For example, in the United States of America, where about half of all U.S. adult workers are either self-employed or work for a small business, only about half of all new businesses survive five years or more and about one-third survive 10 years or more, according to the U.S. Small Business Administration (SBA), which has been helping small businesses since 1953. This high failure rate is most likely due to inadequate business planning for, according to Zimmerer et al (2008), "for decades, research has proven that companies that engage in business planning outperform those that do not". They further state that any entrepreneur who is in business or is about to launch a business needs a well-conceived and factually based business plan to increase the likelihood of success; they note, however, that studies unfortunately show that many entrepreneurs never take the time to develop plans for their businesses . This should sound a note of caution for donors funding SME activities in Africa.

Thus, the efforts of governments and donors notwithstanding, the nature of the constraints facing SMEs in Africa suggests a need to also strengthen the business planning skills of the continent's operators – both informal and formal.

Indeed, from a business standpoint, most of the constraints facing SMEs in Africa can be mitigated through rigorous business planning, since a business plan requires one to look outward and perform an environmental scan, analyzing the

industry, the competition, identifying potential opportunities and threats" (Simoneaux and Stroud, 2011). Business planning also involves gathering and analyzing information, evaluating tasks, identifying risks and strategy, projecting financial developments and documenting these in a written plan (Castrogiovanni, 1996; Sexton and Bowman-Upton, 1991, cited in Delmar and Shane 2003). The flip-side of this is the risk that in some circumstances, where the business environment is characterized by much uncertainty and instability and weak institutions [as is often the case in Africa], business planning in uncertain circumstances may be counterproductive and misleading and may discourage entrepreneurs from pursuing opportunities that seem too risky (Mintzberg (1991, 1990). Is robust business planning the missing link in the new venture exploitation chain in Africa? This article[9] suggests that the performance of SMEs in Africa can be vastly improved by strengthening the business planning capability of the entrepreneurs behind SMES.

The article examines the use of business plans by SMEs in an economy with a strong tradition of SMES to highlight what the burgeoning SME sector in Africa can learn to improve survival and sustainability – and thus contribution to economic development.

The article is presented in two parts:

- Part 1 introduces the theoretical aspects of business planning and venture creation through a literature review of foregoing work on the topic: One school of thought believes that a business plan is 'the GPS" of a business, and that it helps map out a company's journey from where it is today to where the owners want it to go – identifying milestones, obstacles, and desired routes along the way" (Simoneaux and Stroud, 2011). Another school of thought is reflected in the work of Sahlman (1997) who cautions against over reliance on a business plan, stating that the problem with most business plans is that "most waste too much ink on numbers and devote too little to the information that really matters to intelligent investors". He argues that business plans are not a guarantee of success and too much attention is sometimes paid to them – he ranks them no higher than 2 – on a scale from 1 to 10 – as a predictor of a new venture's success… and sometimes, in fact, the more elaborately crafted the document, the more likely the venture is to fail". So, business plan or no business plan?
- Part II of the paper looks at what small business owners actually do. Does the theory match the practice? Is there a difference in performance between SMEs that engage in business planning and those that do not? It describes the findings and conclusions of a study designed to investigate the link between business planning and performance and identify good business planning practices that can be useful if prioritized by small business owners in Africa.

[9]This two-part article is excerpted from and adapted from a "Business Plans or Business Planning? A study of the Business Planning Practices of Small Businesses in North America," a dissertation submitted in part-fulfillment of the requirements for the degree of Master of Business Administration of the University of Warwick.

Literature review: Business plan or no business plan?

Business planning can be defined as the efforts undertaken by firm founders to "gather information about a business opportunity and to specify how that information will be used to create a new organization to exploit the opportunity" (Castrogiovanni, 1996, cited in Delmar and Shane 2003). One would thus think that the purported benefits of business plans would make them a welcome prescription for prospective entrepreneurs. But this is not the case. At best, the literature on the need for business plans is conflicting, with viable arguments being made for and against them.

The case for business plans

In a statistical analysis of business survival in New England, Lussier and Corman (1996) find that among fifteen potential predictors of success or failure, business plans are a predictor of success for businesses with less than ten employees. This confirms the position of business plan proponents such as Volkman et al. (2010), who describe business plans as the core document of successful enterprise formation. Bewayo (2010) considers business plans essential for entrepreneurial success and a requirement for business start-up financing. Similarly, Faltin, Ripsas and Zimmer (1998) see business plans as an important basis for potential investors´ assessment of the economic viability and prospects of a proposed venture. Empirical research by Rea (1989) lends further credence to this view. In a review of questionnaire responses from members of a US-based venture capitalist association, Rea finds that a solid business plan can increase the likelihood of successful seed capital negotiations for start-ups.

In other words, business plans serve to attract acquisition of capital from investors and lenders, thus constituting the "business card" of the new enterprise and its management team" (Volkmann et al., 2010). Business plans also serve to predict future changes in the existing market, and to convince potential investors about the feasibility of a new idea and probable benefits of participation (Legge and Hindle, 2004).

Academia seems to also be in favor of business plans, as a course on business plans is a core part of most entrepreneurship academic programs (Bewayo, 2010). Honig et al (2012), citing Menzies (2009) note from informal observations of the content of common entrepreneurship textbooks and from more systematic examinations of course descriptions and syllabi for a wide range of entrepreneurship courses that most of the courses advocate the development of a business plan. Brinckmann et al (2015) also reach the same conclusion from their review of several authors on the subject, concluding that business planning has received great attention from entrepreneurship and strategy scholars as a central activity to make sense of business environments and identify an appropriate course of action.

The SBA, whose mandate is to help Americans start, build, and grow small businesses,proposes 10 easy steps to help people plan, prepare and manage their business. The first step in its "10 Steps to Starting a Business is to "Write a Business Plan", which will help the business owner map out how they will start and run the business successfully. Does the finding that many entrepreneurs never take the

time to develop plans for their businesses (Zimmerer, 2008) explain the high failure rates among small companies? According to Zimmerer et al (2008), research has proven that companies that engage in business planning outperform those that do not. This is because a business plan forces someone with a business idea to critically examine the idea and identify its strengths and weaknesses (Simoneaux and Stroud, 2011).

"a business plan is the GPS of a business, that is, a well-documented business plan helps map out a company's journey from where it is today to where the owners want it to go – identifying milestones, obstacles, and desired routes along the way"

Simoneaux and Stroud (2011) further underscore that a good business plan helps deal with changes effectively and can often mean the difference between long-term success and failure. They conclude that "If You Fail to Plan, You Plan to Fail" and make a compelling case for a business plan as 'the GPS' of a business, that is, a well-documented business plan helps map out a company's journey from where it is today to where the owners want it to go – identifying milestones, obstacles, and desired routes along the way" (Simoneaux and Stroud, 2011). Volkmann et al. (2010) echo the idea of the business plan as a GPS, referring to it as an important navigation instrument for management. One may therefore conclude that "a business plan is an important step in the creation of a new venture. It is the end result of business planning, which forces entrepreneurs to analyze all aspects of their venture and to prepare an effective strategy to deal with the uncertainties that may arise" (Kuratko & Hornsby, 2009). Instituting business plans as a requirement for SMEs in Africa could help them better identify and plan for how to most effectively address the constraints described above, thus increasing the chances of their survival and sustainability.

The case against business plans

It seems, however, that despite the almost universal agreement that planning is essential for business success, most entrepreneurs do not prepare business plans (Bewayo, 2010) and Volkmann, C.K., K.O. Tokarski, and M. Grünhagen (2010)). This viewpoint is supported by Perry (2002), whose study, the Relationship between Written Business Plans and the Failure of Small Businesses in the U.S., investigates the influence of planning on U.S. small business failures and provides insights into the impact of business plans on the success or failure of new ventures. The study concludes that very little formal planning goes on in U.S. small businesses. This is also the finding of a Wells Fargo/Gallup Small Business Study (Barringer & Ireland, 2012), which reports that only 31 percent of 600 business owners started their firms with business plans. Simoneaux and Stroud (2011) also report on the questioning of business plans, citing firm owners who argue "they've operated for years

successfully without a business plan". Indeed, it would seem that the necessity of a business plan is often questioned, in particular, by founding members of a company: "We have all the important details of our planned business project in our heads" or "Once it has been completed, the plan is anyhow very quickly outdated" are typical reasons for not setting out the business plan in writing [cf. Delmar/Shane (2004a)].

Many researchers seem to advocate direct action to pursue business ideas (Bhide, 2000; Carter et al., 1996) and criticize business planning because they argue that it interferes with firm founders' efforts to "undertake more valuable actions to develop their fledgling enterprises" (Delmar and Shane, 2003). For example, Mintzberg (1991, 1990), argues that (business) planning in uncertain circumstances is counterproductive and misleading and may discourage entrepreneurs from pursuing opportunities that seem too risky – mostly because they seem difficult to test. He cautions against over-optimism about the ability to forecast certain markets owing to a culture of belief in the reliability/value of planning in business. Other researchers have put forth that in practice, the linkage between planning and success or failure has been difficult to establish and even more difficult to quantify (Perry, 2002). Indeed, empirical investigations of established firms have generally been unable to find a strong link between business planning and performance (Lumpkin et al). Some researchers suggest that business plans have no predictability for the success of entrepreneurial ventures, such as Lange, Mollov, Pearlmutter, Singh and Bygrave (2007). This team finds that among a sample of 116 ventures started

"(business) planning in uncertain circumstances is counterproductive and misleading and may discourage entrepreneurs from pursuing opportunities that seem too risky – mostly because they seem difficult to test."

by Babson College alumni, performance was the same whether the founders had written formal business plans or not, leading the researchers to suggest that written business plans are necessary only when founders are seeking to attract seed capital – in line with the conclusions reached by Faltin et al. (1998) and Rea (1989).

While it is difficult to generalize Lange et al.'s results past their sample of Babson College alumni, other studies also present empirical evidence that is ambivalent towards business plans. Kirsch, Goldfarb and Gera (2009) analyzed over 1000 funding requests made to an American venture capital firm, of which some 700 contain planning documents, and found that these documents were weakly linked with venture capital decisions. This, on the other hand, goes against the results of Faltin et al. (1998) and Rea (1989), illustrating the lack of consensus in the literature. Along the same lines as Kirsch et al., is Bewayo's 2010 article on the usefulness of business plans. Although Bewayo presents their merits, he also holds that while business plans are thought to lead to entrepreneurial success, "the correlation

between start-up business plans and business survival has been found to be weak; and that although business plans are considered to be a requirement for business start-up financing, financial institutions, seem to have "more objective criteria of determining credit worthiness than relying on written business plans." He concludes that: "Leading voices on entrepreneurship education such as D. Gumpert, G. Gendron and A. Bhide have called for a de-emphasis on business plans, asking academics and business advisors to "burn" or "forget" the business plan." This is in line with empirical research such as that of Honig and Samuelsson (2004), which finds, in a longitudinal 40 month-long study of over 600 fledgling Swedish entrepreneurs, that there is no relation between business plans and firm performance.

According to Sahlman (1997), the problem with most business plans is that "most waste too much ink on numbers and devote too little to the information that really matters to intelligent investors". He argues that business plans are not a guarantee of success and too much attention is sometimes paid to them – he ranks them no higher than 2 – on a scale from 1 to 10 – as a predictor of a new venture's success... and sometimes, in fact, the more elaborately crafted the document, the more likely the venture is to fail". He attributes this failure to too much emphasis being placed on crafting a winning business plan rather than on ensuring that there is an appropriate 'fit' among the four dynamic components (the people; the opportunity; the external context; and, the deal) of any venture creation and management process (Salman, 2008). Sahlman's four dynamic components are supported by research covering different regions. Dimov (2010) joins Sahlman in noting that the opportunity and the industry experience of the people involved in a venture are more significant predictors of success than any form of planning. Dimov finds that among a sample of 830 nascent entrepreneurs in the United States, business planning in the early stages of a venture only affects success indirectly. Research by Yusuf and Saffu (2005) upholds Sahlman's thesis by finding empirical support for the importance of external context. Their study of SMEs in Ghana reveals that while times of economic hardship do not encourage entrepreneurs to plan more seriously, planning – but not necessarily formal planning – does affect firm performance positively.

business planning helps reduce the likelihood of a venture disbanding and accelerates product development and venture organizing activity by helping firm founders to make decisions, balance resource supply and demand, and turn abstract goals into concrete operational steps.

Dwight D. Eisenhower: "In preparing for battle I have always found that plans are useless, but planning is indispensable."

Conclusion: Business planning is the key... not business plans

It would seem that for decades, research has proven that companies that engage in business planning outperform those that do not and that "the real value in preparing a business plan is not so much in the plan itself as it is in the process the entrepreneur goes through to create the plan (Zimmerer et al., 2008, p 156). This is because "although the finished product is useful, the process of building a plan requires an entrepreneur to subject her or his idea to an objective, critical evaluation. What the entrepreneur learns about the company, its target market, its financial requirements, and other factors can be essential to making the venture a success." (Zimmerer et al., 2008, p 156). Perry's study (2002) finds that non-failed firms do more planning than similar failed firms did prior to failure. According to Perry, there is almost universal agreement that planning is essential for business success. This idea is corroborated by Delmar and Shane (2003), who contend that business planning is an important pre-cursor to action in new ventures. They hold that business planning helps reduce the likelihood of venture disbanding and accelerates product development and venture organizing activity by helping firm founders to make decisions, balance resource supply and demand, and turn abstract goals into concrete operational steps. In a subsequent paper, Delmar and Shane (2004) also find that by engaging in planning activities, entrepreneurs decrease the likelihood of seeing their ventures disband, and increase the product development process. That planning is more important than a business plan is aptly captured by a quote by Dwight D. Eisenhower: "In preparing for battle I have always found that plans are useless, but planning is indispensable." (Cited in Zimmerer et al, (2008); and Volkmann et al, 2010); however, the problem may stem from the fact that "planning can be overdone, incorrectly done, and ineffective (Mintzberg, 1994).

Part II of this article starts on page 74: "If You Fail to Plan, You are Planning to Fail": Can business plans reduce the high failure rate of SMEs?

Part II: Where theory Meets practice.

Author's Profile, page 91

“If you fail to plan, you are planning to fail” Can business plans reduce the high failure rate of SMEs?

Part two

The Reality on the Ground

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Part II of this article looks at what small business owners actually do with respect to business planning. Following the literature review of relevant sources [see Part I of this article], which concluded that business planning is the key, not business plans, an online survey was used to further investigate the link between business planning and performance and identify good business planning practices. Owing to time and accessibility constraints, easier access to data, and easier Internet access, the survey [using Survey Monkey] was given to a small sample of United States'small business owners' to determine how small US business owners perceive the role and utility of business plans.

The survey sought to answer such questions as what is considered good practice for exploiting a business idea. Is there a performance difference between small businesses that prepare business plans and those that do not?

The Survey: Is there a performance difference between SMEs that engage in business planning and those that do not?

Results / Findings

This section discusses the findings from the survey focusing on the differences in responses between two groups: those who wrote business plans and those who did not.

Business plan, business planning, and performance

The planning exercise is more important than the business plan itself

More than three quarters of respondents (78%) stated that they started the business themselves, while just over one fifth (22%) did not. Similarly, 75% responded that their business is or was a profitable venture, with many of them citing "hard work" (26%), as the driving force behind profitability. Other factors such as good customer service (6%); competent employees (4%); high demand (4%), knowledge of industry, and planning, were also mentioned. In contrast, those who deemed their business to have been a failure cited inexperience, not being an owner, going into business with the wrong people, putting in little effort, high overhead costs, and a declining client base.

When explicitly asked whether or not they had prepared a business plan before beginning their venture, respondents in the "no" camp were distinctly more numerous: only about 41% prepared a plan, while a majority, 52%, did not. This is similar to the findings of Perry (2002) that very little formal planning goes on in U.S. small businesses and the findings of the Wells Fargo/Gallup Small Business Study, where only 31 percent of business owners started their firms with business plans. In contrast the results of this survey do not quite support the conclusions of the investigation of the relationship between planning sophistication (did planning lead to a written document?) and performance (Rue and Ibrahim (1998) [cited in Perry), which found "that firms with no written plans exhibited a slower growth rate than firms with more sophisticated planning". Survey results show that 16 of the 19 (84%) respondents who reported that their venture was profitable and who had also prepared business plans indicated they had undertaken planning (rating of 3 and above); while 15 of the 22 who reported successful businesses, but had prepared no business plan considered they had undertaken planning – there was thus only a moderate difference between those who exhibited 'planning sophistication' and those who did not.

Respondents who did prepare business plans cited reasons such as: ensuring agreement between core team members, outlining necessary efforts and establishing an income stream timeline, focusing one's energies for success, and thinking things out thoroughly. Each of these points agrees with the existing pro-business plan research, respectively: the increased likelihood of team cohesion (Delmar and Shane, 2004), easier and quicker access to funding and revenue (Rea, 1989; Faltin

et al., 1998; Delmar and Shane, 2004), a clear focus for the business (Volkman et al., 2010), and foresight of, or adaptability to, different possible scenarios (Legge and Hindle, 2004; Kuratko and Hornsby, 2009).

A few of these respondents took the stance that having a business plan is a no-brainer ("I wanted a business, businesses have plans", "who goes into business without a business plan?" "Why wouldn't you?"). On the flipside, respondents who did not write plans seemed to have just as much conviction that their method was correct. Reasons for not having a plan included dedication and drive ("willing to wing it, personal effort", "I was going to pursue my passion regardless" "I was going to start the business regardless of any consideration"), and entrepreneurial spirit ("Unexpectedly presented with the opportunity to take over, or business would have shuttered and employees would, including myself, have been jobless" "rather try and if I failed I could get a job"). Factors such as dedication, drive and entrepreneurial spirit also have precedents in the literature against formal business planning. For example, Dimov (2010) found that while planning had an indirect effect on venture emergence, opportunity confidence – which, judging from the above quotes, a number of respondents exhibited – had direct implications for performance. Lussier and Corman (1996) also found that alongside planning, experience – which can confer resilience, drive and dedication – was a strong predictor of performance. Brinckman et al (2015) also find that entrepreneurial self-efficacy facilitates development of formal business plans; entrepreneurial perseverance promotes engaging in business planning activities; and, advanced academic education leads nascent entrepreneurs to engage in business planning activities and create formal business plans.

Survey findings suggest that the difference in performance stems from the planning exercise rather than from the business plan itself.

Some respondents also cited a lack of time ("it was a spur of the moment decision" "We were thrust into it, with little time between inception and Go!") and a lack of awareness in the value of a plan.

Interestingly enough, despite most respondents not having prepared business plans beforehand, a mere 22% disagreed that a business plan was important when starting a business. Among non-business plan writers, just shy of half – 45% – found it important to have one, versus nine in ten – twice as many – respondents who had written plans. In both groups, a small number of respondents found that the answer to this question was not a straightforward yes or no, suggesting that it depends on the nature of the business in question. While some respondents were "not exactly sure how" a business plan was helpful, others found that a business plan helped define objectives ("it helps to clarify the big picture", "you cannot get anywhere without one"); gain access to finance ("if you are borrowing money") – as also reported by Bewayo, Simoneaux and Stroud, and Zimmer, 1998) and

Brinckmann et al (2015) – who find that a nascent entrepreneur's striving for outside financing promotes business planning activities); be more efficient ("help save steps that will be taken if not thought out properly"); and plan for the long term ("for future", "equivalent of a map for a long unfamiliar trip").

It is interesting, and in line with conventional business wisdom that so many respondents retrospectively saw the value in preparing a business plan before pursuing a venture, even if they did not actually prepare one. The time and resources required to prepare a business plan perhaps accounts for this discrepancy.

Further analysis of the data showed that 19 of the 42 (45%) of respondents who reported their company as profitable had prepared business plans, while 22 of them (52%) had not prepared business plans; in contrast, 4 of the 14 (28%) who reported their venture as not profitable had prepared business plans, while 8 of them (57%) had not. A closer look at the data showed that among those respondents who had developed a written business plan, 82% claimed that their venture was profitable, compared with 71% among those who did not write a business plan. These proportions are respectively slightly higher and slightly lower than the 75% of successful ventures in the global group, which may lend further credence to the belief that more sophisticated business planning (i.e. a tangible business plan) may translate to a slightly higher likelihood of success.

Preparing a business plan then did not seem to make a pronounced difference. Survey findings suggest that the difference in performance stems from the planning exercise rather than from the business plan itself. Business planning is only one of the determinants of successful performance. It is therefore not surprising that following a literature review Honig and Samuelsson (2012) reach the conclusion that results are mixed in the planning–performance relationship in firms. They report that some studies reported significant relationships (Gibson and Cassar 2002; Perry, 2001; Rue and Ibrahim 1998), while others report no significant relationships (Mintzberg 1994; Ackerlsberg and Arlow 1985).

When asked to rate how well they planned the implementation of their business idea, the results clearly showed that the planning process was deemed important. About 80% of respondents did at least some amount of planning, including some 20% who described their planning as thorough. Furthermore, 16 of the 19 who reported their venture profitable and who had also prepared business plans indicated they had undertaken planning (3+); while 15 of the 22 who reported successful businesses, but no business plan considered they had undertaken planning. Of the 8 who reported failed ventures, none of them had undertaken any planning.

Moreover, the business plan writer subgroup **planned the implementation of their businesses more thoroughly** before launching (all did at least some planning, with 40% planning thoroughly) than did non-business plan writers (32% did not plan at all, and among the remaining 68% who planned, only 6 did so thoroughly). This is in keeping with the literature that planning generally

produces better alignment and financial results than does trial-and-error learning (Ansoff, 1991); What's more, this is an indication that the more sophisticated the business planning process is, the more successful the venture ends up being. Indeed, the results suggest that planning is important, but it does not necessarily have to be in the form of a business plan… the planning exercise is more important than the business plan itself. Planning is supported by the conclusions of Brinckmann et al (2015) that faced with incomplete information and high uncertainty, nascent entrepreneurs, who are in the process of establishing new firms, must determine an appropriate course of action. Although not a focus of this study, both 2013 et al (2015) and Honig and Samuelson (2012) find that education level also did not affect the level of planning. Planning has a positive impact on performance in many areas, including in performance

"faced with incomplete information and high uncertainty, nascent entrepreneurs, who are in the process of establishing new firms, must determine an appropriate course of action."

management, because of its positive impact on problem solving, learning, motivation, adaptability, and coordination. (Mumford et al, 2001).

These planning characteristics are particularly important as they have practical implications for identifying and eliminating most of the startup obstacles facing small businesses. Mumford et al, (2001) write that one of the important contributions of planning to performance is that plans provide a mental model, or a cognitive representation, of the problem, delineating key issues, relevant strategies, and expected outcomes.

Key elements of planning

The people

The planning process as described by Sahlman (1997) and other authors whose frameworks were used to design the survey involves picking the right co-founder(s), investors, employees, and collaborators in general, and the survey covered this as well to determine how important the people or the team working on the venture are. In recounting how well they assessed the capabilities of the core team of individuals who provided resources or performed services to help start the business, about one in four respondents (26%) had assessed them thoroughly. They were part of a wider 72% who had done at least some assessment of the core team's capabilities. Technical expertise (46%), and general qualifications (44%) were the highest-ranked assessment criteria for core team members. These criteria were very closely trailed by drive and relationship to the respondent, both at 43%. Less than three in ten respondents (28%) did not assess core team member capabilities at all.

The findings for the sample as a whole and for the business plan-writing

respondents support Sahlman's framework that emphasizes the importance of the team, as it will impact the success of the venture.

Assessing the business opportunity

Assessing the viability of a business idea is a key aspect of business planning, and the respondents seemed to think so as well. A clear majority (63%) took at least some measure to assess the viability of their idea before launching their operations. By far, demand for the product or service (69%) was the main tool used to assess an idea's viability. The next most important criterion was market size, almost nine percentage points behind demand at 57%. Capital requirements were seemingly less of a factor, at 33%. Responses collected in the 'other' category of criteria used to plan for business viability were industry trends, product reputation, uniqueness, and ability to turn a profit. When controlling for business plan writers and non-writers, there was a stark different in the extent to which each group assessed venture viability: 95% of business-plan-writing respondents did so to some extent at least, as opposed to 40% of non-business plan writers. However, it is interesting to note that both plan writers and non-writers had the same top criteria for assessing viability: demand (40% and 36% respectively) and market size (31% and 30% respectively). This is in line with the overall sample results as well.

It goes without saying that a business cannot exist without customers, and that businesspeople must plan to put serious effort toward pleasing their consumer base. This is perhaps the single most important rule of doing business, and it is reflected in the survey responses. A mere 13% of respondents did not assess their potential customers. Conversely, an overwhelming 87% of people surveyed conducted at least some assessment of potential customers, although less than one in four (24%) of the total assessed them thoroughly. These figures respectively decreased to 81% and 6% when considering solely the respondents who did not write business plans, and increased to 94% and 39% when considering the business plan writers. For the sample as a whole, the main considerations when assessing potential customers were identity (who is the customer – 76%), price (74%), and strategy for reaching

different segments (57%). Finally, the single most popular method used to evaluate customers' willingness to consume a product or service was informal conversation, used by exactly half of all respondents. It should be noted here that respondents preferred more intuitive and inductive methods (a combined total of 67% for informal conversation and extrapolation) to methods that record hard data, like surveys and focus groups (24% combined). This trend is also present when accounting for whether respondents wrote business plans (informal conversation – 44%) or not (33%). This is interesting because while intuition and conversational insight may factor into the business planning process (the informal nature of conversation and extrapolation goes against the more formal, fact-based practice of writing a business plan. This perhaps contributes to the failure of small business and underscores the need for robust feasibility analysis, to determine whether what seems like a brilliant business idea is a viable foundation for creating a successful business (Zimmerer, 2010).

Financial planning

Conventional business wisdom says that financial planning is a crucial aspect to consider when starting a business. For startup ventures and big businesses alike, it is indispensable to have cash coming in so that business needs can be fulfilled. The literature review also highlighted the importance of access to finance from venture capital (Rea, 1989) or banks (Bewayo, 2010), and how this can be contingent of business plans. That being said, 81% of people surveyed considered the cash flow implications of running a business to some extent, with 28% of respondents carefully considering this. The most important cash flow implications, according to the survey results, were the need for inputs (resources, supplies, raw materials) and labor (people) (61%) and the customer acquisition period (50%), with the timing of payment for inputs and labor a close third (48%). Responses in the 'other' category revealed industry-specific cash flow implications, such as insurance payment rates, a history of punctual rent payments, and instant collection of payment from customers, in the medical, real estate, and retail industries respectively. Differences existed in the cash flow considerations of business plan writers and non-writers. For non-writers, although most (68%) considered cash flow to some extent, only one in ten considered cash flow carefully before beginning their venture, and almost one third (32%) did not pay attention to cash flow when planning for their venture. Conversely, all respondents who wrote business plans considered cash flow implications to some extent, and over half (52%) did so carefully – five times more than their non-business plan counterparts.

Overall, respondents' businesses operated in a range of industries, each with its own challenges, and business planning should also account for the threat posed by incumbent competitors in your chosen industry. Indeed, 24% of respondents found it necessary to thoroughly assess the industry and competitive environment one was entering into. 85% found it necessary to conduct at least some assessment of the environment. Respondents were vastly in agreement about the importance of competitor awareness (67%) and knowledge of competitors' resources, strengths and weaknesses (63%). The number of competing business (54%), their reputation and expertise (44%), consumer trends

(44%) and barriers to industry entry (35%) were all also deemed quite important when analyzing the competitive environment.

Here again, the findings show divergences between respondents who have and have not written business plans. In the non-business plan group, industry and competitive environment were not assessed as carefully as in the business plan group. In the former group, only 3% of respondents assessed these factors thoroughly, and 26% did not assess them at all. In the latter group, these proportions were 52% and 0% respectively. This divide is further illustrated by the different criteria used by each group to evaluate the competitive environment. The business plan group mainly looked at barriers to entry (35%). For the non-business plan group, barriers to entry were the third criteria (17%) after number of competitors (25% versus 19% for the other group) and reputation/expertise of competitors (19% versus 24% for the other group).

Assessing the Context – what is the big picture?

In the planning stages, entrepreneurs set out the course of action they want to take, and also try to account for how unpredictable or unexpected occurrences might impact their business. Indeed, contextual factors outside the direct control of management also warranted assessment from respondents. 24% considered context carefully, and only 17% did not consider it at all. The remaining 59% assessed context to varying degrees. Overall, demographic trends were the most important contextual factors for six in ten respondents (58%) followed by the regulatory environment (four in ten, or 42% of respondents). In line with the sample as a whole, demographic trends (41% and 31% respectively for business plan writers and non-business plan writers) and regulatory environment (30% and 23%) were also the most important in both subgroups.

> "In the planning stages, entrepreneurs set out the course of action they want to take, and also try to account for how unpredictable or unexpected occurrences might impact their business."

The business context in North America is generally stable, but macroeconomic instability or economic downtown can harm the business environment. Regularly assessing contextual factors would be an important factor for small businesses to identify and plan ways to overcome some of the challenges they may face. The goal would be to assess the big picture – the macroeconomic environment, the level of economic activity, regulatory environment, interest rates, demographic trends, inflation, changes in the target market, and other factors that affect the opportunity, but cannot be controlled by the entrepreneur – and how can it help or hinder the proposal. However, inflation (16% for plan writers and 9% for non-plan writers) and macroeconomic activity (14% and 9%) were not highly prioritized by either subgroup. As a whole, it appears that PESTLE analysis is still useful, and as such it should rank among the top exercises for small business planners. A majority of entrepreneurs could avoid failure through better analysis of external circumstances (Hills, 1984).

Related to context and the big picture, risk management was a polarizing issue for respondents. More than half (52%) did not assess eventual risks and how they could be managed. One respondent cited the fact that "risks are extremely limited" in his industry (online retail) as his reason for not doing so. For the 44% that did, people-related risks were the main ones assessed (52%), and opportunity-related risk was a distant second (27%). Concerning risks, there was a stark contrast for each subgroup.

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Business plan writers differed from the general sample, as they overwhelmingly found it necessary to consider these potential risks at least to some extent (78%). This was only slightly higher than the proportion of non-business plan writers who, conversely, did not find it necessary to look into these risks (74%). Nonetheless, in both subgroups, people-related risks the most commonly assessed (just like the general sample), suggesting a need for clearly defining team roles and expectations in the gestational phase of a venture.

Discussion

The findings from the survey confirm the conclusions from the literature review that business planning can improve the performance and longevity of small businesses. The findings are also in line with the literature, with respect to the importance of understanding one's customers, understanding the context of the business, financial planning, assessing the feasibility of the venture, and choosing a viable team – even if all of this is not captured in a formal business plan. The survey supports the viewpoint that planning is the key, not the business plan.

Based on a review of several authors on the topic, Mumford et al (2001) list a number of behaviors that are associated with effective planning: effective planners are efficient in organizing activities in relation to goals (H. B. Miller & Baird, 1972); Successful planners optimize time allocation to different activities; they also prioritize activities on the basis of goals, look for activities that serve multiple goals, and actively assess the cost benefit trade-offs of different activities – and tend to organize goal and distinguish high- and medium-priority goals from low-priority goals – but also maintain flexibility in their activity organizations (Simons and Galotti, 1992). Finally, in addition to careful analysis of the planning context (Berg, Strough, Calderone, Sansone, & Weir, 1998), successful planning requires flexible, adaptive use of the models, or cases, drawn from previous efforts; and active

involvement in plan construction also leads to better performance. As Mumford et al conclude, planning is an inherently adaptive activity, one more likely to promote than inhibit flexible reactions to

"Planning has a persuasive, complex influence on performance and, at least in some situations, may play a critical role in shaping performance."

a changing environment. This is similar to Bhide (2001) when he underscores that there is no one path for entrepreneurs and they must therefore take the time to analyze the situation and establish priorities among the opportunities and problems they face and make rational decisions about the future.

The survey results are in line with the expectations of this work, which aimed to assess some key business planning practices among successful as well as unsuccessful small businesses. It appears that in our sample, whether or not a physical business plan has been prepared, business-planning processes do take place, with varying levels of rigor. While there is higher proportion of successful businesses among the respondents who wrote business plans, the difference is slight. The findings from the survey as a whole are helpful in establishing several takeaways that are in line with the literature.

First, in this sample, a business' customers seem to be the most important factor to assess (87% of respondents). Understanding one's customer is the foremost business rule. This segues into the second takeaway, which is the importance of having a good grasp of the context in which a business plans operates. This is illustrated in the data by the 83% of respondents who paid at least some attention to the context while assessing their business idea. Examples of contextual factors include the level of interest rates, regulations (rules of the game), macroeconomic activity, and some industry variables like threat of substitutes (Sahlman, 1997). One of the important contributions of planning to performance is that plans provide a mental model, or a cognitive representation, of the problem, delineating key issues, relevant strategies, and expected outcomes (Mumford et al, 2001).

Where most SMES face problems relating to people and context, planning would be a useful practice to adopt. As Mumford et al. (2001) suggest in their review planning has a persuasive, complex influence on performance and, at least in some situations, may play a critical role in shaping performance. Planning is a crucial aspect of performance when people are confronted with complex, dynamic, demanding tasks in which coordination of activities is required for goal attainment.

Third, financial planning is a key activity, undertaken by 81% of survey respondents. It can be argued that a venture with no money is like a car with no gas, that is, no means of doing what it has set out to accomplish. This is aligned with Sahlman's (1997) position that successful ventures are "financed by individuals or firms who add value in addition to their

capital, thereby increasing the likelihood of success. The financing terms provide the right incentives for the provider and the recipient. There is access to additional capital on an as-warranted basis." A take-away lesson here is the need to ensure access to financing before starting operations. This would entail preparing a business plan if need be, to give the required reassurance to would-be investors or financiers. Small businesses face a financing gap that undermines economic prosperity; for example, nearly half of SMEs in developing countries rate access to finance as a major constraint (Dalberg). Proper and more rigorous business planning, including the preparation of business plans, can help them obtain financing. While donors and governments work to improve the enabling environment, entrepreneurs can work to use good business practices for assessing the viability of their business ideas. As the literature review shows, business plans serve to attract acquisition of capital from investors and lenders, thus constituting the "business card" of the new enterprise and its management team" (Volkmann, Tokarski, Grünhagen). Of particular interest to small businesses is the concept behind Zimmerer's Five C's of Credit which explains what criteria small business owners need to be aware of with respect to the criteria financial institutions use to evaluation the financing requests: these are: capital, capacity, collateral, character, and conditions.

Fourth, exploring the feasibility of a venture is also a matter of building a strong core team. 72% of respondents found this to be useful, and they are in agreement with the prevailing idea in startup literature that success is heavily determined by a team's abilities. Sahlman (1997) holds that great businesses have a top performing managerial team with the relevant skills and experiences for the opportunity they are pursuing. Respondents for this survey favored technical expertise and drive, suggesting that a mix of industry- or product-specific knowledge and a mindset of determination are the necessary ingredients for business success. Thus, incorporating a rigorous team selection process into one's business planning efforts is primordial.

Indeed, a viable team increases the likelihood of a viable product offering. Even still, the viability of the proposed product must be assessed on its own. The survey results, in which 63% of respondents engaged in some kind of viability assessment, are in line with economic theories that highlight the importance of market size and strong demand for economic growth.

As for risk management, it is, of course, an important element of a small or medium sized business' sustainability, but this was not reflected in the survey data. The survey does not include a question asking if in hindsight, the respondents would engage in ex ante risk management, so given the existing data, possible explanations may be differing levels of risk in different industries, as well as entrepreneurial optimism, and the willpower to make a venture succeed against the odds.

Finally, in relation to the thesis of this work, it would seem that the planning process need not be crystallized in the form of a tangible business plan. While respondents, even those who said they had not written up a plan before going into business, did claim to see the importance of a business plan, the high level success rate of survey respondents (75%)

suggests that a business plan is not the be-all-end-all of business success. Indeed, even in the absence of a business plan, respondents seemed to have assessed a certain number of key criteria that could make or break their business. While the degree to which they assessed each criterion may have depended on their specific industry, it is the planning process itself, rather than the fact of having a business plan that drove success.

That being said, there is no question that a business plan has high merits. According to the survey respondents, it is a road map for the long term, an agreement of sorts between core team members, and a tool to gain access to financing. This supports

"a useful business plan is one that addresses the elements of the venture – people, opportunity, context, and deal – in the proper dynamic context."

Sahlman's (1997) position that a useful business plan is one that addresses the elements of the venture – people, opportunity, context, and deal – in the proper dynamic context. Long-term goals can change, core team members come and go, and in competitive environments, gaining access to financing may depend on a history of performance and not on the projections generally included in business plans.

Preparing a business plan is ideal. However, preparing one is time and resource intensive. What seems to be really needed is a feasibility analysis underscoring the clear distinction that Zimmerer et al (2008) propose between a business plan and a feasibility study – where they describe the former as a planning tool for transforming an idea into reality, and the latter as the process of determining whether an entrepreneur's idea is a viable foundation for creating a successful business... an investigative tool... designed to give an entrepreneur a picture of the market, sales, and profit potential of a particular business idea.

The survey results suggest that carrying out a feasibility study is perhaps more important than writing a business plan. Most of the businesses that succeeded did not necessarily have a business plan, but had taken the time to conduct a feasibility study – reflected in the planning phase. The survey supports the viewpoint that planning is the key, not the business plan.

Survey results also moderately support the suggestion that the business plan is important for obtaining financing. Zimmerer (2008) describes a business plan as a planning tool for transforming an idea into reality; it builds on the foundation of the feasibility study but provides a more comprehensive analysis than a feasibility study. It functions primarily as a planning tool, taking an idea that has passed the feasibility analysis and describing how to turn it into a successful business. Its primary goals are to guide entrepreneurs as they launch and operate their businesses and to help them acquire the necessary financing to launch. The need to obtain financing thus is a major driving force for the preparation of business plans.

Conclusion

This study covers the business planning process, focusing on elements that have been identified in the literature as being predictors of business success. Rather than using any specific measure of success, the study allowed respondents to determine for themselves whether they considered their venture successful or not. A survey modeled on select aspects of the literature has helped assess the attitudes of U.S small business owners toward the usefulness of the business planning elements in question, and also to answer the question of whether a written business plan (denoting a relatively sophisticated planning process) is necessary or helpful to achieve business success. Salient findings are the importance of assessing customers, of considering the financial implications of a business idea, the need for competent business partners, and ensuring the viability of a potential venture. These takeaways support previous research on this topic. When considering the role that entrepreneurship plays in economic development through an increased role of the private sector, this study makes a valuable contribution to the conversation about strengthening small business development to foster private sector development, but more remains to be done. As assistance for private sector development increases, especially in developing countries, so does foreign direct investment, all pointing to a need to improve business practices. Further research could be conducted to further identify business planning good practices to be emulated and bad practices to avoid in less stable economic settings like Africa.

A business plan is written proof that an entrepreneur has performed the necessary research, has studied the business opportunity adequately, and is prepared to capitalize on it with a sound business model. In short, a business plan is an entrepreneur's best insurance against launching a business destined to fail or mismanaging a potentially successful company.

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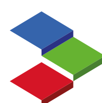

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