

# **The Empretec Ghana Foundation: Developing a Broad Portfolio Organisation by Alan Gibson, Springfield Centre for Business in Development, 1999**

## **1. INTRODUCTION**

Empretec is an international entrepreneurship and capacity-building programme currently operating in 10 countries in Africa and Latin America. Begun in 1988 and co-ordinated globally by UNCTAD, it is a broad programme united by several core features including a focus on entrepreneurship training workshops and high growth potential SMEs. However, country programmes are almost entirely autonomous in relation to strategy, operations and structure.

The Empretec programme in Ghana began in 1990. Its mission, established in 1994, is:

*“To build high quality, growth-oriented, internationally competitive entrepreneurs through training, business advice and access to technology and finance”*

It has progressed through three clear stages in its development:

1. From 1990 to 1994, in its *start-up* and *survival* stage, its activities were based primarily around entrepreneurship workshops and, to a lesser extent, management seminars, with a limited number of consultancy and advisory services. EGF then had three professional staff, all on secondment from other organisations.
2. From 1994 to 1997, Empretec entered a period of significant, planned *growth*. It changed from a development project into an independent foundation - the Empretec Ghana Foundation (EGF); staff numbers increased to over 60; budget levels rose by 3-4 fold as more donor-funded projects were awarded to it; the product portfolio broadened to place more emphasis on consultancy and credit facilitation as well as credit services directly; and, most important, sustainability was given greater strategic priority.
3. EGF's current phase of development focuses on *consolidation* in which the main challenge is to become more efficient and effective in developing and delivering products.

This case study examines EGF against the preliminary framework of good practice principles agreed by the Committee of Donor Agencies for Small Enterprise Development (1). It deliberately does not provide a detailed description of EGF but rather focuses on the issues emerging from EGF's experience which are of wider interest. Its main objective is to identify key lessons and principles of good practice in BDS and, where possible, benchmark performance indicators. The case is structured in five parts. Sections 2, 3 and 4 analyse the development of EGF in relation, respectively, to the organisation, its services and its clients. Within each of these sections, the examination focuses on:

- ⇒ The current situation - a brief description of EGF now;
- ⇒ Positive factors - reasons for the current situation and lessons stemming from them;
- ⇒ Challenges - key issues and problems which need to be addressed.

Section 5 summarises the main conclusions to come from the case and the implications for BDS more widely. Appendix I contains some relevant information on the Ghanaian economic context; Appendix II shows the EGF organogram; and Appendix III highlights some examples of positive changes in SMEs brought about by EGF.

## 2. THE ORGANISATION

### 2.1 The Current Situation

From an early stage in its life, the institutional development of EGF has been given a high level of importance by EGF management; i.e. while the importance of the products delivered and the impact of these on clients was recognised these were always seen within a context of the organisation.

The current institutional capacity can be examined with respect to a number of headings: organisational, managerial, and financial<sup>1</sup>

#### 2.1. a) Organisational Capacity

Structure: EGF operates in five main geographic centres and has five main divisions: (1) Training; (2) Consultancy and Extension; (3) Corporate Relations, Planning and Research; (4) Information Technology; and (5) Finance and Administration. All divisions generate some revenue from clients but some - such as Finance and Information Technology - are primarily supporting departments. (Appendix II shows the EGF organogram). EGF is a company limited by guarantee governed by a Board of Directors drawn principally from representatives of the private sector.

People: EGF has 66 staff, of which 50 are engaged directly or indirectly in BDS. Staff have clear designations and job definitions and there is a defined hierarchy and division between senior and junior staff. From the outset, staff development has been encouraged and training programmes are arranged for all staff. In late-1997 and the beginning of 1998, two senior staff, including the previous Chief Executive Officer, resigned but, overall, staff turnover is low. During the recent period of growth, staff numbers increased substantially and the quality of these incoming staff - their insight, innovation and commitment - is striking. All professional staff have university degrees, diplomas or an equivalent professional qualification.

Culture: EGF's working culture has been developed consciously by its management. It is:

- “corporate”: for example with dress standards laid down for all staff;
- diligent: staff work long hours and - given the current power shortages - have to be prepared to be flexible;
- business-oriented: both in the language used by staff (products, clients etc.) and in their approach to work - for example, developing a transactional relationship with clients and assessing the costs and revenues from different products;
- based on a shared vision: the direction of the organisation and its values are strongly-held by staff; there is a perceptible sense of ownership among all staff.

Strategy: building on a palpable sense of ownership, EGF's strategy - currently emphasising *consolidation* (refining product delivery, improving cost control, and increasing earnings) - is reinforced through planning sessions and an inclusive style of planning and management. The strategy is known to and believed in by staff.

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<sup>1</sup> There are other “frameworks” for institutional assessment - for example the growth framework of Durham University Business School (2) and the SEEP institutional development (3) framework; the headings used here borrow from these and other sources.

## 2.1. b) Managerial Capacity

In addition to its prime resource - its people - EGF's operational capacity to manage its business is based around its management systems. Indeed, as part of its process of institutionalisation, EGF has developed procedure manuals which summarise its main processes. Key systems, at various stages of development, include:

- client tracking/database: this should include information on client profile, services accessed and impact on clients. While the basic software for this has been developed the system is not yet operational
- time sheets: for any large consultancy/training organisation, these are crucial in determining how its key resource - people - is being used. EGF's attempts at introducing these have not been successful as yet; more pressure is now being put on staff to complete these properly;
- work plans: each division develops a workplan on an annual basis. This contains planned products, client numbers and their projected revenue and direct expenditure. On the basis of this, budgets are prepared for the year. Work plans provide a framework for forward planning but are not so restrictive as to exclude innovation.
- financial systems: ultimately performance in EGF is measured financially; divisions' delivery against targets is the "bottom line" measure of their performance and is presented at monthly executive committee meetings. Some apportionment of overhead costs does take place but only to a limited degree.

## 2.1 c) Financial capacity

EGF's main sources of sponsor income currently are three donors: DFID, EU and IFC<sup>2</sup>. A key strategic objective is to reduce dependence on external funding by raising the proportion of overheads covered by internally-generated funds; i.e. from SME clients, corporate sponsors and other sources. The figures below appear to indicate renewed progress by EGF towards achieving its goal of 40% cost coverage by the year 2000 after overhead costs more than doubled in the period of expansion in 1995-96.

	<u>Overhead costs</u>	<u>Internally-generated funds</u>	
	(\$)	(\$)	%
1995	281,000	137,000	48
1996	547,000	154,000	28
1997	487,000	180,000	37

## 2.2 Positive Factors

As an organisation, EGF emerges as one whose key strengths lie in its strong and business-like working culture; good quality of staff; ownership over its mission; and growing financial autonomy. A number of factors can be highlighted which appear to have been important in helping EGF to achieve its present position:

### 2.2 a) Making the organisation a priority

During its first start-up phase of development, Empretec operated as a project. Moving away from this status and becoming an independent foundation has been a key step in its

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<sup>2</sup> UNDP also supports the credit scheme but this is treated separately within EGF

development. First, it has encouraged staff to think seriously about the longer-term. “Classic” development projects are, by definition, time-bound packages of activity (i.e. with a beginning and an end). As planning frameworks, without the *tangibility* of an organisation, often they do not offer an environment in which people, products and systems can be expected to develop. Second, becoming an independent foundation allowed EGF more flexibility in funding; rather than being funded rigidly against budget lines, EGF now receives a negotiated management fee for its services from donors for delivering particular projects.

## **2.2 b) Making sustainability a priority**

Only after EGF was borne as an organisation did sustainability move seriously on to its agenda. From the outset, EGF has sought to operationalise sustainability and confront its implications in relation to, among other aspects:

- the product mix - focusing on products where SME clients will pay
- organisational culture - developing in a tight and business-like way
- the structure - developing appropriate legal and operational structures
- the client base - focusing on “winners” in the formal sector, where SMEs’ needs can be identified and they are prepared to pay an appropriate price for services to address them.

Finally, sustainability in relation to positive changes in client businesses is the acid test of EGF’s work. However, in practical terms, the drive for sustainability is manifested primarily in EGF’s ability to operate with reduced dependence on external donors funds. For EGF, this is a practical, measurable “proxy” indicator of client sustainability and a key indicator of EGF performance.

## **2.2 c) Building on leadership: developing ownership**

Until recently, EGF had been led by a strong CEO<sup>3</sup> who had built a strong management team around him. His approach to management - inclusive, creating an appropriate working culture, and with a strong business orientation - helped to define the organisation. At the heart of this approach is the view that EGF had to be close to its clients in order to successfully work with them. EGF’s corporate culture is not that of a micro-small business - it is too formal and structured for that - but it has some similarities with that of the SMEs who constitute its key client group.

Most important in terms of leadership and EGF’s evolution, the considerable resources which have been invested in institutional development in EGF have supported his (EGF’s) vision and not one which donors have initiated. Specifically, the consultancy company<sup>4</sup> who have managed DFID’s inputs into EGF have managed to develop an intensive “mentoring” type of working relationship with them which provides new ideas, advice and training but which has not removed basic ownership from EGF itself. This is a difficult balance to achieve but one which is crucial if technical assistance resources are to be used successfully.

## **2.2 d) External investment in the organisation: both *how to* and *how much***

EGF has working relationships with a number of donor agencies. In its initial phase of development, UNDP was its key donor partner and clearly very influential in developing its product base. Since 1994, however, DFID has been the largest funder. *How* this process has been managed is one of its distinctive characteristics - through a consultancy company.

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<sup>3</sup> Alan Kyerematen came from a strong corporate management background; at the time of writing, his successor has not been appointed

<sup>4</sup> Rural Investment Overseas, a UK consultancy company

However, it is important to acknowledge that EGF has also been the beneficiary of a significant amount of investment by donors.

Most donor support is consumed in the delivery of products and in running the organisation but considerable resources have been devoted specifically to investment in equipment, human development and new products. In the period 1994-97, \$200,000 was spent on staff training alone and \$160,000 on capital equipment. In the current period, 1997-2000, at least \$200,000 will be spent on specific product development or broader institutional development (for example improved information systems). In addition, the mentoring role of the external consultant is a significant expense (approximately \$100,000 per annum). These figures emphasise that although the path through which institutional development support has been offered is important, the scale of resources committed to them is also significant. (i.e. it's not just *how* but *how much!*). At a rough estimate, at least \$1,500-2,000 per employee per annum has been invested in EGF by DFID alone on institutional and product development. It is premature to assess the worth of this investment; however, its scale is noteworthy.

### **2.2 e) Putting money at the centre of work**

EGF “supports” SMEs primarily through selling products to them for an appropriate fee. The relationship they are seeking to develop is close and transactional; paying fees is absolutely critical to its development. This exchange defines the “deal” between EGF and its clients, it acts as an indicator of client demand and, finally, it provides EGF with a bottom-line measure of its performance, reinforcing the drive towards greater sustainability and business-like behaviour. (In the words of the previous CEO, “the only thing we understand is cash!”).

### **2.2 f) Getting (and keeping) good people**

EGF's success in attracting and developing good people can be attributed to a number of factors:

- an inclusive, consciously-created atmosphere of excellence and diligence which appeals to “professional” people;
- competitive salaries; in the last few years, consultants have undertaken salary comparability exercises (with organisations such as banks) and, as a result, salaries have been increased considerably; and
- an opportunity to contribute to Ghanaian economic development.

Thus, EGF's appeal to potential employees stems from a professional environment, personal and developmental challenge and financial gain.

## **2.3 Challenges**

Throughout its existence, EGF has followed a deliberate course of thinking and acting as a business. Behind this lies a core belief that in order to deal with SMEs one must be *like* them in terms of understanding, skills and attitudes. It is not surprising therefore that the main organisational challenges facing EGF are common to many consultancy/training businesses. Indeed, EGF's own strategic priority of consolidation - “finding ways of doing things better, faster and in a cost effective manner” - recognises issues which need to be confronted in order to achieve long-term objectives.

### **2.3 a) Reducing costs**

The “downside” of the extensive institutional development process and expansion which EGF has undertaken (and which has brought many already-mentioned benefits) is an overhead base

which is difficult to support through revenue earning activity. The current financial and staff time recording systems do not allow a precise analysis here. However, it appears that:

- around half the salary cost is incurred by people with no direct revenue generating role (in a commercial consultancy this is likely to be no more than 20%).
- revenue generating staff spend a relatively small proportion of their time actually delivering fee-earning products (70-80% in a commercial consultancy).
- expenditure classified under “administration” accounts for over 60% of costs.

Out of the total amount of staff resource available, every fee-earning day is dwarfed by every non-fee earning day. This situation presents several challenges: getting more people to think about delivering products (for example in the IT division); developing internal systems so that the real resource usage picture is evident; separating out those costs which can be attributed directly to donor requirements (for example impact assessment) rather than EGF needs; and, overall, reversing the existing imbalance between productive and unproductive time.

One possible reason for EGF’s relatively high cost base is that the institutional development process has sought to serve two clients (SMEs and donors) who have different institutional expectations - entrepreneurial provider of services against competent manager of projects. Certainly, the current era of reducing external support will expose EGF to the harsher pressures of SME market conditions.

### **2.3 b) Splitting into small product-focused units**

The most significant business management trend in the 1980s and 1990s has been the drive for more clarity and focus. Businesses have sought to concentrate on their *core competence* or to re-structure to allow different parts of the same organisation to develop distinctive areas of expertise. Thus far, EGF has developed as a multi-product entity with an integrated structure. While some degree of specialisation does take place, even the credit service, operated separately from BDS, still has the same terms and conditions for employees. The *potential* benefits of a “split and focus” approach are well known. It may provide the opportunity for greater management responsibility and control; for more transparent performance assessment; and for more specific marketing and pricing approaches. Within EGF’s current product range, there are several possibilities for such decentralisation; indeed, initial discussions have begun for both credit and training products.

### **2.3 c) Developing staff in a more uncertain business environment**

EGF’s staff resource to date has developed within a relatively secure context. During a period of growth, when staff numbers have risen considerably, there have been many opportunities for staff development within EGF as a whole. In the current, maturing phase - when the emphasis is more on efficiency improvements - there are different challenges for staff. Increasingly staff rewards will be linked to performance resulting in greater exposure to market uncertainties and, in a very practical sense, placing them closer to the realities of their client’s situation.

## **3. THE PRODUCTS**

### **3.1 Current Situation**

#### **3.1 a) The EGF product offer**

EGF’s overall “offer” to SMEs is comprised of a number of related products summarised in Box 1 and whose delivery performance is shown in Figure 1. These products are aimed at

improving business efficiency, facilitating access to finance and improving business linkages. SMEs have two main routes through which they may become an EGF client and gain access to EGF products. First, participation in the 10-day *flagship* entrepreneurship programme. Second, direct registration with EGF following discussions with the client services manager and an initial diagnostic health check. In both cases, the entry process should lead, first, to the SME client becoming more acquainted with EGF and, second, to EGF becoming more informed of the SME's BDS needs.

### 3.2 b) Revenues and Costs

Comparison of revenues against costs for different products is limited by the absence of in-house systems for measuring direct costs on non-training products. However, from the range of products which EGF offers to its clients (excluding credit sourcing), it is clear that training is the only one in which revenues from clients are greater than direct costs. Indeed training accounts for over half of internally-generated income. Figure 2 shows the approximate relationship between revenues and costs for different training products in 1997.

Within the training field, the most profitable type of product for EGF is one where the direct client is not SMEs *per se* but rather other organisations working with SMEs such as banks. Training services marketed directly at SMEs (i.e. where there is no external third party) struggle to break even in EGF.

“One-to-one” BDS (i.e. services delivered to SMEs individually) clearly have much lower rates of cost recovery. It is likely that products such as counselling and diagnostic health checks have direct cost recovery rates of below 20% and in consultancy of no more than 50%. While direct costs per client per day for training may be around \$20-30, for consultancy it is around 4-5 times this figure.

### 3.1 c) Pricing approach

EGF's approach to pricing is changing. In its initial phase of development, pricing was not given a high priority. Now, as the sustainability imperative takes hold, appropriate pricing is being given greater attention. In general, training products are expected not only to cover costs but to generate a contribution to overheads of at least 30%. In one-to-one products, EGF is seeking to raise its price to increase cost coverage from fees - although it is still some way below full direct cost coverage. In some other product areas - such as the subsidised consultancy contracts - prices are effectively fixed by the arrangements with donors. For non-SME clients and where EGF has unique products, EGF's approach is driven more by what the market will bear than a costs calculation.

#### **Box 1: EGF Product Offer**

The main EGF products are as follows\*:

Entrepreneurship workshop: this 10-day event is the most established of EGF's training products. It is a foundation of Empretec's approach internationally and is still described as the *flagship programme*.

Short management programmes: covering a variety of topics such as negotiation skills, stress management and business awareness. They are usually generic and last 1-2 days.

Customised training programmes: delivered on-contract for particular (usually donor) clients.

Sector-specific programmes: aimed at businesses in a particular sector, some of whom may be larger than the usual SME classification. Most notable here has been EGF's work with the financial sector.

British Executive Service Overseas (BESO) volunteer advisers (VAs): EGF offers appropriate SME clients access to the expertise of senior/retired executives recruited through BESO from the UK for short-term assignments of a few weeks duration. EGF acts a matchmaker, assessing the potential client's need, liaising with BESO in the UK, vetting potential VAs and handling the logistical arrangements of the contract.

Technology and Enterprise Development Fund (TEDF): a subsidised consultancy service where SMEs can gain access to specialised consultants through EGF. EGF manages the service and links SME clients with a roster of suitable consultants.

Business Development Planning Fund (BDPF): another subsidised consultancy scheme focusing in particular on business plan preparation.

Clients Accounting and Book-keeping Services (CABS): a focused subsidised consultancy product. EGF has negotiated with three accountancy firms to supply services to groups of SMEs clients. SMEs own understanding of the importance of good book-keeping and their book-keeping capacity should improve as well as their attractiveness to finance organisations.

Linkages: EGF may provide initial support for linkages with local or international business, usually in the form of subsidised travel.

Diagnostic health check: a mini-consultancy process is undertaken directly using a standardised set of questions/headings and usually at the beginning of a client's involvement with EGF.

Counselling: here a client is entitled to 4 counselling visits from an EGF staff member trained in business counselling skills.

\*This list excludes:

- direct business services such as E-mail, fax etc.;
- credit sourcing centres: EGF manages a loan fund of \$1m available to businesses in the tourism, construction and non-traditional export sectors through five centres throughout the country; and
- EGF's offer to donor clients to manage programmes on their behalf - in Ghana and now increasingly in other African countries

### **3.1 d) The competitive environment**

EGF has recently begun more systematic analysis of its competitive situation. Prior to this, EGF was clearly aware of the existence of competing products but had not examined their offer in any depth. The overall situation is as follows:

- 10-day entrepreneurship workshops: no real competition
- Management-related workshops/seminars: a number of other players are active in the field, especially donor-supported institutions, but - at the upper-end of the SME spectrum - private sector consultancy firms.
- Business awareness workshops/seminars: competition is mainly from donor-supported institutions.
- Consultancy and advisory services: at the smaller end of the SME spectrum, there is very little non-donor supported competition. Larger businesses are more likely to use existing private sector consultancy businesses.

Against other key players in the training market in particular, EGF's sees its offer as being based partly on price but, importantly, on quality and originality.

This form of competitive analysis is useful but it is clear that the market for BDS is influenced greatly by donor agencies. This is not a "natural" market with two main sets of actors - suppliers and customers. The scale and nature of interventions impact widely on supplier and customer expectations and actions, especially on what they do and how much it costs.

**Figure 1: Product Data Summary Sheet (1997)**

Product	Product Delivery		Client Outreach		Price to client '000 cedis (\$)
	Target	Actual	Target	Actual	
<b><u>Training</u></b>					
Entrepreneurship workshops (10-day)	1	2	24	52	500 (\$250)
Short programmes/ seminars		27		400	Avg. of 100 (\$50)
Bankers programme		7		161	Avg. of 575 (\$280)
Customised training programmes		2			60 (\$30)
<b><u>Consultancy/ extension</u></b>					
British Executive Service Overseas	20	19	20	19	200 (processing) (\$100) 500-1000/month (\$250-500)
Technology and enterprise dev. fund	50	52	50	52	50% of consultant's fee
Business development planning fund		28		28	10% of consultant's fee
Linkages	6	4	6	4	
Diagnostic health checks	120 (both)	60 (both)	120 (both)	60 (both)	250 (\$125) - old clients 200 (\$100) - new clients
Business counselling					
<b><u>Credit facilitation</u></b>					
Loan monitoring service					1% of loan amount
Clients accounting and book-keeping service	50	22	50	22	150 (\$75) per quarter; 600 (\$300) - whole year

### **3.1 e) Approaches to product development**

EGF's product range has changed considerably over the last few years. From its initial base in entrepreneurship training, it has diversified into other training products, one-to-one counselling and consultancy; and credit. By most standards this is a broad portfolio. In developing this product range, EGF has drawn on two sources: first, its own in-house product development capacity - particularly in the training field which is currently being strengthened by sector-specific research; and second, product development resources derived from its linkage with its consultancy mentor. Important new sector-focused products have recently been developed through this route.

### **3.1 f) Product marketing**

This is an acknowledged current area of weakness within EGF. Training products are marketed through, for example, a brochure with the year's main programmes and through newspaper advertising. However, it is clear that EGF clients often only hear of EGF by word of mouth.

The most distinctive aspect of EGF's approach to marketing is the role of the Empretec Forum. In all countries in which Empretec operates, an organisation of SME clients - in Ghana, the Forum - is established. This is intended to play a number of roles: representing members, helping to create a new business class, enhancing networks and inter-firm learning

and encouraging joint ventures. The Forum in Ghana is located within EGF and through it receives donor funds<sup>5</sup>. Forum meetings every month in each of its three main centres are a key opportunity for EGF staff to sell products, to receive feedback and to build greater client loyalty.

**Table 2: Revenues versus costs for different EGF training products (1997)<sup>6</sup>**

<b>Training product</b>	<b>% of direct costs covered by revenues</b>
Management workshops	98
Business awareness seminars	74
Entrepreneurship workshops	88
“Negotiation for linkages” workshop	107
In-plant training	200 +
Contract workshops	200 +
Special projects	154

### **3.2 Positive Factors**

In relation to its products, EGF is a leading market player in BDS in Ghana, pursuing an increasingly assertive approach to pricing and which - supported by donor funds - has shown considerable innovation in product development. Moreover, a close relationship between EGF and its clients provides the basis for effective product development. For training products, especially where the immediate client is not SMEs, EGF has succeeded in achieving healthy margins. Some key lessons emerge from EGF’s experience.

#### **3.2 a) SME clients will pay full direct costs for appropriate training products**

EGF’s experience is that training programmes aimed at high potential SMEs can be priced to cover direct delivery costs and generate a significant contribution to overhead costs. EGF has shown that there can be a genuine demand for short, focused training programmes for SMEs. There is demand for generic cross-sectoral programmes - such as negotiation skills, quality customer care. However, there seems to be greater potential in more specialised, sector-specific programmes where there is a wider area of common interest between the participants; i.e. sector can offer a more useful focus for training than business size.

#### **3.2 b) Making credit a part of a broader package**

Accepted best practice in microfinance and BDS encourages separation of non-financial and financial services for SMEs. EGF’s success in creating a healthy loan portfolio - achieved by rigorously separating it from other activity - does not change the wider experience of finance/non-finance mixing (one which is characterised by failure) but does show that it *can be done*. More significant than the credit service itself, however, is the impact of credit on EGF’s overall offer to clients. Certainly, in Ghana’s current tight financial conditions, EGF staff have no doubts that the *lure* of credit has helped EGF to attract clients. While it would be imprudent to interpret this as an argument for BDS to be offered alongside finance, it does show the importance of successful BDS being presented in a way which is meaningful to SMEs and the value of linkages with credit providers.

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<sup>5</sup> An additional key role for the Forum is to develop mutual guarantee associations among its members as a means of accessing bank finance

<sup>6</sup> These figures are based on actual revenues and estimated direct costs; the time sheet system does not allow analysis of actual use of staff time but for training programmes can be estimated with reasonable accuracy

### **3.2 c) Learning (selectively) from overseas**

The setting for BDS clearly varies considerably from one country to another and - as with other aspects of development - interventions can falter because the wrong thing is being learnt. EGF's experience, however, does suggest that there is scope for transferring specific product ideas, provided that these are adapted to the local institutional environment. Current developments in EGF - particularly the development of sectoral training programmes - draw heavily on experiences from other countries.

### **3.3 Challenges**

As with its general institutional development, the product-level challenges facing EGF currently in the future are similar to those of many businesses providing consultancy and training products.

#### **3.3 a) Using financial information to make decisions.....**

Having committed itself to pursuing a business-like mode of operations, EGF is now seeking to follow this rationale to its conclusion. Tight financial analysis of product performance illuminates its worth to customers; EGF's decision-making on products will increasingly be guided by this to pursue one product as against another. Of course, products which emerge weakest from this analysis might not be dropped. There may be good reasons to continue with products such as counselling and diagnostic health checks; they, for example, may lead clients to other products, provide portfolio balance or useful client feedback. However, it does mean that the reasons for delivering products with low cost coverage are transparent and believed in.

#### **3.3 b) .....without losing a direct SME focus**

Using financial analysis in decision-making exposes a real tension in EGF. In a market place where there are many non-SME players - donors, banks, larger businesses - it is clear that a demand-led, revenue-enhancing approach takes EGF away from supplying services directly to SMEs *without* the financial involvement of a third party. This is partly attributable to the changes created by donors but also to the inevitable attraction of products aimed at larger, sectoral clients.

#### **3.3 c) Less activities; more products**

BDS organisations such as EGF interact with clients primarily through delivering products to them. Products are the vehicle for transactions with clients. One of the reasons why time sheet analysis is so important is because it reveals how much staff time is being spent on products - *productive* time - as against other *non-productive* activity (administration, communication etc.). Finding out how staff resources are being used currently and raising the proportion of time spent productively are core challenges for EGF.

#### **3.4 d) Developing sustainable “one-to-one” consultancy and advisory products**

SME clients will usually not pay the full costs of “one-to-one” BDS products. While EGF does charge for all its main one-to-one products, the maximum direct cost coverage achieved is 50% and usually is significantly less than this. Underpinning the logic of subsidised consultancy schemes is the expectation (or hope) that the matchmaking role performed by an intermediary such as EGF will make both parties appreciate the benefits of working together and encourage the development of a “natural” market. There are few signs that this is really happening with EGF's clients;

there remains a considerable mismatch between supplier and customer price expectations. Scaling-up this type of product therefore can only be done with increasing financial support for product delivery.

Acknowledging this situation, EGF are currently seeking to develop a new approach to SME business consultancy and have established a new agency for this purpose, Ghana Executive Service Overseas (GESO). Modelling itself on BESO, this would essentially allow retired/semi-retired managers the opportunity to use their experience and skills for specific assignments for SMEs. For companies, this would be a chance to tap into a relatively low cost source of expertise. For the SME sector, it might permit a more sustainable market in consultancy services to be created. It is likely that the cost of GESO advisers would be no more than 20-30% of the prevailing market rate. GESO is at an early phase of development and it is too early to make any authoritative assessment of it. It's significance at this stage is simply that it represents an attempt to address the prevailing supply-demand imbalance.

### **3.3 e) Donors and markets: intervening to promote efficiency and not distortion**

This is a basic challenge for donors: the scale of donor-agency support and the relatively small-size of the SME sector in Ghana (especially “growth potential” SMEs) mean there is not really a “natural” private sector in training and consultancy services. Donor money therefore has great potential to *distort* as much as to *develop*. This is particularly so for direct *delivery subsidies* (as distinct from product development *investments*) where different levels of subsidy can encourage weak, and discriminate against good, BDS providers. In Ghana, different levels of subsidy are offered by different donors. There are parallels here with the microfinance “revolution” where leading international agencies have agreed on the dangers of short-term “cheap” finance undermining the long-term prospects of the market. As with credit, competition in BDS is healthy - but only if built on a level playing field of agreed standards.

## **4. THE CLIENTS**

### **4.1 Current Situation**

As with many of its other internal systems, EGF is investing heavily in a new client information system which should include data on client profile, services accessed and impact. However, currently data on clients is not compiled comprehensively; the information below is therefore slightly impressionistic.

#### **4.1 a) Identity: who are they?**

EGF's intended focus is on high growth potential SME “winners”, with a total asset base in the range \$40,000 - \$400,000 and who are registered companies. Given this target group, it is not surprising that EGF clients for BDS are predominately (around two-thirds) male<sup>7</sup>, generally from the wealthier sections of Ghanaian society, and often well-educated. Although not homogenous, this is certainly a relatively articulate and economically strong group. From a donor perspective, priority disadvantaged groups (the poor) can only be indirect beneficiaries. Clients represent a variety of sectors in services and manufacturing. Surveys have shown that average employment in client companies is approximately 20-30, but ranging from below 5 to more than 100.

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<sup>7</sup> In EGF's credit service, however, 53% of clients are women

#### **4.1 b) Outreach: how many?**

EGF's information system, currently in the process of being developed, does not allow a precise picture of client outreach. EGF has over 650 SMEs on its database - the cumulative total of SMEs who have used services since its inception. Furthermore, as shown in Table 1, in 1997 798 people/SMEs bought different EGF products - although since many of these purchased more than one product the total number of SMEs is considerably less than this (i.e. there is double-counting in this figure). Most managers in EGF believe that they have around 150 core, active clients at any one time; i.e. SMEs who regularly use EGF services and who participate in the Forum.

Given the breadth of products delivered by EGF, aggregate figures on cost per client are of limited relevance. If it is assumed that EGF had around 300 to 500 individual clients in 1997, external cost per client was probably around \$500-1000 (including all donor costs - overheads plus capital).

#### **4.1 c) Impact: what changes?**

EGF's services to clients are aimed at bringing about improvement in clients' capacity and ultimately to enhance their business performance. Changes in clients' situation resulting from EGF-provided products therefore manifests itself in different ways in business performance. At a quantitative level, a number of separate surveys have confirmed that clients are growing.

- **Employment:** a survey of 59 companies in 1997 showed that over a three-year period clients' employment grew by approximately 12% per annum. An earlier 1995 survey showed a similar scale of growth. With an average size of 18-19 employees, this is equivalent to around 2-3 additional jobs per annum<sup>8</sup>.
- **Sales:** a real increase of 25% per annum for sales.

The aggregate picture which emerges from EGF's and external reviewers' analyses of impact is that there has been a marked general improvement in performance among clients. EGF acknowledge, however, that there are questions over the extent to which these changes can be attributed to their input and these figures should be treated with some caution. Certainly, these businesses have performed well above average compared with the national trend but they are a deliberately targeted, exclusive group; i.e. one would expect them to perform better than average.

#### **4.2 Positive Factors**

EGF's performance at a client level is obviously a result of its progress in developing itself institutionally and in its product offer to meet client demands. Although there are weaknesses in the current approach to client assessment and management, most clients do feel that they have benefited from EGF and many examples can be given of how EGF products make a difference to SME performance (Appendix III).

#### **4.3 Challenges**

There are two immediate challenges facing EGF at this level:

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<sup>8</sup> Given questions over the reliability of data and methodology, caution should be shown in extrapolating these figures to the wider body of EGF clients

#### **4.3 a) Developing a client information system for EGF needs**

There are many questions on clients emerging from EGF's current work to which no categorical answers can be given. For example, is the client profile shifting up-scale as EGF product prices are increased? Are clients being retained? Is there actually a small number of clients who are generating a disproportionate amount of income? How can client information be used more effectively in product marketing and product development? What impact data would EGF find useful?

EGF's current investment programme to develop a user-driven computer-based system which can provide timely relevant analyses to EGF managers. Potentially, this could bring significant benefits both in terms of EGF's quality of work and in reducing costs.

#### **4.3 b) Developing a client information system for funding agencies**

Donor agencies investing in EGF's work clearly have to take account of wider impact concerns than those of EGF itself whose main focus is client fees and client feedback. Although the "impact issue" has been live in EGF for several years, as EGF acknowledge, it has not been addressed satisfactorily. Impact assessment exercises have been undertaken but their quality and usefulness have been limited. The big questions associated with impact - what to measure, how to collect data, what scale of resources to be devoted to the task - are now being confronted.

### **5. CONCLUSIONS AND IMPLICATIONS**

EGF is a dynamic organisation which has undergone considerable development since its birth initially in 1990. It has progressed from a small start-up project to a major independent foundation with a broad portfolio of products aimed at SMEs. Assessing the overall performance of EGF is hampered by an absence of "hard" data on client impact. Nonetheless, from the preceding analysis it is clear that EGF's experience has been characterised by a number of significant achievements. Specific lessons can be learned as well as other more fundamental from this experience.

#### **5.1 Achievements**

While there are many positive aspects of EGF's performance, three core accomplishments can be cited:

1. The development of a strong institutional capacity: this is manifested, for example, in the high level of competencies among staff; the improving systems; the tangible sense of ownership and commitment within the organisation; and, overall, an extremely positive and business-like working culture.
2. The development of growing financial autonomy: one key dimension of institutional capacity is reducing dependence of EGF on external donor funding. Direct donor funding now accounts for less than two-thirds of overhead costs.
3. The development of "financially sustainable" products: EGF increasingly seeks to not only to cover direct costs but to generate a contribution to overheads through its training products. Appropriately-designed training products for growth-oriented SMEs should at least cover all their direct costs from charges.

#### **5.2 Lessons**

A number of lessons emerge from EGF's experience which are of wider relevance to BDS organisations. These generally re-affirm key principles from the Donor Committee guidelines.

1. Building on strong leadership and vision: EGF has developed a strong sense of its own identity and path ahead, built around a vibrant leader and management team. External assistance supported rather than imposed a forward direction.
2. A business-like working culture: the values of EGF, shared widely in the organisation, is that it should approach its mission in a business-like manner. Most important, EGF's relationship with its clients is transactional, based around payment for services.
3. Productive technical assistance: with a strong organisational base, technical assistance from external consultants has not threatened EGF management's ownership; rather it has allowed EGF to improve its organisation and products.
4. Operationalising sustainability: sustainability is manifested primarily in clear financial targets but also guides EGF in relation to product development and structure; it is more than an abstract notion.
5. Realistic market pricing: SMEs with growth potential - certainly at the upper-end of the SME spectrum - will pay a full cost for suitable training products and EGF's pricing policy aims at modest profit margins. For one-to-one products, it is clear that SMEs will usually not pay the full cost.
6. A commitment to measurement: while the wider monitoring and evaluation system is still under development, measurement of performance with respect to financial information is at the heart of operations.
7. Making the organisation a priority: assisted by considerable and long-term external support, institutional development - not just products - has always been a key aspect of EGF development.

### **5.3 Issues**

While EGF's performance is underpinned by the above positive factors - potential lessons for other BDS organisations - there are also basic aspects of their experience which raise fundamental questions about BDS and support for BDS.

#### Can BDS organisations be developed without creating an unsustainable cost base?

While EGF has developed generally in a business-like way, its cost structure is not that of a for-profit business. Essentially, too many resources are currently not fee-earning. The (relatively expensive) organisational capacity-development process may thus take EGF away from the SMEs whom they aspire to being close to and undermine the possibility of achieving improved financial sustainability. Among the possible reasons for this situation are:

- (1) that EGF needs to have additional capacity to serve both donors and its SME clients; and
- (2) that assistance from donors guides EGF towards development as a mirror image of a BDS agency from an industrialised economy - competent but perhaps out-of-place in the market conditions of a low-income developing economy, a parallel structure sustained primarily by external finance.

#### Can demand-led BDS organisations maintain an SME focus?

An organisation such as EGF, driven by the need to enhance revenues to cover a comparatively high overhead base, will obviously seek to work with clients with the most purchasing power where potentially higher margins can be achieved. In a market situation such as that of Ghana and more widely in Africa, where other (donor-supported) agencies are active, and opportunities may also exist in sector-focused programmes, there are strong pressures on BDS organisations to reduce the proportion of their portfolio which is delivered to SMEs directly.

#### How can more “natural” market conditions be created for BDS?

Unlike microfinance where there is growing agreement that best practice requires minimal delivery subsidy, in BDS many products are subsidised heavily, a practice common in industrialised nations. This is especially the case for one-to-one products (such as counselling and consultancy) where direct cost recovery rates are low and the prospects of them emerging as sustainable products for delivery seem low. The degree to which current mismatches in supply and demand are reduced or strengthened by subsidies is a moot point. However, the overarching challenge for donor agencies is to intervene to create conditions where SME demands guide BDS organisations.

#### **References**

- 1) Committee of Donor Agencies for Small Enterprise Development (1998); *Business Development Services for SMEs: Preliminary Guidelines for Donor-Funded Interventions*
- 2) Durham University Business School, Small Business Centre (1990); *Managing Small Business Growth: A Guide for Trainers*
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## **APPENDIX I: The Ghanaian Economic Context**

EGF's development since 1990 has occurred within a context of varying fortunes for the Ghanaian economy. In the early 1990s, Ghana was regarded as a leading example in Africa of an economy undergoing successful structural reform. Growth rates increased to 3% per annum in the 1980s to 4.3% between 1990 and 1995; significant steps were taken to liberalise the economy including the establishment of Ashanti Goldfields - the only indigenous African company listed on the New York Stock Exchange; and the private sector in general and small enterprises in particular were regarded as the engines of economic development. However, since the mid-1990s, the climate for business has deteriorated and for the last 2 years has been very difficult.

- Following a period of excessive government spending, inflation increased to 74% in 1995 and - despite tight monetary measures - is still, according to most independent commentators, around 25-30%. There seems little chance that the government will reach its target of an inflation rate of 9.5% by the end of 1998.
- Moreover the government's anti-inflation strategy has relied heavily on high real interest rates rather than reducing spending. Interest rates are over 40% in nominal terms (10-15% in real terms). The government is committed to reducing the share of GDP accounted for by public spending from 28.5 % to 25% but in the run-up to an election there are widespread doubts over their capacity to deliver on this promise.
- As a consequence of high interest rates and the availability of alternative low-risk investment options such as treasury bonds with a return of 40%., private investment has been squeezed. Credit, where available, is expensive. Private investment accounts for only 4.5% of GDP; for Ghana to achieve its target of "middle-income" status by 2020, this needs to reach 20%.
- Investment in manufacturing - regarded widely as the country's engine of growth - has been especially affected. Only 10% of GDP is accounted for by manufacturing, less than the figure of 20 years ago.
- In the context of continuing high inflation, the cedi has devalued by only around 8% in the last year. As a consequence, businesses seeking to export have been faced with an increasingly uncompetitive exchange rate.
- 1998 has also witnessed severe shortages of electrical power throughout the country causing disruption to business and many plant closures. Certainly, in the medium-term, the price of electrical power to business will increase substantially.

Overall, while the general spirit of enterprise and the opportunities created by openness is still encouraging for business generally, the current economic climate for EGF's clients is harsh. Moreover, this clearly impinges on the type of products which EGF can develop and deliver and the prices which they can charge.

### **APPENDIX III: Qualitative changes in SMEs resulting from EGF inputs**

At a more qualitative, anecdotal level, there are fewer problems of attribution. Some brief examples serve to illustrate the kind of changes which EGF products can generate:

1. A BESO VA has undertaken two consultancy missions to a printing company - Buck Press - in Accra which was experiencing a high wastage problem in its production process. Through a process of production staff training and purchase of specialised equipment a number of significant improvements have taken place:
  - quality has improved; rejects which used to be 50% of production have now been eliminated
  - a re-organisation of management team has resulted in a new Production Manager and Quality Assurance Manager
  - profit margins have increased substantially
  - at least two new large orders have been secured, one to print the ballot papers for the government elections in Liberia where an award was given for quality and timeliness
2. A cold storage company expanding into a much bigger facility has only a crude book-keeping system and feared that this would be inadequate in situation of more transactions. Through the CABS product, a book-keeper was employed and trained over a period several months and a new system introduced. Consequently, even with significantly higher volumes, tight financial control has been maintained and profits increased. The owner-manager is also going to keep the accountant's services at full cost.
3. One BESO VA has twice worked with the Hillcrest Hotel. The focus of his inputs has been chiefly been on controls and systems. The hotel has maintained its market leadership in the region and has consistently added to the facilities on offer, including business services, gymnasium and swimming pool. Now the hotel owner-manager and the BESO VA are collaborating in a new joint venture company and since invested personally in a new joint venture - an eight-room guest house in a different location.
4. Advice from a BESO VA in a poultry farm focused on improving feeds, training and hygiene and helped sales to increase by 70% in two years.