SME Cookbook

A reference handbook for the support and development of small businesses.

People in Need, Czech Republic

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1. INTRODUCTION

The development of markets and support of the private sector are among the common activities of development programs, and can be found in many projects implemented by People in Need (PIN). Such activities aim to have the same objectives as the Sustainable Development Goals (SDG)[1] promoted by the UN, especially those which target an end to poverty, inclusive and sustainable economic growth and resilient infrastructure; and sustainable industrialization and innovation. More specifically, such projects seek to improve the livelihoods of people in vulnerable groups, increase access to decent work and employment; and introduce innovative products with the potential of enhancing wellbeing within society.

This paper focuses on the provision of direct support to small and medium enterprises (SME) and its technical aspects. Its main purpose is to unify the way in which some common activities are conducted by PIN, to extract key lessons learned from PIN's experience, and to provide information on how to make such activities more effective and sustainable. The paper discusses the different options for programming and the reasoning behind each approach, and points out the advantages and disadvantages of common activities. The guide aims to:

→ Improve an understanding of SMEs, how they operate and what they need,

→ Provide inspiration and assistance with project planning and proposal writing,

→ Share practical guidance, information and lessons learned on the implementation of activities,

→ Propose new methods for the monitoring and evaluation of small enterprises.

→

The guide is not intended to be read from beginning to end, but is rather to be **used when specific information or guidance is needed on a particular topic**. The title should encourage this approach to using this resource. Chapter 2 describes the general mechanisms of how businesses function, how they differ from each other, and what their common struggles are. Chapter 3 should help those who are preparing a new project or implementing preparatory activities. Chapters 4 to 6 are regarding direct assistance to SMEs and enlisting the most common options of support. Chapter 7 focuses on the difficulties in being able to measure the impact and performance of an enterprise, and suggests additional methods which go beyond the generally used indicators. Finally, chapter 8 contains the list of terms and abbreviations with definitions, and how they are understood in this document.

The guide incorporates the experience of PIN's field staff and technical advisors from the Knowledge and Learning Department.

READING TIPS:

→ Feel free to **skip between chapters**, and pick out what is relevant to you,

→ Do not consider the guide as a textbook for essential learning, but use it mainly when looking for specific solutions, or out of general interest in certain topics,

→ Check **links and references** when more detailed information is needed,

→ Do not miss the **annexes enclosed in the ZIP file**, containing tools which may become handy for implementation or monitoring,

→ Use the **Glossary** (chapter 9), whenever you meet an unclear term or abbreviation.

In the period during which this guide was written, PIN was transitioning its programming to **Market System Development (MSD)** (https://beamexchange.org/market-systems/video/), due to existing evidence showing that this approach can achieve greater sustainability and scale of impacts. Although it may create the impression that "**direct activities**" (e.g. grant or equipment provision, trainings, etc.) are becoming obsolete, they still **are and will be used by many projects**. This is because, first, projects using MSD cannot always purely follow the theory and for practical reasons are often complemented by direct interventions, such as when

1 United Nations: Resolution adopted by the General Assembly on 25 September 2015; http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E

working in challenging or conflict-affected contexts. Secondly, because MSD and other facilitative approaches are more demanding in terms of time-frame, expertise, and flexibility, which cannot be always granted by donors. Therefore, MSD may not be applicable to all possible circumstances or donors' instruments. However, the rule of thumb should be, especially in the development context, to use the MSD approach whenever possible, and use direct activities only when there are serious obstacles or reasons (e.g. in short term economic recovery projects). This guide is not about MSD methodology, which is already well described in other available documents (http://msd.peopleinneed.cz).

The teams working on business or markets related projects may sometimes encounter different forms of exploitation (e.g. child labor, corruption, or exploitation of laborers based on race or gender). By all means, PIN has to stick to its policies: https://elo.pinf.cz/web-CZE/?useSSO=true#/archive/(60C96154-502A-1183-E45B-02BAB2A1E088)/

2. HOW BUSINESSES WORK

The enterprise is an entity that **creates value** for its owner(s), for society, the local or global economy, but **primarily for the customers**. The customers decide how big a value is created by purchasing the products from the enterprise for money, transforming it into **revenue**.

> HOW BUSINESS CREATES VALUE
>
> **A restaurant purchases raw meat and vegetables and turns it into a fine dish. The difference between the price paid by the customer and the costs of all used raw material is the value created directly by the restaurant. A part of this value is further transferred into salaries of cooks and waiters, profit to the owner, taxes and fees paid to government and municipality. An additional, unmeasurable value is social in nature, as the restaurant provides not only livelihoods to its employees, but also, for example, a space where community members can meet, enjoy fast and affordable lunch menus, or the restaurant can donate unwanted food to neighboring animal shelters.**

If the value paid by customers is lower than the expenses needed to create the product, the enterprise cannot survive and will go bankrupt. The company inputs can be either owned or outsourced, but their value can be given a monetary value and this creates **costs**. When the revenue is higher than the costs, the enterprise is prosperous and the difference is called the **profit**. On the contrary, when the revenue is lower than the costs, the difference is called a **loss**.

$$\textit{profit (or loss) = revenue - costs}$$

The profit, revenue and costs are measured over a certain period of time. Therefore, they should not be considered in terms of volumes of cash alone, but also in terms of the speed of cash flow. As there is a relatively constant outflow of some costs (e.g. salaries, rents, regular fees, etc.), it is the **pace of sales** which often decides how big the profit is. Being profitable, from a long-term perspective, is not only the **purpose** of any enterprise, but it is the **fundamental condition of its survival**. Continuous losses invariably have to be covered by external funding, which may gradually lose justification, as these are only provided with a view to enabling the enterprise to create profit.

The value paid by customers materializes as a **product or service**. In marketing, it is common to include the concept of ‘a service’ when speaking about ‘a product’ (e.g. financial or insurance products) and it should be understood in the same way in this document. When the difference is important, both terms will be used.

A successful business has a tendency to grow and growth is manifested by increasing revenue. Stagnation is usually the first sign of decline. To ensure profitability and growth, the enterprise needs an effective **business model,** which is a planned structure, describing how the business makes money and explaining how the value is delivered to customers at an appropriate cost.[2] At the core of a business model are three fundamental components: The **1. Value Proposition** explaining, why the **2. Target Customers** should solve his/her **3. Problem** (need or desire) by purchasing the product. When this triangle is valid, potent and also applicable, it generates **sufficient customer demand**, sometimes called the **market fit**.

> **The Business model is a structure describing how an enterprise operates and creates profit. Small retail shops, supermarkets, vending machines or online e-shops are doing the same or similar businesses (selling food), but using very different business models. They target different segments of the consumer population, have different promotion approaches, pricing strategies, delivery options, or use different payment methods.**

An effective business model can only be built around the market fit and all its components (e.g. product, price, sales channels, advertising, etc.) have to relate directly to this triangle. For example, the product has to fulfill what was promised in the value proposition; the price has to be affordable for target customers and worth it to solve their problem; the target customers must be able to access the sales channels and be reachable by an advertisement.

2 Noah Parsons: What Is a Business Model? Business Models Explained; https://articles.bplans.com/what-is-a-business-model-business-models-explained/

Finding the best composition rarely occurs at first try. To **optimize the business model**, the entrepreneurs have to be adaptable, not afraid of reasonable risks and experiments, and most of all they have to **constantly validate everything with customers**. Based on the business model, the **financial plan** should be created to prove that it can be profitable with these factors in place. In the beginning, the plan for revenues is usually that they should reach the **break-even point** (the moment when revenues are equal to costs) within a reasonable period of time.

The businesses which already have functional business models, usually want to scale up and increase their profit. The profit from product sales consists of only two quantities: an average **profit per unit** (margin) and the **volume of sold units.** Any profit-increasing strategy must improve at least one of these:

*profit = profit per unit * volume*

Both quantities have their own constraints and cannot be increased indefinitely. The volume is limited by the **capacity of production** and by the capacity of **market demand**. The profit per unit is decreased by **costs** and limited by the **will of customers** to pay a higher price.
The following table shows where improvements can be made to raise the profits:

	KEY FACTORS	WHAT IS MOST LIMITING
VOLUME	Production Capacity	Space Technology Equipment/Machinery
	Sales Capacity	Market size Advertising Sales Channels
MARGINS	Quality & Uniqueness	Know-how & Technology Equipment/Machinery Quality of Supplies Marketing Management
	Costs	Volume Logistics Efficiency
	Position in supply chain	

Business is **multidisciplinary** and **practical**. There is no business school guaranteeing its graduates ultimate success in entrepreneurship. The **three core skills** necessary to succeed and make the venture functional and profitable are the management, the marketing; and specific knowledge or skill in the industry where the company operates. In theory, any of these three skills can be outsourced, but all of them are so interconnected with everything related to company operations that a deficiency in any one of them may lead the business to eventual failure.

Management involves organizing and coordinating business activities in order to achieve defined objectives.[3] It is performed by doing five basic activities: **planning, organizing, motivating, decision making and controlling**. Despite common belief, **marketing** does not equal advertising, which is just one of many activities within it. The best definition describes marketing as the **understanding and satisfaction of customer needs**. Marketing should have an impact on everything in business, including the product, sales channels, customer service, price and even human resources. Its main power, however, lies in an ongoing exploration of customer needs and desires. **Vocational and technical skills** are no less important because they directly influence the created value and are considered as a part of company capital. It may look like certain businesses do not really need any **know-how**, but that is doubtful. For example, even a vendor in a small retail store is expected to give advice to customers about its assortment of goods.

2.1 CLASSIFICATION OF BUSINESSES

Enterprises can be categorized in many different ways. For example, they can be sorted by **industry** (agriculture, trade, transportation, etc.), **ownership** (public or private) or by **legal form**. Legal forms[4] are defined in the legislation of every particular country and the way they are organized and operated is the subject of various conditions and restrictions. But in general, most legislation follows a similar pattern, allowing the doing of business to **sole proprietors**, companies or partnerships with **limited liability** (Ltd. or LLC), **joint-stock companies** (JSC), **cooperatives** and **government-owned companies**. Besides these, there is usually an array of different partnerships and other arrangements (including non-profit oriented organizations, like foundations and civil society organizations (CSO)), which might be allowed to perform economic activities.

The abbreviations **B2C** and **B2B** are used to distinguish whether the products are sold to end-users (B2C, business to consumer) or to other companies (B2B, business to business). More rarely are the terms B2G (business to government) or B2E (business to employee) used.

2.1.1 SIZE

The vast majority of development projects officially target the micro, small and medium-sized enterprises (MSME). The size distinction is made with reference to the **number of employees** and **yearly turnover**, while the classification **depends on the country in question's definition**. Originally only three groups of enterprise were defined: small, medium and large. Only more recently were micro-enterprises defined separately.[5] To ensure continuity, the micro-enterprises are still generally included in the small category.

The following table, where the thresholds follow the European Union (EU) definition,[6] serves as a quick orientation. A third criterion, 'Total Assets' (total value or resources owned by an enterprise), is also often considered. It has the same or a similar ceiling to that of turnover. But without access to the financial reports (balance sheets), this information is not easily available and therefore it

Photo © People in Need

3 WebFinance Inc.: Online Business Dictionary; http://www.businessdictionary.com/definition/management.html

4 Wikipedia: List of legal entity types per country; https://en.wikipedia.org/wiki/List_of_legal_entity_types_by_country

5 Term was probably first used by Muhammad Yunus in 1976; Wikipedia: https://en.wikipedia.org/wiki/Micro-enterprise

6 EC: User guide to the SME Definition, 2016; https://ec.europa.eu/regional_policy/sources/conferences/state-aid/sme/smedefinitionguide_en.pdf

is not usually considered in the development context. Some countries also may have different classifications for different industries.

The category an enterprise falls into is determined **by the higher of its reached criteria** (e.g. 8 employees with a 60m EUR turnover is a large enterprise, while 60 employees with an 8,000 EUR turnover is a medium enterprise).

		EMPLOYEES (EU)		TURNOVER (EU)	
ID	CATEGORY	MIN	MAX	MIN	MAX
M	Micro	-	9	-	2m EUR
S	Small	-/10	49	-/2m EUR	10m EUR
M	Medium	50	249	10m EUR	50m EUR
L	Large	250	-	50m EUR	-

For more accurate sorting (e.g. to determine eligibility for funding), it is recommended to use the **classification category given by the country** where the project is taking a place. Even in the EU, the national criteria may differ.

2.1.2 SECTOR

An interesting consideration is the distinction between high-level sectors. Three are defined here:

- → **Primary sector**: includes companies harvesting natural products,
- → **Secondary sector**: consists of processing, manufacturing and construction companies,
- → **Tertiary sector**: contains companies providing services.[7]

Firms in the same sectors may share some similarities, for example in terms of complexity, set-up costs, required technologies or marketing. They often also have similar profit-making strategies.

2.1.3 MISSION

The organizations are generally divided into governmental, **non-profit** (NPO or non-governmental/NGO)[8] and **for-profit**. But in many countries, NPO/NGOs are allowed to perform economic activities (and sometimes even to generate a profit) and for-profit organizations are very often involved in social or other activities which benefit a community. In fact, nowadays it would be very hard to find a big corporation with the declared mission of "gathering as much profit as possible" and even the smallest entrepreneurs do not always start a business for monetary purposes alone. Rather, they are often keen on being independent or want to turn a hobby into a profession. As was said at the beginning, companies are creating value not only for the owners and customers but also for the state (taxes) or community (e.g. extending the infrastructure, providing employment). Sometimes the value is indirect and unwitting, but sometimes the impact is intentional and even planned in statutory or strategic documents. Social objectives are often a part of **Corporate Social Responsibility** (CSR),[9] which is the responsibility of enterprises for their impact on society[10] or the environment.

Those people who want to achieve a social good, usually do not launch a business but rather found an NGO. But NGOs need external funds, which are not always and easily accessible, and that makes them dependent on donors, who may have a completely different perspective on how the social objectives should be reached. The alternative is in organizations which try to blend the

7 Despite several attempts to define the quaternary sector none were so far universally accepted. In a different context, the quaternary sector may be understood as a public sector consisting of those companies selling intellectual property (e.g. private education) or even as a sector with companies selling an experience (as a specific form of service).

8 Carnegie Mellon University: https://www.cmu.edu/career/documents/industry-guides/NGOs%20and%20NPOs.pdf

9 UNIDO: What Is CSR?; https://www.unido.org/our-focus/advancing-economic-competitiveness/competitive-trade-capacities-and-corporate-responsibility/corporate-social-responsibility-market-integration/what-csr

10 The European Commission: A renewed EU strategy 2011-14 for Corporate Social Responsibility; https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52011DC0681

business approach with social impact. The below comparison shows what options are available:

LEGAL FORM	SOURCE OF INCOME		PRIORITIES	CREATED VALUE FOR	
	TRADE	DONATIONS		PROFIT	SOCIAL IMPACT
Private Business	Mainly		Business	Shareholders	CSR
Cooperative	Mainly	Subventions	Business	Members	Members
Social Enterprise	Mostly	Often	Balanced	Reinvesting	Various
Sheltered Workshop	Partially	Mostly	Impact	Rarely	Jobs, Training & Therapy
NPO/NGO		Mainly	Impact		Various

The **cooperatives** basically operate as a normal business, but their profit is distributed to a wider base of members. That, together with a high level of **ownership,** creates a way to improve things like the social and economic situation of small farmers. The cooperatives mainly benefit from the sharing of property and equipment. Therefore, it is no surprise that most of them operate in the primary sector, especially in agriculture, and their **profit strategy is usually based on volume of production**, which might be increased with every new member. Even if cooperatives are established to resell the member's products, they have a stronger negotiating position thanks to a larger volume of production.[11] Agriculture is often supported by state subventions, but most of the income should be created from trade. Cooperatives which are involved in continuous grant hunting are usually unsustainable and it is very questionable whether they should be financially supported without the introduction of a restructured business model.

Furthermore, **social enterprises** are supposed to operate on business principles. The choice of their social objectives is not limited to employment and ownership and they can be any of the legal entities. The biggest challenge they have to deal with is a **balance between business needs and social objectives.** However, **financial sustainability should come first and foremost** as the social impact is supposed to be funded from profit. If it is not, the enterprise ceases to be an enterprise and becomes a grant-driven organization, which actually wastes funding on unprof-

11 https://resources.peopleinneed.cz/documents/459-good-guide-practice1-absolut-final-web2.pdf, page 18


Photo © Pavel Bělíček

itable business. Social enterprises are often founded by NGOs hoping for less dependence on donors, but many of them are trying to run them as a non-profit project, and are consequently getting into trouble as soon as the seed money is spent. Another big issue is with there being too much focus on production instead of trade. In the worst common case, handicraft workshops are created without any strategy on how to generate a profit. On the other hand, those who can avoid all these traps are, at the end, rewarded with an organization in the form of a social value-creating machine, independent of external funding.

Handicrafts are more typical for **sheltered workshops**, which may seem to be obsolete compared to social enterprises, but still fill a gap. Despite them usually only being able to create part-time and low-paid jobs, they may provide **work therapy** and vocational training to most vulnerable groups of people – especially those who are impossible to employ, even part-time, under standard working conditions. However, sheltered workshops should **not be considered as real enterprises** (but rather as a social service), and their **support is not a recommended livelihoods approach for international NGOs,** as they rarely create a profit and whatever income they get only serves **to reduce their need to find funding**.

BUSINESS IS ONLY FOR PROFIT

Yes, profit is important for every business. However, it is not the sole and ultimate goal, but rather a basic precondition of survival. Not everybody starts a business for money alone. People often just want to do what they like, find self-fulfillment, be independent or solve the particular problem which bothers them and their nearest community (like "Why isn't there a grocery shop in the north of our village?"). Most of all, the business which exists only to make its owner rich may get soon into trouble, as the primary purpose of any enterprise is to serve its customers. And if this is not happening, there is no profit. People may be dreaming about becoming wealthy, but 99% of success is redeemed by very hard work, which is usually not what dreams are about.

2.2 BUSINESS LIFE CYCLE

There is no full agreement on the topic, but most experts believe that enterprises go through four phases in their lifecycles.

1. **Start-up**: The initial, but most difficult phase, when a company is dealing with high uncertainty and **looking for a profitable business model**. The revenue is low and the business is not profitable yet.
2. **Growth**: When the model is found and optimized, **revenues are growing** and a company is finally making a **profit,** because during growth the **break-even point** is finally crossed. The business increases its market share until it reaches its own limits. It may deal with various hurdles in regards to operations, human resources, logistics or distribution, which emerge from expansion.
3. **Maturity**: The growth of revenue may slow down, stagnate or oscillate. The break-even point was already reached in the previous phase and business is profitable in the long term. The operations are **stable** and the focus moves on to keeping pace with the competition. However, in this phase, it is necessary to start planning **improvements**, for example how to reach **new markets**, introduce **new** or improved older **products** to start the growth again, and avoid a future decline.
4. **Decline**: Revenues start to drop, slowly at the beginning but more rapidly later. The market is losing interest in the product and significant change is a must. Because of increased operational costs introduced during growth and maturity, the **profit may soon vanish**. Some of the entrepreneurs will start to decrease expenses (e.g. dismiss the staff), but this is a short-term solution. It is then necessary to change the business model or look for new products, but it also then becomes a race against time, as that should have already been done in the previous phase.

According to some theories, the zero phase, the **seed or ideation,**[12] should be added to the list. In this document the ideation is a part of the start-up phase; nevertheless, it takes place even before the enterprise is legally incorporated. While the support of enterprises in the ideation phase can still be meaningful (e.g. young people with creative ideas), the program should stay light and focus

12 https://www.business2community.com/strategy/stages-business-lifecycle-challenges-0798879

more on capacity building without high expenses, as there is no commitment yet and very high uncertainty of results.

In an ideal scenario, the cycle goes from the first to the third stage, followed by the second and third phase again in a cycle. But in reality, many companies never conquer the first phase, or growth stops before reaching the break-even point. In most cases, this occurs because of failure in the effort to find a profitable business model before the cash is exhausted.

90% OF STARTUPS FAIL

This myth is often spread by business trainers and unfortunately also mentioned in several Lean Startup books. It emerged from experience in the technological sector and with regard to the IT start-ups popular among specific venture investors (who at certain times did not invest rationally). To say how many businesses fail is impossible without determining a time horizon. If we take five years, which is a really long time for a business to still be considered as a start-up, the ratio of those that fail would be about 55%. More figures can be found in the Survival Rate chapter.

Understanding the business life cycle helps to **recognize the reasons** for why and when an enterprise seeks external support (especially funding). It includes these instances:

→ **To launch a business (seed funding)** – during the start-up phase, when there is no or very low income and an investment is necessary to first create a viable business model and optimize it; and later to invest in equipment, staff, promotion and sales channels.

→ **To scale it up** – when the business model has been identified, the funding and know-how may help **to grow** the enterprise much **faster**. The enterprise can be in the growth, maturity or even in the early decline stage, but it is almost or fully sustainable and has a **viable plan** on how to increase revenues.

→ **To be saved from bankruptcy** – no matter whether or not the entrepreneurs can recognize the real reasons for their failure, they are usually refusing to give up and believe that the business can be saved with cash. This example may occur in the start-up phase or during a decline.

→ **Because grants are the main source of their income** – basically these businesses are staying in the start-up stage for an extensive period of time, although they may have found their business model and this is one based on grants acquisition.

→ **To capitalize on the success** and eventually withdraw (**exit strategy**) – this approach is nowadays frequently taken during the growth or even start-up phase (especially in fast-growing sectors), but it should belong to the maturity phase. This is something which occurs in the for-profit arena only.

An enterprise can **benefit** from a development intervention in the first two instances, but it's essential **to distinguish** one from the other and provide support which takes its specific conditions into consideration.

Saving businesses from bankruptcy is very risky and often unsuccessful. This is only possible when the owners are fully committed to cooperation and willing to undergo extensive changes. But it is more likely that they will already be exhausted due to continuous failure and, more challenging, is that they are unwilling to give up what they have already achieved, even if it clearly does not work. An intervention should be considered only in very special situations (e.g. to save an important social service provided by the company), **never on a mass or bulk scale**; and it should start with an in-depth analysis of the business situation before any commitment is made.

The reason given in the fourth bullet point above, is connected with businesses which rely primarily on external support. These are also **threatened with bankruptcy**, but as they are able to cover the costs using donor money, they can continue to survive for many years. Supporting any purely private company or cooperative in this category would probably only lead to a deepening of grant dependence with a very low chance of making the business sustainable. Support, in this instance, could only make sense for **social enterprises**, which often get into this position because of the non-profit approach inherited from the

NGO founders. But again, strong commitment and the will to restructure are the main prerequisites of success, and analysis has to be the first step. Unfortunately, unsustainable businesses threatened by bankruptcy constitute a significant portion of the SMEs which take part in SME development projects, and this negatively affects the projects' effectiveness.

HOW TO SPOT A GRANT-EATER. IF A BUSINESS MEETS ALL THE FOLLOWING CRITERIA, IT IS VERY LIKELY TO BE A GRANT-EATER

→ It has existed for 2 or more years

→ It has received at least 2 independent grants or donations in the past 3 years (and is now applying for third)

→ It has not shown any profit in this period and the revenue is not growing significantly

→ In extreme cases, sometimes even the revenue is not sufficient to cover key costs (salaries, rents, utilities).

The last reason ('exit strategy' in bullet points above) for an enterprise to seek external financial assistance, has no relation to development aid and it would be unlikely to find an enterprise in this category among the project or grant applicants.

MOTIVATION	CHARACTERISTICS	GOAL	NEEDS	INVESTMENT INTO
START-UP	Less than 1 year old Low revenues	Create a Business Model Create profit	Understanding customers Financial plan Go to market strategy	Market research Prototyping Testing
TO GROW	Stable or increasing revenues Low productivity	Optimize business model Increase revenues	Effective operations Effective distribution Advertising	Equipment Administration Human resources Advertising
TO SURVIVE	More than 1 year old Low or decreasing revenues Unsustainable (Grant dependency)	Review business model Create profit (again)	Keep what works Abandon what does not work New markets, products or improvements Different marketing model	Market research Testing Restructure

2.3 THE TYPICAL STRUGGLES OF START-UPS AND SMALL BUSINESSES

Enterprises are very diverse and may face a variety of obstacles and challenges. However, some of the problems are typical and are seen time and again over the many SME support projects. This list summarizes the most common of them:

1. IN BUSINESS PLANNING

Focus on production instead of sales

There is nothing wrong with people who start a business in a field where they have the most professional skills or which happens to be their hobby. To the contrary – it can be a big advantage. But sometimes, they spend all their time planning (or even building) the production, organization, design or complex product features, with little or no consideration of the customers' perspective. As a result, after months or years of intensive work they end up with magnificent products, which nobody wants to buy. Unfortunately, for most people it is easier to imagine how to produce something than how to sell it; therefore, they only focus on the manufacturing side of things in their business plans. It is one of the **objectives of the business training** to get them on the right track.

Sales and marketing have to be planned from the early stages and have to be built on **market research**. Production has to be thought out as well, especially with regard to costs calculation, but it should not become the sole focus.

Business plan (BP) written to win the grant

One of the disadvantages of the projects which provide small grants and business training, is that entrepreneurs are focused on how to formally prepare the BP and win an award, instead of realistically planning the business. They **waste time** polishing sentences and presenting exalted statements, when they should be talking to customers and thinking about how to meet their needs. Their BP look good and they are awarded with the grants, but shortly thereafter, they realize the plan does not work. And then an even worse mistake may occur when they **stick to what was in the BP** and do not make the necessary changes, because a) the BP was approved and awarded by experienced foreign experts, so grantees believe it has to be correct and b) the conditions of the grant contract are too tight, for example disallowing them from purchasing a different machine to the one in the BP. In the end, more than 2/3 of people will put the BP in a drawer just after they receive a donation and never read it again, despite the fact that it is supposed to be a **live document requiring continuous review**.

Lack of BP ownership

Some implementing organizations equip the businesses with a **pre-prepared BP** or hire **external consultants** to create it. In such a case, there is no BP ownership and no deep understanding assured. These BPs rarely work because experts will be hard-pressed to understand the market requirements in the few short weeks of their consultancy. A pre-prepared BP can only be useful if it has already been successfully piloted and verified in local conditions (e.g. franchises).

For programs which intend to support start-ups or micro-enterprises, **the business plans should be either completely avoided** (and replaced by approaches mentioned later in the chapter "Business planning/development training") or **at least simplified to the minimal level**, allowing the participants to express themselves in bullet points rather than narratives. BPs are generally better suited to medium and large enterprises, although even the biggest corporations are now using the BMC tool and the Lean Startup approach. Unfortunately, the banks, public institutions and most of the grant-issuing donors remain conservative and still require a standardized BP in a narrative form.

Insufficient financial planning

The last step in business planning is budgeting and financial planning, where all other components come together in a monetary value. It is not unusual to see a submitted BP with no **projection of income,** or a BP containing only a "shopping list" of what will be purchased with grant money instead of a proper budget. Only the financial plan can confirm that it is **possible to make a business profitable** and it helps to uncover (and repair) most of the **leaks** in the whole plan. How could the **price of a product** be determined, not knowing all operational costs?

The budget always has to **distinguish the investment from recurring operational costs** and contain **at least a calculation for the break-even point**. The BP templates often include a table for a monthly-based plan (cash flow), bringing the user's attention to the **seasonal fluctuations** which should always be considered, but the template can be too difficult or even confusing for less-experienced people if not properly **explained**. What is often missing are **buffers** – consideration of the **depreciation** of equipment (which will sooner or later wear out and will need a replacement) – along with **advertising costs,** which are often underestimated. The foreseen quantity of products to be sold has to be crosschecked against the production capacity and market size, leaving a substantial space for growth.

2. AFTER THE LAUNCH OF A BUSINESS

Low sales

Low sales in the first months of any venture are perfectly normal and anticipated. It should be a time for trying and experimenting to see if the business model is functional. But if it lasts too long and the acquisition of new customers remains challenging, it is necessary to get back to foundations and **fully review** the business model. There can be a wide range of reasons why nothing is going well, but when no realistic improvement can be identified, then the model is poor or based on wrong assumptions.

The enterprises which **underestimated the market research or which haven't found a market fit**, will almost certainly find themselves in such a situation. Unfortunately, the problem becomes imminent at the moment when initial **enthusiasm fades.** The worst thing to do at this stage, is to sink into lethargy, going about business as normal and succumbing to false hopes. The only solution is to **get back to customers** to find the source of their indifference, and restructure the model and business accordingly.

Insufficient technical/professional skills

Not everyone launching a venture has all the professional skills to run an independent business in their industry. Some people can learn quickly, some rely on the support of relatives or friends. Many of them commit **severe mistakes**, which can even lead to **early failure**. Most typical is the acquisition of the **wrong equipment** and money wasted on unnecessary things. Especially when second-hand tools, used machines or even animals are purchased, the price is negotiated with the seller possibly taking advantage of their lack of experience.

The small grants should be preceded by verification of professional skills (e.g. by requiring a CV). Also, extra support can be provided in case of expensive procurements to avoid problems. The grantee can receive advice or consultancy from a technical expert, or lawyer when the important agreements are prepared. Or s/he can be assisted directly during the purchase.

3. BEFORE OR DURING GROWTH

No or ineffective advertising

Advertising is probably the most underestimated aspect of business among most of the start-ups. On top of that, the traditional forms of promotion are quite expensive. But neither will the low-cost advertising (social networks, leaflets) be cost-effective if not properly **targeted and based on an effective value proposition**. Therefore, many start-ups give up on advertising after several expensive but ineffective attempts. The entrepreneurs should be warned about this difficulty and receive advice on cautious experimenting and **measurement of promotion efficiency** (costs per customer acquisition).

Underestimation of bookkeeping

In many countries, accounting is not mandatory by law for micro-enterprises, and even where it is, small entrepreneurs often pass all documents to an external accountant just before a tax deadline. Nobody should be forcing a small farmer to purchase a computer and expensive software, but even a farmer should **keep at least basic track of his sales and expenses**. The primary purpose of bookkeeping is not a calculation of taxes, but the general overview of the business finances. Not knowing if the business is actually profitable or not, or what the real sales and costs are, causes an entrepreneur to be incapable of **making any decision**. The enterprises should receive **the support only under the condition** (according to the signed contract) that they keep at least a basic standard of accounting; otherwise, their performance can hardly be monitored and evaluated.

Negative cash-flow

Negative cash-flow is often claimed to be the number one reason why SMEs fail, though some would argue otherwise. To maintain dignity people would rather say that bankruptcy was inevitable, because of a "lack of finances" than because "nobody wanted to buy my products". Whatever the explanation, such failures are occurring, and especially for those entrepreneurs who lack a **supportive enabling and regulatory environment** (private or family resources, access to credit, enforceability of law). The B2B and B2G businesses whose clients often pay invoices with long delays, and enterprises where it is customary to sell on credit (e.g. the author has observed a bakery with this issue in the Armenian countryside), are most at risk.

To prevent such a situation, the **financial plan** should make provision for this eventuality, as well as have sufficient **buffers** (reserves e.g. for unexpected expenses or small financial fluctuations). The dangers of negative cash-flow is also one of the reasons why every business should start to create **reserve funds** immediately after reaching the break-even point. If possible, some businesses can use **factoring**, which is a financial service, providing instant cash in exchange for invoices with long due dates.[13]

4. COMPETITION

In developing countries especially, two very extreme approaches to competition can be observed. Behind the first is this kind of thinking: "OK, my cousin has a shop with cell phones and he is making good money. Therefore, I'll do the same. The place next to him is free to rent." The issue is, as soon as he opens his shop next to his cousin, they will start to **share all the customers** who are looking for their products, as well as the revenues. The approach is part of a custom connected to the past, when city markets were organized on streets with the same assortment of goods, allowing people to find the right shop more quickly. At other times, it is just a result of competition for best spot.[14] But today, when the supply significantly exceeds the demand, this practice is against business logic and to the detriment of all involved. The customer also suffers as they can't find the shop they want in their neighborhood as they've all been concentrated in a different part of the city.

The second extreme is just the opposite. In some countries, many aspiring entrepreneurs are refusing to research the market, because it involves a presentation of their brilliant ideas and they fear someone will certainly **steal and copy them**. They would rather keep their products secret even from their potential customers. Yes, copying is a problem, but people copy only the most successful ideas, not everything they hear about. The competition will appear sooner or later, but should not be the concern of someone who has not yet started their business. On the contrary, having **feedback** on the idea is of crucial importance, especially before investing in it.

13 How it works in practice is explained, for example, at https://www.comcapfactoring.com/blog/how-does-invoice-factoring-work/. Factoring is a standard financial service, provided by many banks or specialized firms worldwide.

14 Sometimes (but not always) the businesses are forced to concentrate in "best spots" due to competitive pressure as explained in this video: https://www.ted.com/talks/jac_de_haan_why_do_competitors_open_their_stores_next_to_one_another

RISK-TAKING ATTITUDE AND MOTIVATION

People often believe that readiness to take risks is the necessary precondition to becoming a successful entrepreneur. It is connected with the idea of the "American dream" when someone gets rich basically overnight. Without doubt, such examples exist, but nobody pays attention to the fact that behind those few who are successful, there are hundreds of others who have tried the same and lost everything. Nowadays, immediate profit and short-term goals are preferred before long-lasting effort, cautiousness, and gradual improvement. Surprisingly, such a perspective is relatively new and just a few centuries ago, people had rather opposite beliefs. In the days when hunger was a common threat, those who wanted to survive had to spread the risks often at the expense of potential gains. Medieval farmers usually cultivated several small fields even a few kilometers distant from each other, and indigenous people are still doing that until today. From the perspective of logistics and productivity, spending most of the day traveling between different fields seems to be irrational. But in the case of pest attacks or natural disasters, having just one big plot can lead to not surviving the winter.[15]

NGO staff, especially those from different cultural contexts, can easily get the impression that people are demotivated or even lazy when staying indifferent to their proposals. But it should be understood that they are putting their livelihood at stake, while in contrast, the project team is risking one failed project. While their fears may be sometimes baseless, their caution is appropriate and fully reasonable. NGO workers, following the "do not harm" principle, should always assess in detail the risks from the beneficiary's perspective, try to mitigate them, discuss them and explain how to cope with them.

On the other hand, a certain level of risk taken by enterprises is always healthy, ensuring their commitment and making them act more quickly. Thus, trying to make all activities completely risk-free for them, will be again counterproductive although increasing their initial will to participate. Taking risks is also connected to the ability to use opportunities. While following all opportunities would quickly lead to the exhaustion of all resources and eventual failure, avoiding them all is equally devastating because it is impossible to score without a try.

The project staff should never lie to beneficiaries and never try to manipulate them. On the other hand, knowing how people usually think can help to avoid those obvious mistakes in the presentation of project aims, which might lead beneficiaries to not wanting to participate. The team should well understand the underlying motives of the behavior which it wants to change to make sure the new approach is beneficial in the long-term perspective and does not put anybody in potential danger. Also, the project should demonstrate preparedness to possible and relevant risks. Scaring people with highly improbable natural catastrophes will not help anything. While keeping the proven and universal principle of not giving empty promises and not creating false hopes, the possible outcomes should still be presented in full, but realistic detail. Telling farmers that investment in equipment and the complete change of practice will lead to a 10% increase of their yield is maybe a conservative and responsible approach, but it would barely be met with an enthusiastic response. Moreover, the desired results have to be presented in a tangible and visualizable way. People would better respond to the prospect of an additional $50 per month than to the promise of an undefined increase in their yield, or unspecified monthly saving.

Some livelihood projects may need to better understand and address people's behavior to reach an intended impact. For detailed guidance on how to do so, PIN's Behavior Change Toolkit is available at:

https://resources.peopleinneed.cz/documents/3-pin-2017-behaviour-change-toolkit-mail.pdf

Additional resources: https://www.behaviourchange.net/

15 Jared Diamond: The World Until Yesterday: What Can We Learn from Traditional Societies? (2012)

3. SME SUPPORT SCHEMES

Support of small enterprises is part of many development projects, sometimes as a core activity, as a single activity or as a few connected activities. To ensure its effectiveness, it is necessary to take a systemic approach and instead create a **program consisting of connected components all** directly targeting the identified needs. A single activity, for example, providing small grants only, or business skills training alone, is more or less a shot in the dark.

It is better to admit in the beginning that the success of any type of SME support fully depends on the program participants and neither the project manager nor the implementing organization has it fully in their hands. All they can do is **create good conditions** to increase the entrepreneurs' chances of succeeding. The range of support is somewhat limited to:

- → Providing them with useful information and know-how,
- → Enabling their access to markets, finances, skills and other necessary means,
- → Improving the business, legal and administrative environment, where they operate,
- → Motivating them,
- → Giving guidance, when they start to feel stranded.

Many projects presume that each SME is represented by a single person. In reality, many of them are family businesses and many others have more than one owner. For younger entrepreneurs especially, it is common to start a venture with at least one friend. Although it slightly increases the project costs and requirements on the organization, it is better to allow businesses to **participate in trainings as teams**. Even enterprises with a single owner should be allowed to bring an employee for the main training at least. A further advantage is that they can split their activities so that while one of the business partners is attending financial training, the other can focus on marketing. The teams' participation in the whole program:

- → Increases the cohesion during business planning,
- → Increases the ratio of successfully transferred knowledge,
- → Allows for brainstorming and division of labor during the practical exercises and tasks related to market research,
- → Allows substitution, when unexpected events occur.

3.1 PLANNING SME SUPPORT

The design of an effective program has to start with the definition of **clear objectives** together with the specified target group of **SMEs and their needs**. Unfortunately, the selection of program participants usually takes place during the implementation phase, therefore their needs can only be vaguely anticipated at the time the program is being designed. This constraint can be addressed through two policies:

- → The planned components should allow for sufficient **flexibility,** allowing more **tailored adjustments** in terms of time, budget and also the nature of provided support. For example, consultancy topics should not be specified in detail, and during implementation can be redirected to more pertinent themes for the venture, or to address topics the entrepreneur is more uncertain about (it could be a marketing as well as a technical skill),
- → The **target group of participants should be as narrow as possible** because it is more likely that similar businesses will face similar obstacles. To be taken into consideration are the **size and type of business, stage of development**, industry (or high-level sector) and also characteristics of the people involved, especially the **level of education, age, and economic situation**. It is not recommended to have one single program or training for both start-ups and existing enterprises.

The **goals and target group should match**. For example, if the project is tackling unemployment, it is better to support the scaling of successful businesses instead of launching start-ups with uncertain futures. On the other hand, if the goal is to diversify the market or introduce innovations, start-ups may be the best solution and young people with a higher level of education would be a better fit.

The **needs assessment and stakeholder analysis**, which are **mandatory components of project proposal preparation,** are best done with the Market System Assessment (or Rapid Market Assessment)[16] methodology, described by the MSD approach: https://resources.peopleinneed.cz/documents/359-sc-2015-operational-guide-making-the-markets-work-for-the-poor-.pdf

When these facilitative approaches cannot be applied, the assessments should at least include:

→ Target group characteristics,

→ Target group main constrains (in infrastructure, skills, supplies, etc.),

→ Local cultural habits (e.g. shopping on credit),

→ Supportive functions of the market necessary for the target businesses' operations and usually provided by private or public sectors (e.g. veterinary care, supplies, TVET, financing, etc.)

→ Laws and regulations which affect small businesses,

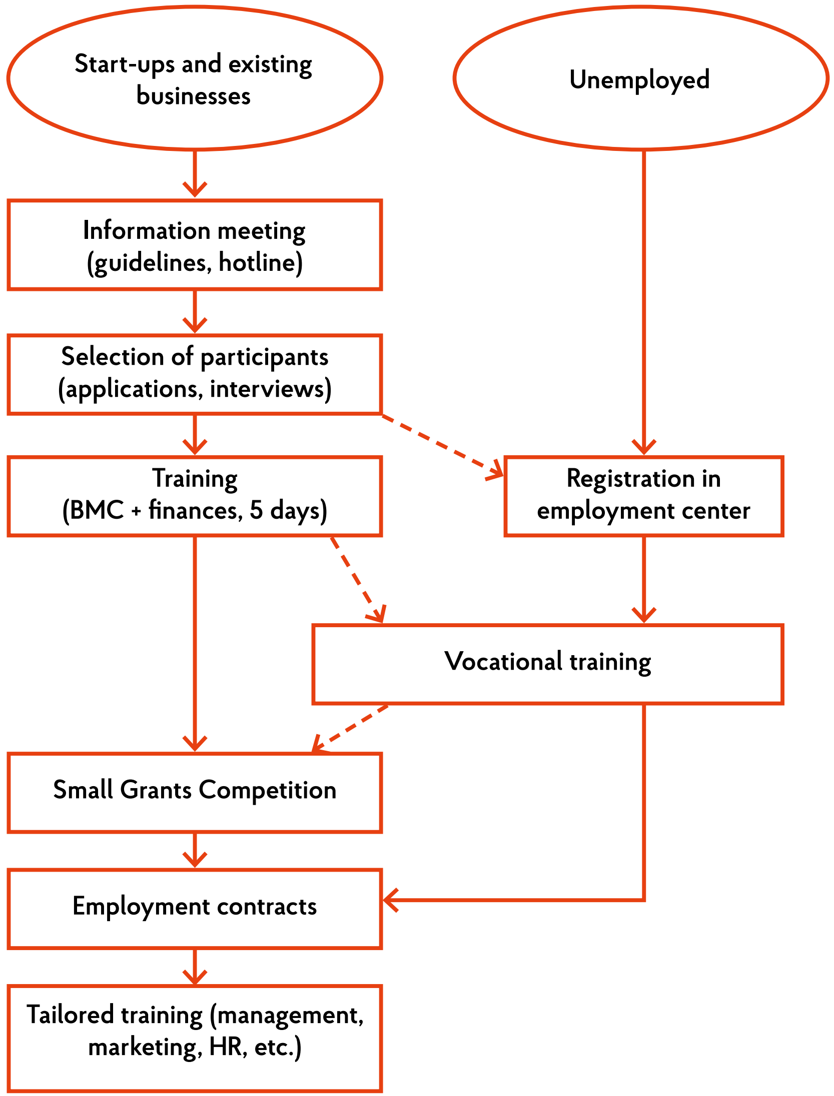
→ Other projects, government strategies, events and other support available to the target group and provided by the public or NGO sector.

The PIN Quality Standard Checklist on market assessments can provide good guidance:

https://elo.pinf.cz/web-CZE/#/archive/(8D4D5280-4DC0-2D5B-6CEC-00FAA1DD6B28)

It is better to avoid SME support programming in the areas, sectors or value chains, where massive support is already available, especially in the form of competitive or similar projects including grant support. Small grants especially are always connected with the **risk of market distortion** and creating **grant dependency**, which is multiplied when the grants are offered and promoted by a range of organizations. The grant's purpose is business stimulation or filling a gap where financial services are inadequate. It should never be understood as a standard and generally available tool.

Although there is a big range of activities which can be delivered to support SME development, it is better to choose only those most relevant and **avoid excessive complexity** of the project. Not only would this become hard to manage, but people need to focus on their business, not to waste time on endless capacity building. The next chapter contains examples of how the different components



16 ICRC: Rapid Assessment for Markets, 2014; https://resources.peopleinneed.cz/documents/175-icrc-002-4199.pdf

can match the target groups and project goals.

The project components should target the **constraints** discovered during the **Needs Assessment** (https://resources.peopleinneed.cz/documents/533-qsc-needs-assessments.pdf), and reasonably connect to each other. Good practice is to **draw a simple diagram** to reveal possible gaps and to ensure a common understanding of the procedure by everyone participating in the planning. The diagram will later be very useful for the implementation team. The illustrative example, shown in the picture, is from PIN Armenia. If the **grant competition** is part of the procedure, it is recommended that it be prepared in detail and its main characteristics and parameters be decided. Similarly, the training methodology and ideally training providers should be identified early, to prevent a poor-quality delivery.

As multiple components follow each other, the **time plan** is extremely important and should include sufficient **reserves** as well as a **period for monitoring**. It must take into account the possible **seasonal character** of supported enterprises, the participants' availability and a period when the intervention impact can be observed. There is no way in which activities conducted in August affect the yield and income of small farmers the same year (at least in the mild climate of the northern hemisphere).

The project implementation should not start before the **monitoring and evaluation plan is prepared**. The best practice is to have an indicator for each activity or even its subcomponent, with a clear method for **how it will be measured** and with **realistic targets**. Having a good projection is optimum, but it is **better to under-promise and overachieve than the opposite**.

While the financial data can be collected even at a later date from tax return documents, the rest of the baseline information is best collected just before the first activity takes place. This can help to make last-minute adjustments when baseline data are considerably different from what was expected. The real **challenge is the endline data**, where the financial numbers are processed at the end of the tax period (if not specifically requested sooner) or usually even three months later. The **real impact** on enterprises **often emerges after a long-time span**, especially if the season matters. All these constraints cannot be ignored when the project proposal is written, but when the indicators, targets and methods of measurement are well designed, the endline should not be a problem.

REALISTIC PROJECTIONS

When 50 SMEs are invited for training, it is unlikely that even 40 will in the end become sustainable. Maybe only 40 will attend in the first place, 35 will complete the full course, a few will drop the business idea straight after, and possibly only 25 will start businesses as planned. And indeed, not everyone will succeed.

3.2 TYPICAL PROJECT GOALS

The program objectives directly follow the **project logic** and the **theory of change** built around the project. As was previously mentioned, the goals should be **in line with the target group** (as narrow as possible), but also with its **needs** and **motivation** (see the chapter Business Life Cycle). Project planning should always be supported by a **Market System Assessment**, or **Needs Assessment and Stakeholder Analysis**. A good overview of available approaches and strategies can be found here:

https://www.enterprise-development.org/implementing-psd/

This tentative list of most **common goals** provides **inspiration** for the planning, but it is done from a general perspective and is neither exclusive nor universally valid (the provided links to indicators are illustrational, www.indikit.net offers more options for specific cases):

GOAL: INCREASED INCOME/POVERTY ALLEVIATION (THROUGH SALES VOLUME, PRICE MARGIN)

How: Access to Products and Services, Increased Productivity and Quality, Decreased Costs, Improved Marketing

https://www.indikit.net/indicator/104-income-of-supported-businesses
https://www.indikit.net/indicator/2827-sales-revenue

TARGET GROUP	**Subsistence farmers (To Grow)**
FOCUS	Increased Capacities (technical), Market Links, Cooperation, Improved Inputs, Access to Markets, Financial Literacy, Access to Information, Improved Equipment, Infrastructure (esp. access to water)
TYPICAL ACTIVITIES	Market System Assessment, Technical Trainings, Exposure Visits, Creation of Cooperative Groups, Links to other Market Actors (sales, supplies, services), Access to Information, Demonstration Plots, Access to (Innovative) Products/Services/Technologies, Advocacy, Financial Literacy, and basic Business Finance Management training
ACCESS TO FINANCE	Credits from Business Partners, MFI, Revolving Funds, Subsidies, Small Grants
CASE/EXAMPLE	https://beamexchange.org/practice/snapshots/gems1-nigeria/
TARGET GROUP	**General MSEs (To Grow)**
FOCUS	Increased Capacities (business and technical), Market Links, Marketing, Improved Equipment
TYPICAL ACTIVITIES	Business Planning Training (BMC), Consultancies, Mentorship, Specific Tailored Trainings, Individualized Support, TVET, Links to other Market Actors, New Products/Technologies, Access to Information, Advocacy
ACCESS TO FINANCE	MFI, Revolving Funds, Small Grants

GOAL: INCREASED EMPLOYMENT

How: Targeting Labor Market Mismatch, Skills Development, Job Creation, Strengthening Labor Market Environment (services)
https://www.indikit.net/indicator/696-income-and-employment/3793-number-of-jobs-created

TARGET GROUP	Unemployed people
FOCUS	Skills/Education, Connection between education and private sector, Job Matching and Advisory Services, Advocacy
TYPICAL ACTIVITIES	Labor Market Assessment, TVET, Links between private and education sectors, curricula improvement, Training of Teachers (ToT), Internships and Apprenticeships, Soft-skills training, Financial literacy training, Strengthening of supportive services (capacity building, transfer of knowledge, equipment, links)
NOTE	this goes out of SME support, but it is more sustainable and systemic than alternative support of self-employment
GUIDE	https://resources.peopleinneed.cz/documents/381-good-guide-practice-4-absolut-final-web.pdf

TARGET GROUP	SMEs with potential to employ more people (To Grow)
FOCUS	Access to New Markets, Competitiveness, Marketing, Innovations, HR, Management
TYPICAL ACTIVITIES	Market Links, Specific and tailored training, Assistance with Certification, Audits, Consultancies, Assistance with Digitalization, possibly Business Planning Training, Mentorship, Advocacy
ACCESS TO FINANCE	Banks/MFI, Private Investors, Crowdfunding, Small Grants (?)
NOTE	generally, larger and well-established companies have more potential to create jobs than small ones
CASE/EXAMPLE	https://beamexchange.org/practice/snapshots/bosnia-it/

GOAL: EMPLOYMENT AND INCOME OPPORTUNITIES FOR VULNERABLE GROUPS

How: Skills Development, Inducing Self-Employment, Inclusive Education and Labor Market, Supportive Environment and Services

https://www.indikit.net/indicator/198-employment-of-vulnerable-persons

https://www.indikit.net/indicator/103-income-from-employment

TARGET GROUP	Vulnerable people interested in business/self-employment (Start-ups)
FOCUS	Building Capacities (business/technical), Sustainability, Marketing, Cooperation
TYPICAL ACTIVITIES	Business Planning Training (BMC), TVET, Consultancies, Mentorship, Specific Tailored Trainings, Individualized Support, Market Links, Exposure Visits, Advocacy
ACCESS TO FINANCE	MFI, Small Grants, Revolving Funds
TARGET GROUP	Vulnerable people looking for jobs
FOCUS	Education, Job-matching and Advisory Services, Support of Employers, Advocacy
TYPICAL ACTIVITIES	TVET, Strengthening of supportive services (CSOs, Advisory, Job-matching and counseling, social services), Soft-skills training, Financial literacy training, Capacity building of employers, Awareness, Advocacy
ACCESS TO FINANCE	(for employers) Subsidies, Small grants
TARGET GROUP	Social Enterprises
FOCUS	Building Capacities (business/technical), Sustainability, Marketing, Cooperation
TYPICAL ACTIVITIES	Business Planning Training (BMC/Lean Startup) or Accelerator, Consultancies, Mentorship, Specific Tailored Trainings, Individualized Support, Innovations, Assistance with Digitalization, Market Links, Exposure Visits, Advocacy
ACCESS TO FINANCE	Crowdfunding, MFI, Private Investment, Revolving Funds, Small grants

GOAL: INCLUSIVE ECONOMIC GROWTH (OF SECTOR OR VALUE CHAIN)

How: Strengthening value chains, Strengthening business-supportive environment, Stimulating creation of new businesses, Facilitating access to foreign markets

https://www.indikit.net/indicator/10-market-development/3810-improved-business-environment

https://www.indikit.net/indicator/10-market-development/3816-adoption-of-the-promoted-technologies

TARGET GROUP	Market actors of selected Value Chain (To Grow)
FOCUS	Accent on most vulnerable actors, Removal of Barriers, Market Links, Access to products and services, Promotion of Effective Practices
TYPICAL ACTIVITIES	Market System Assessment, Productivity, Access to Foreign Markets, Cooperation, Innovations, Access to information, Advocacy
ACCESS TO FINANCE	Credits from Business Partners, Tailored
CASE/EXAMPLE	https://beamexchange.org/practice/snapshots/abif-afghanistan-pharmacies/
TARGET GROUP	Start-ups
FOCUS	Building Capacities (business/technical), Sustainability, Marketing
TYPICAL ACTIVITIES	Business Planning Training (BMC), TVET, Consultancies, Mentorship, Specific Tailored Trainings, Individualized Support, Market Links
ACCESS TO FINANCE	MFI, Revolving Funds, Credits from Business Partners, Small Grants
CASE/EXAMPLE	https://elo.pinf.cz/ix-CZE/ix?cmd=readdoc1&downloadid=(FBC11325-D7AD-3B5C-D8BD-CD19F1D0B72C)&acode=attachment&fname=-NorthMoldova_MTEReport_Final.docx

GOAL: SUPPORT TECHNICAL OR SOCIAL INNOVATIONS

How: Supporting technological start-ups and SE in Innovations, Pilots and Experiments, Introducing Innovations from abroad, Support and creation of Innovation Centers, Support of digitalization, Introduction of new technologies in education

https://www.indikit.net/indicator/3819-investments-into-promoted-business-practices-models

TARGET GROUP	Youth (Start-ups)
FOCUS	Supporting technological start-ups and SE in Innovations, Pilots and Experiments, Introducing Innovations from abroad, Support and creation of Innovation Centers, Support of digitalization, Introduction of new technologies in education
TYPICAL ACTIVITIES	Business Planning Training (BMC/ Lean Startup) or Accelerator, Mentorship, Consultancy, Individualized Support, Market Links, Exposure Visits
ACCESS TO FINANCE	Crowdfunding, Private Investment, MFI, Small Grants
CASE/EXAMPLE	https://resources.peopleinneed.cz/documents/576-lessons-learned-summary-renewable-energy-pin-rdd-fm.pdf
TARGET GROUP	Social Enterprises (Start-ups, To Grow)
FOCUS, ETC.	Same as for Social Enterprises under Employment of Vulnerable Groups box

3.3 MARKET RESEARCH

In rare cases the project team may need to conduct the market research for its own **programming purposes;** for example, to identify the sector with the biggest potential to grow or when the project aims to introduce a new product or a business model to the market. The collected information can also be used to facilitate access to specific services which are not available in remote markets, by influencing private sector actors (https://resources.peopleinneed.cz/documents/459-good-guide-practice1-absolut-final-web2.pdf, page 13).

As the research should serve **for decision-making**, it should start with a definition of the decisions it will be informing. The next steps include:

1. Determining data for collection,
2. Conducting secondary research,
3. Identification of target group of respondents,
4. Selection of collection methods (qualitative, quantitative or mixed) and necessary samples,
5. Collecting data (e.g. by focus groups, surveys, interviews, etc.),
6. Analyzing data and concluding findings,
7. Reporting the results,
8. Making informed decisions.

There is a large overlap between methods of market research and monitoring and evaluation of development projects. The execution is basically the same and NGO staff should be quite qualified to conduct the research themselves. Only when the large scale and quantitative data are required, should a marketing agency be considered for the task, as their biggest advantage is usually a large directory of respondents. Indeed, the final results do not have to be kept secret and can be published or presented to SMEs, allowing the local private sector to use them as a secondary source.

In general, market research mostly collects data about:

→ Customer problems, habits, preferences or satisfaction,

→ Market size and its saturation,

Photo © Pavel Běliček

→ Competition,

→ Prices,

→ Market barriers and trends,

→ Brands and promotion,

→ Current sales analysis,

→ Distribution networks.

Usually, information about prices is the most challenging to get and should not be overrated (people usually state lower prices than what they would be willing to pay in reality). While the topic is too large to discuss within the parameters of this guidebook, there is plenty of available literature and resources for the interested reader.[17] [18] [19]

3.4 INFORMATION MEETINGS, HOTLINES AND GUIDELINES

Especially in the case of extensive programs, or when the grants are provided, it is appropriate to **advertise** the opportunity to the target group and provide the potential candidates with all necessary information. The **application form should be complemented** with well-arranged and comprehensible but brief **guidelines**, explaining:

1. Project objectives and provided support,
2. Benefits of participation,
3. Information about donor and project partners,
4. Eligibility requirements,
5. Application process and categories (if there are any),
6. Timeframe, deadlines, and locations of scheduled events and activities,
7. Criteria of participant selection,
8. Grant conditions (e.g. contribution, legal requirements, etc.),
9. Contacts, for additional questions,
10. Any other information important for application or decision to apply.

The guidelines can be made available online, distributed by project partners and stakeholders and also be available at the **information meeting**, where they are presented. The meeting is not obligatory, but there are several good reasons to organize it:

→ It increases the promotion of the project,

→ It saves time and ensures equal conditions when the questions are answered publicly before all candidates present and not individually,

→ It increases the visibility of donor and project partners and presents the opportunity to invite representatives of public authorities, donors, and media,

→ It gives preliminary information, e.g. how big a response will there be to the call, may show up unexpected obstacles discouraging the enterprises from participating (but this is best judged from interviews with participants, rather than making conclusions directly from the number of attendees).

Alternatively, or complementary to the information meeting, the **establishment of hotlines** can be considered. The hotline can be the most convenient way for applicants to ask the questions, and can be used to gather the ideas and opinions about the planned outreach. But it can also conceal some **challenges**. It is not easy to provide an equal and fair amount of information to all applicants via

17 Debbie Farese: How to Do Market Research: A 6-Step Guide; https://blog.hubspot.com/marketing/market-research-buyers-journey-guide

18 Paurav Shukla: Essentials of Marketing Research, Ventus Publishing ApS, 2008; https://bookboon.com/en/marketing-research-an-introduction-ebook

19 By Henning, R., Donahue, N. & Brand, M.: End Market Research Toolkit: Upgrading Value Chain Competitiveness with Informed Choice, USAID, 2008; https://www.findevgateway.org/guide/2008/11/end-market-research-toolkit-upgrading-value-chain-competitiveness-informed-choice

the phone line, rather it creates space for miscommunication, mistakes and future accusations. In cases where applicants have good access and a habit of use of the Internet, the online **Questions and Answers webpage** can be a good alternative. In general, to avoid the challenges connected with phone communication it is recommended to:

- → Record all calls (this has to be made clear to callers at the beginning of each call), or at least record a description of calls on paper (time, length, name, questions, topics, operator),
- → Define reasonable operating hours,
- → Define what information can and cannot be communicated through this channel,
- → Prepare guidelines for hotline operators, even accompanied by a few dummy runs,
- → If the operator does not know the correct or definite answer, s/he must not make his/her own assumptions, but rather promise clarification in a return call.

3.5 SELECTION OF PARTICIPANTS

The selection of program participants has **key importance** and should not be underestimated. The goal is to choose applicants who not only **fit into the pre-selected profile** but also have the **best prerequisites** for the accomplishment of project goals. The high costs per enterprise and generally low survival rate of start-ups are strong reasons for a rigorous process, which cannot be left to chance.

The process starts with the **effective promotion** of the call for application. To ensure that grants are given to applicants with real potential, it is necessary to train an **appropriate number of candidates**, providing the grant committee with a wide selection. Similarly, the training participants have to be selected from a wide range of applicants. It should not be forgotten that selected people or businesses are not guaranteed to complete the whole program and there might be a proportion of those who **quit at some stage for various reasons**. The number of participants, as well as a number of received applications, should **exceed** these **minimal thresholds**:

NO. GRANTS	MIN. PROGRAM PARTICIPANTS	MIN. APPLICANTS
1	3	6
2-3	5	10
4-5	8	14
6-9	grants x 1.5	participants x 1.5
10-19	grants x 1.4	
20 and more	grants x 1.3	

The proper selection goes through two rounds. First, the applications are compared with the **eligibility criteria** and it is decided whether the profile of the applicant matches the intended **target group**. The application form has to include **questions which allow unambiguous evaluation**. If the local environment allows it, the applications can be collected **in digital form** (not as scanned papers), ideally through an online form. Unlike scanned pictures, digital documents can be later automatically translated (e.g. by Google) and also directly used by expats, advisors or evaluators who do not speak a local language. The applications of all candidates should be archived (PIN stores all documents in its internal ELO system).

THE APPLICATION FORM SHOULD CONTAIN:

- → Information about the company, if it has already been established (name, identification numbers, address, phone, web, email, what they do, year of foundation)
- → Personal data of applicant (name, identification numbers, address, phone, email)
- → Description of business (products or services, to who and where it will be offered)
- → Intended amount (or description) of private resources to be invested
- → Grant history of applicant or business (if the **publicly announced eligibility criteria** are designed to exclude notorious grant seekers)
- → Business registration (if it exists)

THE STARTUPS SHOULD ADDITIONALLY ATTACH:

→ The CV of the owner(s)

While the existing companies (targeting growth) should also provide:

→ Number of current employees and number of new jobs to be created (if relevant to the program objectives)

→ Description of the objective they want to achieve (expand production, introduce new products, open new sales channels, etc.)

→ Income Statement (the latest one, or preferably two years)

→ Balance Sheet (only larger companies, LLC)

→ List of loans and debts (if they have any)

→ Confirmation of Indebtedness from the tax office and social insurance provider (if relevant in the local context)

BUSINESS TALENT

It is a surprisingly common belief that behind any successful businessperson is an inborn predisposition – the talent for the trade. When asked more specifically, people see it mainly in an ability to persuade people to buy something, or even better, anything. The business models based on persuasion exist, but often connected with deception or at least on thin ice when it comes to ethics. A typical example is multi-level marketing which can transit into pyramid schemes (indeed, not every multi-level marketing model is deception). In common business, the customer buys the product which s/he really needs or desires. The vendor, of course, presents the product in its best light and highlights its advantages. But normally, people who are not interested in playing tennis, do not purchase the rackets or balls, no matter how friendly a chat they have with the guy selling them. Thus, business is more about the proper targeting and understanding of what the customers want or require. And even though some people can do that intuitively, anyone can learn from marketing how to improve on this effort.

The second round can be realized through **short interviews** (20-30 min), either in the office (for start-ups) or directly in the applicant's establishment (operational businesses). In the second case, the interviews can eventually be connected to an assessment of a business situation and needs. The second round should explore the applicant's motivation and ability to implement the business idea, especially in terms of:

1. DEDICATION

The selection should exclude people who are indecisive about fully investing their will, money and time into the business and may give up too early. A demonstration of enthusiasm, extensive preparation and personal priorities for entrepreneurship are good indicators of commitment.

Examples of questions: How did you get this idea? How long have you been thinking about it? Have you already started any preparations?

2. VOCATIONAL SKILLS

The professional qualification is judged the same way as in a hiring interview, based on education and working experience. If the skills or knowledge were gained as a pastime, the candidate should give examples of some accomplishments. Relying on external advisory or fast self-learning puts the business at risk.

Examples of questions: *Where did you learn...? Have you ever done...?*

3. FEASIBILITY AND CLARITY OF THE BUSINESS IDEA

The candidate should have a clear and realistic vision of how to utilize the provided support. If s/he is still choosing too many options, then s/he is not yet ready. Boldness is not a disadvantage, but the idea has to be doable. For example, employing a dozen people from the start without secured financial resources, or expecting being able to secure contracts early on with a large company, indicates immaturity and daydreaming. If the candidate claims to have pre-arranged deals with important partners or customers, s/he should document them on a paper.

Examples of questions: *What will happen if…? Can you give us more details about…? What evidence supports this conclusion/assumption…?*

4. THE COHESION OF BUSINESS CO-OWNERS

For enterprises with more than one owner, conceptual disagreements between them always pose a threat. All the main shareholders should participate in the interview and demonstrate a complementarity in their ideas. If their visions do not match, then it is not wise for them to start a business together as they would come into conflict later.

Questions targeting: *make sure that not only one person from the group does the speaking*

5. PERSONAL INTEGRITY

The program can be beneficial only to participants who are ready to collaborate and listen to the given advice. There will always be people who apply with the sole vision of receiving a grant award, and consider the rest of the program as a necessary evil they have to undergo to reach the money. They may be overly confident about their skills and try to impress everyone, but not be ready to absorb any offered knowledge or a recommendation.

Examples of questions: *What do you expect from this program? What new skills do you want to learn?*

The interviews have more relevance for start-ups because those people who have been doing the business for several years have already proven a commitment, and they hardly lack vocational skills or cohesion.

3.6 ASSESSMENT OF SMES

The **skills (and needs) assessment** of SMEs is often conducted when the program contains **tailored support**. It serves to identify the skills and themes which are important, while not fully acquired by participants. The goal is not to estimate who would be a good business person, but rather identify the needs and gaps in the sense of **skills and knowledge in specific areas relevant to the supported businesses**. For example, dairy farmers may utilize the training on HACCP (hygienic standards), while someone launching an e-shop can benefit from the course on online marketing. Information will help to plan specific training, and to identify the most appropriate consultants or mentors.

The assessment starts with a **desk review of application forms and CVs** of selected participants and is followed by **interviews with open questions** (examples can be found in *Annex 01_Business_SkillsNeeds_Assessment.docx*). It is recommended to combine the interviews with **visits to the business in question**, as thereby, their needs become more apparent. The assessment can be connected to, or even be a part of the selection process, or can also be used to sort participants into training groups, based on similar necessities. It is better to wait for the main general business training to be completed before preparing the research conclusion (in business planning), in order to include any **inputs from the trainer**, who will have spent a longer time with the participants and may bring additional insight. Also, business training can lead to significant changes in original business ideas and new requirements for unexpected skills can appear.

Additionally, the assessment offers an opportunity to gather the **baseline data**, which are generally best collected shortly before the intervention starts, using information from applications and/or the visits.

There could also be other **more specific cases** where the project may need to assess the situation of a private enterprise. This could be with regard to different assessments for strategic reasons, or for example the **selection of private sector partners** (Chapter 3 in https://resources.peopleinneed.cz/documents/459-good-guide-practice1-absolut-final-web2.pdf). The range of collected data will depend on the research purpose, but may include analysis of:

- → financial reports,
- → problems and obstacles impeding the subject's growth,
- → productivity, competitiveness, or innovation performance,
- → sales channels, marketing strategy, and customer satisfaction,
- → human resources and working conditions,
- → references, and business reputation.

4. CAPACITY BUILDING

4.1 IDEATION WORKSHOP

It is better for start-ups with a clear vision to be chosen for participation. However, there are times when the project objectives and target group of beneficiaries do not allow for such selectivity. For example, mothers of children with disabilities are not able to find full-time jobs which allow them to manage the adequate care for their child at the same time. In such instances, they would need to search for home-based self-employment opportunities with the possibility of increasing their income. Most of them may have some general idea about the activities they would like to do, but not a specific vision of future business.

In such a case, it is possible to add the ideation training as one of the initial activities, to help them **shape vague ideas into more concrete business intentions**. The training should not have too much theory, but rather focus on **practical exercises** like listing skills and hobbies, brainstorming ideas, comparing pros and cons, or using a selection matrix. It should be brief (about half a day) and be followed by a **one- or two- week-long gap**, during which time the participants can think through their options and decide on a final idea.

The workshop aim is to find the intersection between **what they like doing** (hobbies and dreams), **what they can do** (skills and requirements), and **what can be profitable** (demand and competition). The prepared examples of common business models, used by similar groups of small entrepreneurs, can inspire and demonstrate the many aspects of business requiring consideration. The training can be facilitated by the same person, who will lead the business planning training, described in the next chapter.

4.2 BUSINESS PLANNING/DEVELOPMENT TRAINING

This training, which focuses on the **fundamentals of business,** is one of the **core components** of any SME support. It is **essential for all start-ups** and can be omitted only if the target group consists of well-performing profitable companies, whose businesses are supposed to be directly scaled up. If the scaling includes an introduction of **new products** or **significant change of business model**, it is still recommended to have it included. Even for fully sustainable enterprises, it is helpful to review their business models and identify potential weaknesses.

The training teaches the participants the basics of core business skills including financial management, accountancy, management, marketing, and market research; and is completed with the preparation of a business plan or pitch. This chapter also proposes **newer tools and approaches**, which can be more understandable and effective than the business plans.

4.2.1 BUSINESS PLAN (BP)

The business plan is a written document describing the nature of the business, the sales and marketing strategy, the financial background, and containing a projected profit and loss statement. It contains a **formal statement of business goals**, reasons they are attainable, and provides a **strategy for reaching them**.[20] It was originally invented in large corporations and later adapted for planning start-ups, when venture investment became popular.

Besides the planning of a new enterprise, it is used for various other purposes, for example for the introduction of new products, expansion to new markets, restructuring, etc. Its composition is not fixed and different templates with various structures can be found. Some BPs can fit on one or two pages, while papers of hundreds of pages are sometimes written by large companies. Anyway, the **structure** should be arranged **to serve the document purpose**. The typical components of a BP are (examples of BP structure are in the *Annex 04_Business Plan Structures.docx*):

- → Narrative **description of business and product**(s),
- → **Results of market research**,
- → **Marketing plan and sales strategy** (target customers, value proposition, positioning, sales and advertisement channels, pricing strategy, etc.),
- → Organization structure and HR requirements,

20 Entrepreneur Small Business Encyclopedia: https://www.entrepreneur.com/encyclopedia/business-plan

- → Legal matters (e.g. selection of legal entity, licenses, stock management),
- → Technical data (description of production, new processes, machinery and equipment, logistics, etc.),
- → Strategic plan (mission, vision, goals and milestones, risks),
- → **Financial plan** (budget, sales forecast, calculation of BEP).

A BUSINESS PLAN IS FOR BANKS

The business plan is a plan like any other. Whoever starts to do any complex activity will increase the chances of successful accomplishment by "drawing a map" to the goal beforehand. In real life, the plans rarely go according to how they were prepared, but, as was pointed out by several famous personalities, the plan itself is not important, the process of planning is.[21] And the plans are always intended to be reviewed and modified according to changing circumstances.

Frankly, most small businesses are launched without a written BP, but hardly anyone will start their business without any preparation and plan in mind. When people submit the BP to a bank or to PIN, when it is organizing a grant competition, they see it more as a formal document with the single purpose of acquiring the funds, not as a tool to primarily serve themselves. This lack of recognition given to the BP, driven by attempts to simply satisfy the donors, is often reflected in unrealistic statements and projections, which are usually not reviewed once they prove themselves wrong.

There are two main situations when the Business Plans have to be explained and created during or after the business training for SMEs:

- → When participants are going to apply for **loans or grants to third-party institutions** (banks, microfinance providers, government, etc.), which require them,
- → When the document will be the source of a very **detailed evaluation** during the grant competition (but then a highly skilled experts should take part in the selection committee).

Unfortunately, these two reasons often overshadow the main purpose of the Business Plan, **the feasible business strategy**, making the applicants more focused on how to get the grant money than on how to plan a successful business. Such misconceptions can be avoided by applying the more focused tools, like BMC, prior to the BP being written, as is further explained.

Tips on how to make business planning more effective, include:

- → **Market research directly incorporated** into training. In the best case scenario, the facilitator will accompany the trainees into the field, giving them guidance and helping them to overcome initial diffidence.
- → The training curriculum and structure of BP should **be directly adjusted to the needs and skills** of participants. For example, farmers would hardly benefit from a detailed explanation of the marketing mix, illustrated on TV spots; and would rather focus on an understanding of basic marketing principles and topics relevant to their sales.
- → Especially for the startups, the BPs should be **brief** (up to 4 pages). **Bullet points** should prevail over long narratives which only distract authors and readers from core information and rob them of time.
- → Extra focus should be given to the **budget**, which also serves as the main guide for the decision of evaluators. The budget must always **demonstrate profitability,** otherwise it would not make any sense to follow the BP. The costs should distinguish the investment from operations, and expected income must also be included, either in the form of a sales forecast or at least as a computation of the break-even point (BEP).
- → Experience shows that chapters connected to **marketing and adverti-**

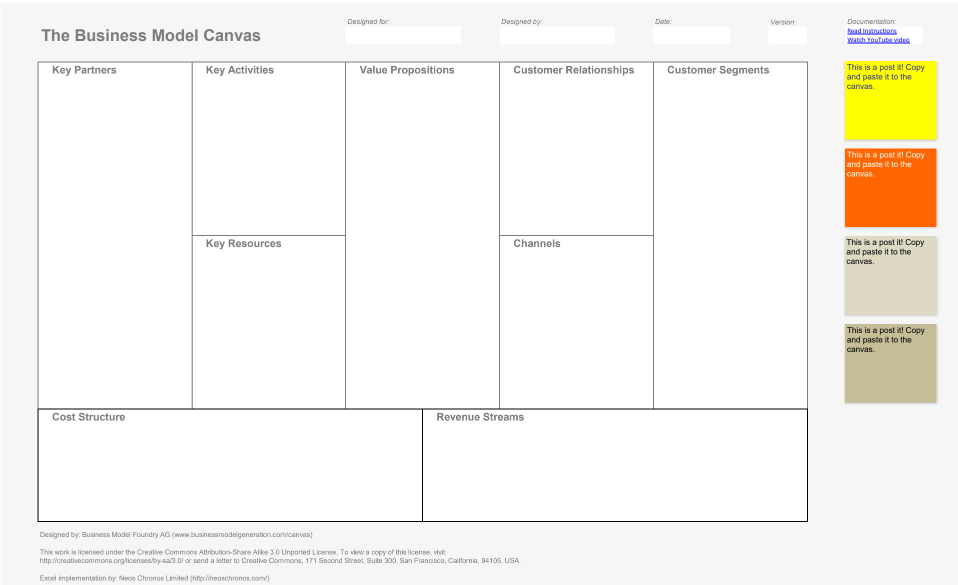
21 Dwight D. Eisenhower, 1957: "Plans are worthless, but planning is everything"

sing are usually least developed. And exactly these chapters can tell the most about the potential sustainability of the business plan. The trainer should explain the main marketing principles and directly assist firms in applying the knowledge gained from the market research on targeting and positioning of their products and their advertisements.

→ Either the trainer or even an external advisor should review all business plans before they are submitted for competition or to financial institutions. After the review, an individual consultancy (1-3 hr.) should be offered in order to finalize the BPs and fix any existing mistakes or ambiguities.

4.2.2 BUSINESS MODEL CANVAS (BMC)

The Business Model Canvas[22] is a visual representation of a simple Business Plan structure on one page. The tool which focuses on the most important parts of the business model, is usually printed or drawn on a larger piece of paper, hung on a wall and updated with post-it stickers. The users are supposed to first create a hypothesis about their business model, then "get out of the building"[23] and validate their assumptions with potential customers, partners and competitors. Based on the feedback, the business model is adjusted and improved in the iterative cycle. Since the first publication, several modifications have appeared, but BMC (and Lean Canvas) remain the most commonly used.



The BMC tool (*Annex 03_Business_Model_Canvas.png and 03_business-model-canvas.xls*) can be applied in the training **instead of a business plan**. When the BPs have to be prepared as the outcome of the course, the BMC can be used first. Although the structure may look different, all cells of the canvas should be described in the BP as well. The BMC is usually used together with the Value Proposition Canvas, which also appears in several variants, and which focuses on the core BMC components only (Value Proposition, Customer Segments and sometimes also Problem and Solution) in more detail.

At first look, some business consultants may object that the tool ignores competition; but when the tool is properly used, the positioning towards competition has to be included in the value proposition statement. On the other hand, the training has to be complemented with additional topics, especially with financial planning.

The quality of trainer indeed matters and the best choice are people who are teaching the tool regularly. The tool has already found its way into the development sector and it has been used in a growing number of projects funded for example by UNDP or USAID. So, it should not be difficult to find an experienced trainer in any country. When such trainers are not available and need to be trained, those with a knowledge of marketing and an experience in classical business planning, will be able to utilize their background. PIN already has experience with the tool in e.g. Georgia (Kazbegi), Armenia (Syunik) and Moldova (together with the Lean Startup described in the next chapter).

22 The tool was introduced by Alexander Osterwalder in 2008.

23 The phrase introduced and repeated by Steve Blank, explains that entrepreneurs need to talk to customers and not plan a business from behind a desk.

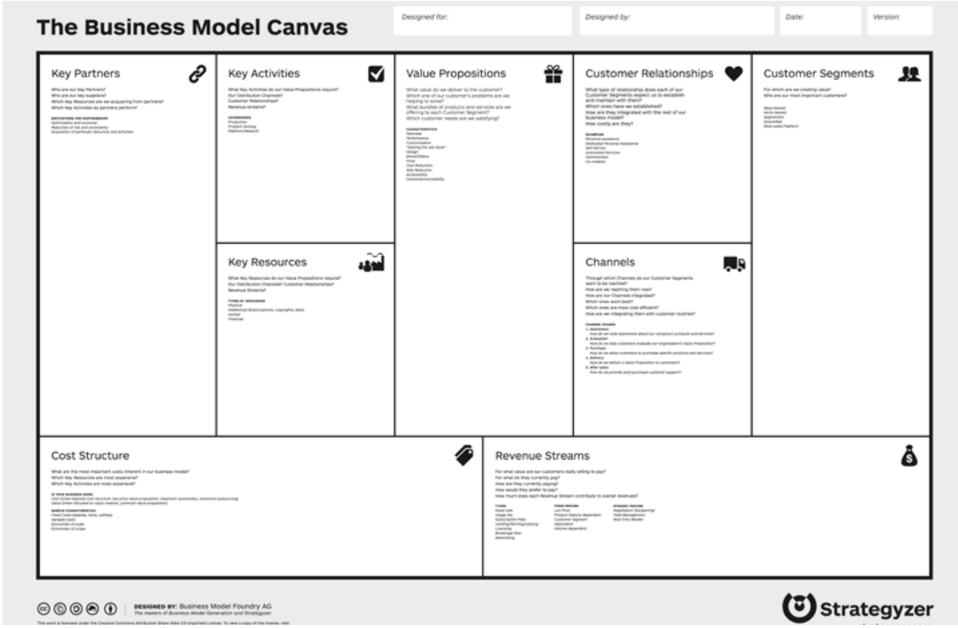
The following table compares the advantages and disadvantages of BMC with classical BP for the SME capacity building:

	BUSINESS PLANS	BMC AND OTHER CANVASES
+	• Traditional method • Often required by investors, financial organizations and donors • Detailed • Easier to evaluate	• Simple, visual and focused • Connected to market research • Easy to modify • Can be used as a base for a Business Plan
-	• Long and narrative • Often written only for funding reasons • Requiring constant review • Requiring a good market and sector knowledge	• Less detailed • Rarely accepted by financial institutions or government donors

4.2.3 LEAN STARTUP

The classical business plan approach presumes design of a detailed plan, execution and further adjustments. But a good plan requires a deep understanding of the sector and market, gained at best by long business experience. This cannot easily be replaced by even a precise and well-conducted piece of market research. And very few aspiring entrepreneurs have such experience.

While the BMC is trying to replace, simplify and make the Business Plans more comprehensible, the Lean Startup goes much further, taking high uncertainty into consideration, which is something most ventures have to face. Instead of precise planning, the company starts with the highest possible (and customer acceptable) **simplification** of a business model as well as a product (Minimal Viable Product). The initial goal is not to build a full company but to **iteratively validate and optimize the business model**, without investing into product features and business capabilities, which may later prove themselves redundant or even drive away the customers. The approach shows **how to measure and validate customers' responses** to individual components of a product or to the business itself through experiments, similar to those used in science.



The entrepreneurs will save time and money, first only investing into a verified business core. The unviable business ideas will **fail quickly** and can be replaced by better ones, which would be a difficult situation if resources had already been spent on them. The method itself doesn't provide a one-off tool to create the first business model or plan; instead, it is supposed to guide the user through the whole period of starting up the business.

Since the Lean Startup was introduced by Eric Ries in 2008, it has gained increasing popularity. Despite the method originally being adopted by mainly IT and technological startups, it is universal and can be applied to any business, despite the fact that experiments cannot always be fully automatized as in the case of e-shops, for example. Many business accelerators, so popular in the past decades, are using the approach in their curricula.

The components of Lean Startup include:

→ Customer discovery (identification of the customers and their needs),

→ Business modeling, using the BMC or Lean Canvas (an adaptation of BMC),

→ Prototyping and preparation of Minimum Viable Product (MVP),

→ Experiments (to measure customer response to product and business model),

→ Metrics and Innovative Accounting (to analyze results of experiments),

→ Pivots (how to decide when a model has to be changed).

Finding a trainer for the Lean Startup may be a little bit more challenging than in the case of BMC, but as the methodology has already created a sort of growing movement of enthusiastic proponents, it is becoming easier as time goes by. At the moment, the best place to start the search are various innovative, technological and business centers, like Hackerspaces,[24] Impact Hubs[25] or centers connected to technical universities.

4.2.4 MARKET RESEARCH

Market research is an **inseparable business planning component.** And it is an ongoing activity which should be performed on a regular basis as an integral part of sales and marketing. Without knowledge of the market, it is impossible **to make any qualified decisions**. To become successful, SMEs need to understand the importance of research. They should **increase their capacities** to do the research, learn the different methods, and become capable of applying the results to their products and business models. Market research **has to be a part** of the business planning agenda, regardless of the methodology used. However, the training should always be practical and partially **take place outside the classroom** with real respondents. Some of the trainees will need support to overcome initial, natural inhibitions.

The simple but helpful rules on how to do market research and get reliable information, which are tailored to small startups, were published by Rob Fitzpatrick in the book **Mom Test** (this short video summarizes them https://www.youtube.com/watch?v=Hla1jzhan78). The approach reacts to the problem that people usually do not answer honestly as they want to be nice to the interviewer.

The rules include:[26]

→ Asking important and specific questions,

→ Framing conversations casually,

→ Talking about the respondent's life, not about the business idea,

→ Presenting ideas only indirectly,

→ Talking less, listening more,

→ Collecting customer's ideas,

→ Getting commitment.

MARKETING IS ADVERTISING

Marketing is not a science about how to do advertising, but about sales management in general. The advertising element is just a small part of it. The formal definition describes it as being about understanding and the satisfaction of customer needs. In practice, it means starting with the research of who the potential customers are, what they need and want, who are the competitors, and other related information. The answers are analyzed and used not only for advertisement but to determine things like prices, sales channels, partners and also the product itself and its features. The marketing is a base for any business because it helps to identify what should be sold, to who, where, when and how.

24 Hackerspaces: https://wiki.hackerspaces.org/List_of_Hacker_Spaces

25 Impact Hub: https://impacthub.net/

26 Max Völkel: Summary of ‚The Mom Test', 2013; https://www.slideshare.net/xamde/summary-of-the-mom-test

4.2.5 TRAINING CURRICULA

Regardless of which methodology was selected, three additional components should always be included in the curriculum: the basics of financial management, marketing and strategical planning including risk management. These topics are **usually directly incorporated into the curriculum** and even if they are not explicitly written on the agenda, it does not mean they are supposed to be skipped. However, it is important to **confirm with the trainer that they will be included.** Optionally, some soft skills can be added to the list, especially if they seem to be challenging. For all these subjects it is necessary to find a balance to make the course comprehensive and comprehensible, according to the type and needs of participants. The following table shows what is essential and what would be optimal (for more experienced trainees) to include in each theme:

	ESSENTIAL	OPTIMAL (ADDITIONALLY TO ESSENTIAL)
FINANCIAL MANAGEMENT	Basic terms Costs structure (investment vs. operations) Income Statement Break-Even Point (Annex 05_BreakEvenPoint.xlsx)	Balance Sheet Sales Forecast (Annex 06_FinancialPlan.xlsx) Cash-flow and its importance Difference between cash and accrual accounting
MARKETING	What is marketing & principles Market Research and basic methods (Mom Test) Competition and positioning Price Basic advertisement and how to measure its effectivity	Get-Keep-Grow funnel Sales and promotion channels 4P/Marketing mix Revenue model Pricing strategy
STRATEGICAL PLANNING	Vision Goals and Milestones Risks	Mission & Values Monitoring of progress (as ongoing activity)
SOFT-SKILLS	-	Leadership, Teamwork, Presentation, Negotiation, Networking

The **curricula** proposed by different experienced trainers may include additional topics, methods, and tools, chosen according to his/her preference (examples for the BMC and Lean Startup are in *Annex 02_TrainingAgendas.xlsx*). The range is wide and it is difficult to become familiarized with all of them. They are usually useful as long as they are seen in a supportive role. The only danger is when they get too much attention and lead trainees away from core issues. One example is the ever so popular SWOT analysis, which is sometimes helpful, but often generates too many unprioritized ideas and rarely useful advice.[27] When the training only lasts a few days, it is better to save time for more important topics, like the customer segments, market research or budgeting. The following table attempts to outline the most common tools and topics for quick orientation. It is necessary to admit that the selection and sorting are affected by the author's bias and it is always better to discuss the curricula with the trainer and listen to his/her reasoning before making the changes.

27 Queensland Government: Benefits and limitations of SWOT analysis; https://www.business.qld.gov.au/starting-business/planning/market-customer-research/swot-analysis/benefits-limitations

TOOLS AND APPROACHES[28]	PURPOSE	RELEVANCE FOR:		DIFFICULTY	RECOMMENDED
		STARTUPS	SCALING		
4P or 4C	Marketing mix	High	High	Medium	Yes
5 Whys	Problem Causes	Medium	Medium	Easy	Fairly - less important
BCG matrix	Strategic planning	No	Medium	Easy	-> Marketing Courses
Beachhead Strategy[29]	Sales Targeting	High	Medium	Easy	Highly
Blue Ocean Strategy	Competition	Low	Medium	Demanding	No – suitable only when competition is key constrain
Conjoint analysis	Market research	Medium	High	Difficult	No – too advanced
Customer Journey Map	Customer Relationships	Medium	High	Demanding	-> Marketing Courses
Customer Personas	Customer Segmentation	High	High	Medium	Fairly
CVP Analysis[30]	Finances + Pricing	High	High	Medium	Highly
DMAIC	Management	Low	High	Difficult	Fairly – too advanced and complex
Empathy Maps	Customer Segmentation	High	High	Medium	Yes
Five Forces Framework	Competition	Low	Medium	Demanding	No – too advanced and complex
Get-Keep-Grow Funnel	Customer Relationships	Medium	High	Medium	Yes
Hedgehog Principle	Choice of business idea	High	No	Easy	Yes
Judo Strategy	Competition	Low	Medium	Medium	No – advanced, not universal
Marketing Funnel	Customer Relationships	High	High	Easy	Yes (but included in Get-Keep-Grow funnel)
Mom Test	Market research	High	Low	Medium	Highly
Perceptual Map	Positioning	Low	Medium	Easy	-> Marketing Courses
PEST Analysis	Strategic planning	Low	Medium	Easy	Only long courses – less important
SWOT (+ IFE/EFE Matrix)	Strategic planning	Medium	High	Easy (Medium)	Fairly – less important
Value Proposition Canvas	Value Proposition	High	High	Easy	Highly

28 More tools are explained here: https://creately.com/blog/diagrams/the-ultimate-list-of-marketing-strategy-tools/ or https://www.mindtools.com/pages/main/newMN_STR.htm or https://corporatefinanceinstitute.com/resources/knowledge/strategy/

29 CFI Education Inc.: https://corporatefinanceinstitute.com/resources/knowledge/strategy/beachhead-strategy/

30 CFI Education Inc.: https://corporatefinanceinstitute.com/resources/knowledge/finance/cvp-analysis-guide/

4.2.6 TRAINER SELECTION

The selection of a **good trainer** is the most important thing for project team to do in order to ensure the course is effective, and to achieve the given goals. The best bets are **professionals**, with **personal business experience,** and **extensive experience in business training or consultancy**. Nobody says that good lecturers cannot be found in the university or NGO sector, but the probability is lower. On the other hand, for those people who have been facilitating trainings for many years, it is necessary to verify that they are following new trends and keeping pace with industry development. For the selection of the right person, a **CV and references** should be required together with a financial offer. The final choice can come after the review of the **proposed curriculum** and a **short interview**. It is very helpful when the mission keeps **records of completed capacity building trainings together with the contact list** of facilitators from the past, preferably with some feedback and notes. It will become handy when the teams of future projects are looking for good trainers.

The trainer's role can also be supported by **co-facilitators or assistants**, who can support the participants during practical exercises, group work and especially during the market research. It is a good opportunity for junior staff interested in business development or consultancy, but a basic understanding of the topics is required.

Photo © Pavel Běliček

4.2.7 TRAINING FORMAT

The business training is no different from other training and the KLD guide "How to deliver a workshop or training" (https://resources.peopleinneed.cz/documents/458-how-to-deliver-a-training-final.pdf) can provide a lot of useful tips.

For participants, *how* they will be able to apply new knowledge to their businesses is more important than the depth of provided information. Therefore, the course should be **as practical as possible**, giving at least half the time over to **group work and exercises**. Instead of practicing general examples, the trainees should **work directly on their enterprise**. If the timeframe allows it, the course can be complemented with homework, such as continuing with the market research. The **market research is an integral part** of the course. It cannot be skipped and it should not be left completely up to participants.

Even if the training can be compressed, most people would appreciate a **slower pace**. In addition, although participants might have different preferences, the **gaps** between the lectures/working days allow them to digest new information and test it in practice. An ideal scheme would consist of **eight to ten days (each 6 hours long) distributed over several weeks** and consisting of two or three days per week. Although the common practice is to compress the training into 2 or 3 days, such a timeframe **is insufficient** to provide all the important information in a high-quality manner, with practical exercises and demonstrations. Market research with facilitator guidance alone, would consume a whole day. The compromise of **five days is a reasonable minimum**. Faster and more compressed timeframes are usually connected to business accelerators, described in the next chapter.

It is quite common to provide **refreshments** during the training, but its purpose is to make the environment more comfortable or to save time during the lunch break, rather than to attract participants or to make sure they come again. If the argument "if there is no refreshment, no one will come" were for a play, then it would probably be better to cancel the whole activity. Similarly, the requests for transport costs reimbursement or for accommodation should be answered only in very extreme cases and be well-reasoned, **with due consideration of the situation for participants**. “It is too far”, “the bus ticket is too expensive”, or “I will not travel every day for two hours”, are not the typical arguments of a dedicated student. On the contrary, especially in cases where the course is a stand-alone activity or part of a very simple program, the request for a **symbolical fee** (which can be remitted in specific cases), can help to filter in the most motivated applicants with the best chance of utilizing the new knowledge. Such an idea may look unusual and risky, but what sense does it make to train someone who is not really interested? Finding seriously committed participants only requires starting **recruitment sooner and advertising it extensively**.

The event also provides the opportunity for networking and it is desirable for participants to stay in touch in the future. This way they can continue to learn from each other and will have someone, who is facing similar obstacles, to talk to. To strengthen the group, a small **informal party** can be organized during the last days of the course.

In some cases, the training can be supported by providing the participants with **textbooks** (which can even be purchased using the training fees). Their selection has to be done together with the trainer and based on the target group. There are also several world bestsellers on business, which may already have been translated into the local language. They are not written as textbooks, but present the original sources of methods which are now widely used:

1. Steve Blank: The Four Steps to the Epiphany (2005),
2. Rob Fitzpatrick: The Mom Test: How to talk to customers & learn if your business is a good idea when everyone is lying to you (2013),
3. Ash Maurya: Running Lean: Iterate from Plan A to a Plan That Works (2012),
4. Eric Ries: The Lean Startup (2011).

These books are well suited to educated or young people, e.g. university graduates, who are planning to start an innovative or technological business. On the other hand, they would just be confusing and useless for small farmers. Some bestsellers from the sixties to eighties (Napoleon Hill, Dale Carnegie) are best avoided as they are more about psychology and soft-skills. Moreover, their motivational style can create false hopes and early disillusion.

The training has to be **properly monitored**. A member of the project team should participate in the first lesson and visit at least a few others. The participants should be asked on the last day to fill in the **anonymous evaluation form,** and the **trainer should also provide written feedback** including information about **attendance**. An example of an anonymous questionnaire is available in *Annex 07_AnonymousSurvey4TrainingParticipants.docx*.

4.3 BUSINESS ACCELERATORS AND BOOT CAMPS

The business (or startup) accelerators and boot camps are first of all just buzzwords, used for programs with the **same or similar content as** the training described **in the previous chapter**. They are labels for a wide range of different programs, which are sometimes similar to a compressed training and sometimes similar to business incubators. They usually share several of these features:

- → Combining the training with other support (mentorship, networking, investment, etc.),
- → Using new approaches (BMC, Lean Startup),
- → Targeting mostly start-ups,
- → Targeting either young people or innovations,
- → Keeping a fast pace and creating a competitive environment and pressure,
- → Finishing by pitching competition before real investors,
- → Being organized regularly (e.g. every year).

Due to their regularity, accelerators usually have a complete and tested methodology and curricula, allowing for direct application as they stand. The quality of such programs can be assessed in advance and they can be implemented through a partnership, as paid service or directly under the purchased license.

PIN owns a perpetual license on two five-day long accelerators from the US organization Uncharted,[31] which are tailored for social enterprises. The first curriculum, the "Business Model Validation", is designed for start-ups and is founded on the Lean Startup methodology and cooperation with mentors. The second course, "Investment Preparedness", is for growing enterprises desiring external investment. PIN tested the first accelerator in Kosovo and Moldova, through small local partners. The detailed step-by-step facilitation guidebook and curricula (100+ pages) require a very dedicated facilitation team, and an early start with preparations (3 months). The curricula are now available to all other countries.

4.4 SPECIFIC BUSINESS OR SECTORAL TRAINING

The training in business planning, even with the basics of marketing and financial management, is not all that an entrepreneur may need to succeed in business. Apart from **vocational skills**, which are extremely important, there is a long list of disciplines, which can influence everything from costs over product quality to market success. The needs are very individual and it is important **not** to **overload** the participants with useless information. For example, training of subsistence farmers in in-depth marketing would lack any reasoning.

Any course should be **tailored** as much as possible, based on the **needs and skills assessment** and **expressed interests** of firms. The investment in training is efficient when the selection of program participants is properly narrowed down and businesses share **clear similarities** (size, sector, value chain). It also well suits cases where lack of certification is one of the business constraints (HACCP, ISO 900x, etc.), but in such cases, the training is only a part of a process and the expenses should be carefully estimated during proposal writing (e.g. ISO certificates usually cost thousands of USD).

It is worth selecting the trainers in a **tender** and verifying their **references**. The commercial lectors will more likely understand the needs of businesses than would teachers with only an academic background. The **hired trainers** will need to familiarize themselves with the course participants in advance to prepare a tailored agenda. Insisting on practicality, and if possible, simplification of workshops is again recommended. The training can end with the distribution of **training certificates**.

31 Uncharted: https://uncharted.org/

Examples of training subjects:

1. Vocational skills
2. Skills required for modernization

   IT skills, Online marketing, Bio Agriculture, Operation of specific equipment, etc.

3. Specific skills required per sector

   HACCP, Logistics, ISO certification, Import/export regulation and processes, Fundraising, etc.

4. General business and management skills

   Marketing, Finances, Accounting, Business law and taxes, Management, HR, Soft-skills, etc.

Alternatively, the training can cross several subjects and be **oriented for specific industries or vocations**. This requires a narrow group of participants but allows a **high level of tailoring**. Moreover, such training can be **well connected to TVET**. Courses like "How to open a restaurant", "How to build an e-shop", or "How to start a business in car repair/hospitality/gardening", usually present several common business models, their advantages and disadvantages, typical difficulties in the sector, common advertising methods, funding, pricing and so on. Optimally, they are **co-facilitated by an entrepreneur** (usually from a distant city, not competitor) with long experience in the industry. That allows skipping the irrelevant parts of business planning, management or marketing, and emphasizes causes of typical bottlenecks. Also, such examples can be well addressed and are more interesting for students.

4.5 STUDY/EXPOSURE VISITS, ROLE MODELS

The exposure visits are great for **inspiration** and support the **confidence and enthusiasm** of participants, who can see their **visions more tangibly** when observing real-life examples. On the other hand, organizing a trip for ten people several thousand kilometers away, just to cheer them up, would not be very cost-efficient. Similarly, the purpose of visits is not to watch a presentation in

PowerPoint or to meet someone for a short discussion. Both can be done using videoconferences with minimal expenses. The visits are irreplaceable for groups which hesitate to follow some new approaches, or to help build trust in the proposals made by project or business partners. They need to **see an example and get the personal evidence** that the proposed change will lead to the promised results.

Visits should be organized mainly to see **specific technologies, new methods or procedures, and eventually uncommon business models** in practice. It is also important to select a **location or context** which the participants can relate to (e.g. similar history, climate, customs or challenges). The length of visit and agenda should be accommodated to the travel distance, and therefore be packed but not tiring, still allowing participants the chance to absorb new ideas. In the best case, visitors should get an opportunity to touch and **try new things practically**.

It is recommended that exposure visits are indirectly connected to other capacity building activities, where the **agenda should be discussed in advance**, allowing participants to **write down the questions and objectives of their interest, and later discuss the impressions**. If it is possible, the agenda should also provide space for an **informal conversation with hosts**. The additional success is to achieve any follow up in terms of **networking or keeping in touch,** which may later turn into **cooperation** or, for example, **mentorship.**

A useful guide about study visits, prepared by Engineers Without Borders, can be found here:

http://www.seeplearning.org/jobtools/wp-content/uploads/2016/01/B2B_Exchange_Visits_guide_EWB_1.pdf

The exposure visits can also be one of the ways in which to connect the businesses with role models which inspire a positive change to their behavior. The **role models** (sometimes called champions) are usually **more influencial** than a plain theory and skills training. The best models are those which have developed naturally, but when these are lacking, they can be created through nursed **pilots**. It is necessary to say, that pilots often do not work as planned and usually require a lot of **adapting** before they can be used as models. Their primary purpose is to test and confirm the applicability of the solution in the given environment.

The agricultural sector knows well the **demonstration plots**, where the farmers can observe, learn and try new practices, or be introduced to new varieties of plants, breeds of animals, or modern mechanization. The plots should be created at an accessible distance for farmers, as they cannot serve their purpose when visited only once or sporadically. They can also create space for experimentation and the testing of new ideas.

4.6 ACCOUNTING

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Every business, even informal, should do at **least basic bookkeeping**. It is the **project team's role** to make businesses understand that it is necessary for their own good and running the enterprise without records is like driving a car with eyes shut. Even the traders in ancient Egypt[32] and Mesopotamia kept books, and it is unbelievable how many people avoid this in the 21st century. If necessary, the entrepreneurs' **capacity should be improved** in accounting and in the contract they should **commit themselves** to doing accounting.

For the decision of whether training in bookkeeping should be included in the activities, it is necessary to research the current practices of the target group. This can be done either when the needs assessment is made, or during the skills assessment and participant selection process. If they are already doing it, or if they use contracted accountants, it is possible to completely skip this and focus on more important aspects of financial management. Most micro and small enterprises will be fine with the simplest methods, and the accounting can be included in the agenda of **other** trainings in financial management, be it training in business planning or financial literacy. If there is no other option, trainees can write numbers into a table in an exercise book, but many accounting software applications are available for free. The trainers can recommend some of these and teach how to use them for **cash-based single-entry accounting**. The training again has to be **very practical and simplified**.

Accrual accounting can help businesses facing issues such as **negative cash flow**, caused by customers with poor 'payment morality', or who tend to pay after long delays (large companies and public sector). Otherwise, only a rapidly growing business would be interested in more advanced methods (accrual and

32 Green Quarter Consulting: Accounting & Bookkeeping's Early Origins; https://www.green-quarter-accountants-bookkeeping.com/the-history-of-accounting.html


Photo © Natalia Rotaru

double-entry accounting). However, in such cases, the training would probably be needed for specialized employees, instead of business proprietors, and would be better provided as a specific business training and only for interested participants.

4.7 CONSULTANCIES, COACHING, AND MENTORSHIP

Consultancy and mentoring can both be included in the same project design because each of them is different and one cannot replace the other. Consultancy provides an intensive and focused problem-solving advisory, while mentorship represents long-term support based on the personal relationship with the mentor and his experience.

Consultancies should always be provided by a person with **extensive knowledge** in the given topic. The expert is selected specifically according to the theme and is usually unable to give advice on several different fields (e.g. marketing and law at the same time). Therefore, the **objectives should be clarified** in advance and the consultant should also **receive all the related information** (e.g. business plan) beforehand. The client has to do his/her homework; first identify the **key topic** – where he most needs advice – and then prepare a short **set of specific questions** he needs to answer. The topic can be **business-oriented as well as technical**, or it can be focus on the legal framework HACCP, or anything else. The consultancy usually takes several hours (1-4 hrs.) and an expert will need time for his own questions in order to understand the situation. Trying to shorten the session to 20 or 30 minutes (to serve as many firms as possible) can lead to answers that are too general, and will most likely render the provided support useless. Plan to double the meeting time needed when the expert is a foreigner and the discussion has to be translated. The consultants are best found in the private sector. Scientists or university teachers are a good alternative, but are a less desirable option for topics which are purely to do with business (their background should include practical experience).

A specific consultancy can be provided to participants of the training **to improve their business plans** before they start competing for a grant or get started on loan applications. Indeed, it would be expected that they had already received the help of the lector, but further assistance can help a lot. Such an extra review can also be **operatively incorporated** in cases where the final business plans do not meet expectations or contain severe mistakes in the logic.

> **The PIN project in Moldova supported entrepreneurs in two independent business incubators. In one of them, the participants of the grant competition received additional support in the form of mentorship in advance. As a result, the difference in the quality of submitted proposals between incubators was very apparent.**

A good **mentor** does not need academic titles in the given subject. What is most important is the **length of experience** (at least 3, but better, more than 5 years) in **successfully running a similar business** as his client. Alternatively, the mentors could be experienced in the particular business skills the client needs guidance in (management, marketing, logistics, etc.). The mentorship can be provided directly on location, remotely, or even online from distant countries. It is **based on a partnership** which does not presume that a mentor is always right and has all the answers, but rather that cooperation is mutually beneficial. This is why some mentors do not expect payment for the service. The purpose of mentoring is a transfer of experience.

Businessmen from developed countries probably have a greater willingness to be mentors, but some adepts can be searched for **locally** in **business chambers, business associations** or through organizations providing **business counseling**. It is recommended that an interview is performed with a potential mentor before any arrangements are made in order to find out if s/he is really:

- → **Experienced** in the selected field or industry,
- → **Fits** the client's needs and is able to **adapt** to his/her working environment (including culturally),
- → **Passionate** as well as **patient and listening**, not one who wants to show his own importance

Generally, **selection by the client** is recommended as a personal connection is important. The EMCC Competence Framework can be helpful for selection as well as evaluation of mentors: https://www.emccglobal.org/wp-content/uploads/2018/10/EMCC-competences-framework-v2-EN.pdf.

Foreign mentors (may have a language barrier) can be arranged in partnership with senior expert organizations, including the **PUM** from the Netherlands (https://www.pum.nl/how-we-work) or the **SES** from Germany (http://www.ses-bonn.de/en/activities/international.html). The costs of arrangements usually include only the travel, food and accommodation plus **an administrative fee**. The fee can be **significantly different** when paid by large INGOs like PIN, or when paid directly by the benefiting business. The mentors are usually retired people with verified experience, willing to volunteer for free.

Databases of volunteers are also managed by American organizations: IESC (https://iesc.org/), ISLP (http://islp.org/) and Land'o'Lakes (https://www.landolakes.org/careers specialized in agronomy). Entrepreneurs with language skills may also find mentors online. The social network **Micromentor** (https://www.micromentor.org/) can be a starting point for the search.

While the mentorship is about long-term relationships, **coaching** is more focused on specific tasks and usually ends when the goal is reached. The coach does not provide guidance on how to develop the business, but instead of that, s/he works directly with the client **to improve his/her skills and performance**. The targeted **soft-skills** are often connected with management (leadership, planning, etc.) or communication (presentation, negotiation, direct sales, etc.), but some coaches may help improve very specific abilities. The coaches mostly work professionally and they can handle several clients simultaneously. They often have an internet website or can be referred by consulting companies, business chambers, etc. To select a good coach, it is worth assessing his/her: 1) experience, 2) education (including training in coaching), 3) tool s/he is using, 4) references and 5) networks (can s/he find additional help if needed?).

The GROW model (Goals – Reality – Options - Will) can be used for both coaching and mentoring. A description can be found on these websites:

Mindtools: https://www.mindtools.com/pages/article/newLDR_89.htm.

Performance Consultants: https://www.performanceconsultants.com/wp--content/uploads/GROW-Model-Guide.pdf

How to facilitate mentoring (coaching) support:

1. Identify the themes (skills) for improvement,
2. Identify potential mentors (coaches) based on the selected topics,
3. Allow clients to be involved in finding their potential mentor. For example, organize a meeting between several aspiring entrepreneurs with potential mentors (coaches) and provide them with an opportunity for free conversation,
4. Match the mentors with mentees according to their personal preferences,
5. Facilitate a face-to-face meeting to create a mentoring (coaching) plan, where the support goals are defined, as well as general conditions including timeframe, time limits, form of communication and counterparts' commitments, (coaching methodology and indicators to measure success),
6. Ensure that both counterparts agree with the conditions and prepare a written and signed agreement,
7. Launch the support and supervise it on a random basis,
8. When the timeframe expires, organize a closing meeting to evaluate the goals,
9. Collect the feedback from both sides.

Peer coaching (or peer sharing) is not coaching in the original sense and by its nature is closer to mentoring. The only similarity is the common focus on skills and performance (sometimes also on problem-solving). In peer coaching there are, in fact, no coaches and no clients, but two or more colleagues working together in order to improve their capacities. Although one of the colleagues can be more experienced than the second, they still learn from each other, share their observations and discuss them. Peer coaching can again take many forms and is as individual as the engaged people. An example of informal peer coaching from daily life is when two students meet regularly to study together for exams. It can also be beneficial for **employees**, who are starting new jobs without previous experience. It is not very common to have it formally established for entrepreneurs, but if for example, some participants of a business training decide to stay in touch and support each other, this could also be considered as informal peer coaching and can contribute to the development of their business skills.

5. ACCESS TO FINANCE

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Limited or no access to financial resources for starting or expanding a business is usually the number one obstacle which small businesses face. The provision of **grants** is the most common way for NGOs to tackle this problem.

It is also the least effective and sustainable way with **the potential to disrupt market competition, access to financial services, and to create dependency**.

The grants are only in one form – that of **subsidies,**[33] – which includes, for example, consumer subsidies,[34] Cash and Voucher Assistance (CVA),[35] Cash for Work (CfW),[36] discount vouchers, etc. In a broader sense even free capacity building is a subsidy. No matter whether provided by an NGO or government, all subsidies cause **market distortion**. To mitigate these negative side effects, the concepts of **smart subsidies**[37] and **blended finance**[38] were introduced. Blended finance is a use of development finance to mobilize private capital investment into emerging markets, and smart subsidies extends this by requiring it to be a catalyst in creating sustainable systemic change of markets. In both cases the initial risks preventing the private sector from investing in markets are often targeted, which is important for the poor.

However, any business grant represents only a **one-off solution for a single firm** and rarely provides any systemic change for a target market or community. On the contrary, it discriminates against the firms' competitors and creates the illusion that it is easier to get another grant than make money through trade. It is not uncommon to find notorious grant seekers who have never generated any profit, especially among social enterprises and sometimes cooperatives. The grants should remain rarely used, **unless**:

→ There is no other way to access financial resources for the target group of SMEs, without exposing them to the high risk of losing vitally important assets as collateral or falling into debt traps,

→ The aim is to correct systemic discrimination against certain groups on the basis of gender, ethnicity, religious affiliation, disability etc.,

→ The aim is to support and pilot promising innovative and socially beneficial business ideas, which would be considered too risky and non-profitable by a commercial investor or creditor,

→ A significant impact on the targeted community is expected in return (e.g. employment, the introduction of missing but essential products or services, etc.).

Even when these conditions exist, there is still a need to identify the most **strategic way to channel this financial support**. The attempt to involve a financial institution, which will **manage and disburse the project funds**, will contribute to higher sustainability and availability of commercial services for more businesses.[39] In all other cases, **alternative solutions should be searched for first**.

The subsidies are also better avoided in areas where they are already widely provided by other actors. That can be very difficult as the dependency may already exist and financial institutions may find it hard to rival such unfair competition. But introducing another grant program only deepens the distortion and can be compared to disposing of plastic bottle in an "already polluted" forest.

33 Paddy Carter: Why subsidise the private sector?, ODI, 2015; https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9948.pdf

34 Julien Brewster: Increasing poor people's demand for essential products and services, PIN, 2018; https://resources.peopleinneed.cz/documents/460-good-guide-practice-2-absolut-final-web.pdf, page 21

35 Free online course about CVA: https://kayaconnect.org/course/info.php?id=725

36 CWS: A guide to cash for work programming, 2018: https://reliefweb.int/sites/reliefweb.int/files/resources/Final-CfM_Programme_Booklet_Edited_Final.pdf

37 The MasterCard Foundation Rural and Agricultural Finance Learning Lab; https://www.raflearning.org/topics/smart-subsidy

38 Sarah Brodsky: What Is Blended Finance?, Impactivate, 2019; https://www.theimpactivate.com/what-is-blended-finance/

39 Julien Brewster: Enabling poor people's access to essential products and services, PIN, 2018; https://resources.peopleinneed.cz/documents/459-good-guide-practice1-absolut-final-web2.pdf

IT IS IMPOSSIBLE TO START BUSINESS WITHOUT CAPITAL

The lack of capital would probably be the number one of stated reasons for why people do not start their own business. It is clear that no one will open a factory or build a shopping mall without a large investment, but a small business can often be started with very limited savings. The list of companies that have started in a garage includes Apple, Google, Amazon; along with Disney, Harley-Davidson and Mattel. Allegedly, Nike shoes were stitched together in the trunk of a car for the first two years.

Surprisingly, bootstrapping (what starting a business from scratch with minimal resources is called), has several advantages. Limited resources train entrepreneurs to high efficiency, as they have to consider each expense twice, and make them more careful about purchasing expensive equipment. It is also easier to be flexible and switch plans when the investment is low. People tend to hold onto inefficient practices if they invested substantial funds or time in them. Also, low capital forces businessmen to focus on sales early, rather than waiting for "it to get better" or similar miracles.

Generally, there are five main financing sources for businesses, which can be combined:

1. own resources,
2. advanced payments,
3. loans (often guaranteed by collateral and burdened by interest),
4. for-profit investment (usually in exchange for shares or equities),
5. grants and donations.

For **start-ups** especially, it is better to use their own resources first (bootstrapping), until the basic concept is proven. It makes entrepreneurs more dedicated and careful about spending. The grants also come with specific requirements, creating pressure on early and predetermined spending, while the start-ups need not only the equipment, but also the time to develop themselves, as well as the flexibility to overcome the issues connected with initial uncertainty.

For **existing businesses**, the links with financial institutions or investors can be again more effective, as they are usually more capable of judging the business intent.

Entrepreneurs who follow the **Islamic faith** may have fewer options as the religion forbids the collection and payment of interest.[40] On the other hand, Islamic banks usually have some ways of working around the problem, but using these arrangements will need a deeper assessment and understanding of cultural context.

5.1 GRANT COMPETITION

The objective of any grant competition is to select businesses which have the best chance to succeed and which will most contribute to the project goals at the same time. Unless the competitors are well-established and prosperous firms, it is advisable to complement the grants with capacity building and other activities to support those objectives. The event is usually one of the last components of such a program but should always be followed by the monitoring phase and at least advisory support.

Although the risk of creating or strengthening grant dependency is inevitably connected with small grants, it is still worth trying to mitigate the damage by:

- → Advertising a capacity building program instead of the grant itself,
- → Choosing committed participants with no or minimal grant histories,
- → Requiring an adequate contribution from grantees,
- → Creating looser policies for spending grants to ensure more flexibility for grantees,

40 Evan Tarver: Islamic Banking, Dotdash: Investopedia.org, 2020; https://www.investopedia.com/terms/i/islamicbanking.asp

→ Involving MFIs in distribution and management of grants,

→ Distributing the grants in several conditioned installments.

The main frames of grant competition must be defined ideally during the full proposal writing stage, but always well in advance of program launch.

5.1.1 SIZE OF GRANT

The ideal size of a grant would be one that makes up for the shortfall in the funds the grantee needs to effect the business plan. But that is too individual, difficult to determine and impossible to plan in advance. Therefore, grants are usually provided across a range and according to a predefined amount. While the **maximal size** is calculated according to the total amount of resources available divided by the number of grants; the **minimal size** does not have to be determined at all. Approximately two-thirds of applicants usually compete for the full amount, while the rest for a slightly lower sum (probably hoping it will ensure them an advantage). An alternative to announcing the maximal size is to set **a fixed size** for the grant.

While the real needs of each SME are individual, the general size of grants should be different for start-ups and for companies to scale. **Start-ups** should get a seed grant **for the purpose of testing their business concept** (product and business model), and not to purchase extremely expensive equipment, which becomes surplus in case of failure. With amounts from **1,000 to 3,000 EUR,** they would be capable of testing and shaping a business idea before considering any further investment. If higher amounts are intended, the grant can be increased in the **second installment** (after approximately 6 months), based on **proof of business viability** in the form of revenue being generated above the agreed threshold (e.g. 50% of the first installment).

The **existing companies**, supported by growth, must already have a stable revenue and at least a small income. The purpose of the grant is to expand production and distribution networks; and improve existing or introduce additional products. Their needs are even more individual and selecting an optimal grant size is tricky. Generally, it can be amounts **from 3,000 EUR up**, but it should be determined with consideration of insights collected during a project needs assessment. A reasonable amount would correspond to **about 20-50% of their yearly revenues**. There is not much sense in giving 10,000 EUR to a company with yearly sales of only 2,000 EUR, even if it can provide a 50% contribution. Again, when massive scaling is planned and high investment is required, the full amount can be issued in several **conditioned installments**.

5.1.2 NUMBER OF GRANTS

The number of grants should be considered after determining the grant size and be based on the project's limits, which include not only **assigned funds**, but also **human resources** and the **time frame**. The overall organizing and administration associated with grant distribution, as well as ongoing monitoring, can all be labor and time intensive. The number of grants will directly **influence the number of program participants for capacity building** as is explained in the chapter Selection of Participants.

5.1.3 CONTRIBUTION

The contribution is required to **bind grantees into a commitment** (esp. start-ups) and to **mitigate the risk of abuse**. It also increases the **efficiency of spending**, because grantees will be more careful to avoid wasting their own money. The ratio can be **from 20% to 70%**, co-investment. A contribution of under 20% may not fulfill its purpose, but over 50% will start to decrease the motivation to apply. The contribution can be completely excluded from requirements in case of very small seed grants (under 1,000 EUR). For example, when the youth participants of a business accelerator focusing on innovation receive a small lump sum to **"go and try"**, the requirement for a contribution would only prolong the administrative process, while the enthusiasm of participants could fade out.

When the in-kind form of contribution is allowed, it is necessary to clearly define what will be accepted and what not. The list is usually restricted to machinery, equipment, and properties (land or buildings). The approved means, considered as an **in-kind contribution**, should be purchased either after the competition or very recently, in the past 3 or 6 months. The applicant should always provide the bills or invoices documenting the purchase. Considering a gifted, inherited or long-term owned property as an in-kind contribution is not recommended as it would be contradicting its purpose.

The **source of financial contribution** can, in theory, come from other grants or loans, but **'own money' should be preferred**. The money from the loan is in no danger as it has to be repaid, but when the contribution is covered by another grant, it disrupts its function. The process of making **savings** is, in fact, a perfect exercise in financial management. Where the objective of the project is poverty alleviation, and the contribution seems to be an obstacle for many small businesses, the requirement can be kept around a bottom limit and/or the in-kind form allowed.

5.1.4 ELIGIBILITY CRITERIA

The criteria are based mainly on the target group and the project objectives **to restrict the competition to only targeted businesses**. That makes them different from selection criteria, described later, which are used to judge the prospect and impact of competitors. Eligibility criteria may be of **demographic** character (region, age, gender), **sectoral** (targeted value chain), describe the **type of businesses** (size, number of employees, revenue, legal entities, social enterprises/service providers), and so on. Each competition should be **restricted** either to **start-ups or to existing businesses** (to be scaled). If both types are participating, it is better to create **two separate funding lots** and in fact **two separate competitions**.

The eligibility criteria should be **unambiguous** and result in a **yes or no answer**. This allows them to be directly evaluated by project staff (in contrast to selection criteria), but only when all applications have been processed at the same time, by the same people and also have the decision documented in a report. Unsuccessful applicants should be informed via official channels, and provided with an explanation.

General criteria (examples):

The application is complete (form is fully filled in; all requested documents are attached)

The applicant has no debts to public authorities (confirmation of indebtedness issued by tax, social or health insurance collector)

The applicant has not been awarded any grant for business in the past XY years (exceeding YY EUR) - The criterion excludes notorious grant seekers from the competition. It is evaluated by the information provided in the application but can be a reason for later elimination if data was proven to be untrue. The criterion can be modified, for example, allowing one award in the tested period (2-5 years).

Consent with grant competition rules was given (signature)

The applicant has clear criminal records

The applicant is not involved in trade with weapons, explosives, illegal substances or gambling

Targeting criteria (examples):

Applicant is a woman

At least one (or e.g. 50%) **of the applicants is a woman** (if it is possible to apply as a group)

The applicant's (or business's) **permanent residence is in the XX region**

The intended business will be selling agricultural products

The applicant has provided official documents about his/her disability

VULNERABILITY: Total income of applicant household divided by the number of household members does not exceed XY EUR (or e.g. a multiple of the subsistence minimum) - considered yearly or monthly

ONLY STARTUPS: The business was registered no longer than 6 (or e.g., 3, or 12) **months ago** (measured either from application date, or date the grant was signed over)

ONLY EXISTING BUSINESSES: The business was registered more than 1 year ago and has provided documents submitted for the last tax return (Income Statement). It's **business revenue was above XX** (this shows that the business was operational). The business, which is supposed to be scaled up, should already be sustainable.

Additionally, there are criteria which could be evaluated **during a final scoring**, but are used immediately **to judge eligibility**. Some of them are somewhat **ambiguous**, and their inclusion means the eligibility evaluation has **to be done by a committee**.

Criteria excluded from scoring (examples):

Applicant has all necessary means to do the business
Applicant has necessary technical knowledge and capacity
Applicant has provided the requested financial contribution
Applicant has promised to create the required amount of new jobs

5.1.5 ELIGIBILITY OF COSTS

The rules of how the money can or cannot be spent, must always be defined **before the program is launched**. It is advisable to **verify** if there are already **conditions required by** the **donor**, and even if not, to discuss the rules with the donor anyway. The restriction serves mainly to mitigate the risk of fraud and to **make the expenses trackable**. The eligible costs usually contribute to the expansion of the business not to the covering of day to day operations. The following list shows an example of which costs are usually considered as eligible in small grants competitions:

Eligible: Equipment and machinery, Repairs and renovation of premises, Licenses, and certification, Training of staff

Vary by projects: Marketing costs, Expert services, Purchase of land or properties

Non-eligible: Operational costs, Salaries, Repayments of loans, Financial products and services, Raw material costs, Rent of land or properties

The eligible costs do not have to be defined only by **type** and are often judged by **purpose**. For example, "innovation of production" can include training and equipment, as well as licenses. While this approach can help to better target the project goals, it can also be a source of complaints as its purpose can be judged too subjectively.

One of the common problems of small grants programs is the relative lack of spending flexibility the grantees have. Businesses, especially start-ups, require a high level of adaptability, and conditions which are too fixed prevent them from effective decision making. The following measures will help grantees use money more effectively and fix what was planned incorrectly:

- → Allowing spending over a longer time period of 3-6 months.
- → An offer of further support during such a period (e.g. technical pre-purchase consultancy).
- → Rules allowing the purchase of equipment which is different from that described in the BP, if it serves the same purpose.
- → The option to partially move money between spending categories.
- → The possibility of discussing changes in budget and asking for permission to change.

5.1.6 FORM OF GRANTS

Providing grants in the **in-kind form** may have interesting advantages. Grantees can receive **equipment for rent** (free of charge) and it is **transferred** to their property after a certain period, but only if all conditions are met. It prevents misuse and creates an option to pass the donation to another candidate if the first one fails.

On the other hand, it limits the possible spending to only **tangible and transferable items**, putting the implementing organization at risk of possibly completing the project with equipment which is of no use to anybody. Also, it can create a large **administrative burden** compared to **cash**, especially in the case of a high number of grantees.

In either case – in-kind or monetary –, all expenses paid from the grant have to be **properly documented** (invoices, bills, contracts, etc. not only photos) and **archived**.

5.1.7 EVALUATION COMMITTEE

It seems to be common practice for the committee to consist of project partner representatives. This sometimes leads to a situation where none of the members has any experience of how to read and evaluate business plans or pitches. Yet, the purpose of the body is to select the best candidates, not to give members a feeling of importance. While all partners can still be allowed to nominate members, it is important to ensure that the committee consists of people with **experience in business or business consultancy**. The best option is to involve external experts or training facilitators, because even if there are experienced project team members,


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more than six hours to keep them fresh and focused. If necessary, the competition can be divided into two days (not more). In the case of a very high number of participants, it's necessary to create more categories and keep several independent competitions, where the committee members can change.

Both methods can be perceived differently. Some people may not be comfortable with public speaking while others will be relieved to avoid having to write. The pitch approach can additionally test the soft skills of candidates, but that should not prevail over the subject matter. Generally, public presentations are perceived as **more transparent** and for the project implementer also creates an opportunity for **visibility and** a chance **to invite** donors or public authorities.

5.1.9 EVALUATION CRITERIA AND SCORING

The criteria are usually of two types: **technical** (or economic), which mainly assesses the feasibility, sustainability and potential for growth of a competitor's business; and **impact**, based on the project **objectives**, as for example the number of created jobs.

Evaluating technical and impact criteria together and averaging out the results, may lead to a situation where a technically excellent business plan without any impact is selected; or an unrealistic plan with exalted promises is chosen. In both cases, the goals cannot be delivered and indicators fulfilled. The solution is to have **two rounds of evaluation** when the feasible projects, with potential for sustainability, are selected for a second round and then compared with each other using a score based on impact criteria. The assessments of all criteria can occur at the same time, the difference being only in the way in which **the final score is computed**. Discarding promising projects with poor technical proposals may sound harsh, but no failed business can have any impact.

There should be set a simple and **comprehensive scales for each criterion**, while criteria of higher importance can be awarded more points. It's better to keep the scoring ranges narrow: from zero to 2, 3 or a maximum of 5 points. Wide ranges may create inequality between assessors with different scoring styles, and increase or decrease the individual influence on the final score. For the technical part, **the lowest threshold necessary for advancing to the second round** (usually 50-65%), should be **defined in advance**. For impact criteria high scores of even 50% or a majority of the total points, can be given for particularly beneficial impacts which are in accordance with the project goals.

Examples of typical technical criteria
(should almost always be included):*

*** Logical clarity of BP/pitch** [source of evaluation: business plan/pitch]
Is the BP or pitch intelligible and do all components fit together creating a reasonable plan?
Example of scoring [pts.]: 0: Unclear; 1: Mostly clear with weak spots; 2: Fully comprehensible

*** Technical capacity of applicant** [CV or certificates of applicant/key staff]
Does the applicant have the qualifications or skilled personnel needed to manage the vocational part of the business?
Scoring: 0: No proof of qualification; 1: Partial, amateur or only academic skills; 2: Proven professional experience

Size of contribution [BP or application]
Does a provided contribution exceed the minimum requirement? (This can be a sign of higher commitment)
Scoring: 0: No (it's equal); 1: Yes, by less than XY%; 2: Yes, by XY% or more

Available resources [BP or application]
Does the applicant own (or is s/he able to purchase using the grant) all means (land, properties, machinery, etc.) necessary for the realization of the BP?

*** Feasibility of presented plan** [BP/pitch]
Is the proposed BP realistic? Is it not too technically difficult, requiring new inventions, relying on third parties, etc.? And if it is, did the applicant conduct any pilot or test to prove the feasibility?

Risks assessment [BP]
Has the applicant provided any risk assessment? Does it include all serious threats to business? Is there any plan prepared to avoid or mitigate these risks?

*** Financial plan/budget** [budget/cash flow] – include higher-end scoring options on the scale
Is the financial plan complete (salaries, rents, utilities, advertising, material,

etc.)? Is the financial plan profitable? Are the costs realistic? Are the incomes realistic (can they produce/sell in such volume)? Is the plan consistent with the rest of the BP/pitch? Does it include reserves on the side of costs?

* **Market Research** [BP/pitch] – include higher-end scoring options on the scale
Has the applicant conducted any market research? Has s/he researched demand as well as competition? Is the identified demand substantial? Are the results of research reflected in the BP?

* **Marketing Plan** [BP/pitch] – include higher-end scoring options or split into several criteria
Does the marketing plan reflect the results of the market research? How well defined is the customer segment(s)? Are the needs/desires or problems of customer segments identified and targeted? Is there any plan for advertising? Is the planned advertisement reasonable (costs, targeting)? How is product positioned towards competitors? Is the pricing strategy justified? What will the business do to keep existing customers?
Typical mistakes:
"Everyone is my customer", "My product will be the best quality and cheapest", Advertisements based only on referrals and business cards; or the opposite, TV or radio advertisements for small scale business.
Example of splitting the marketing plan into more criteria:
Target customers (segments)
Value proposition (targeted customers' needs + positioning)
Advertising
Other marketing aspects (pricing, packaging, etc.)

Strategy & Planning [BP]
Does the plan have a timeframe? Does the plan have clear goals? Does it contain verifiable milestones? Vision, mission?

Description of production and/or operations [BP]
Are all components of the production cycle, or service provision thought through? Is the maximal operational capacity calculated (how many products or services can be provided per e.g. month)? Is the season taken into account (especially for agriculture)? Have packaging, transportation, and other embedded services been considered and resolved?

Examples of typical impact criteria (selection depends on the project goals)

Employment [BP/budget]
Either as a number of FTE jobs or as a ratio between FTE jobs created and requested grant size.
Scoring: 0: No new jobs; 1: 1-5 FTE jobs; 2: 6-10 FTE jobs; 3: more than 10 FTE jobs

Employment of vulnerable groups [BP/pitch]
Are any of the created jobs intended for members of vulnerable (esp. target) groups? Are there any measures planned to support the employment of vulnerable groups (e.g. wheelchair accessibility)?

Innovativeness [BP/pitch]
Is the product, service, business model or production process innovative/new/unusual for the region, country or industry?

Environmental impact [BP/pitch]
Will the business have any influence on the environment (positive or negative)?
Scoring: 0: Clear harm to the environment; 1: No significant impact (compared to most businesses of similar size); 2: Positive impact (e.g. recycling)

Impact on society, local community or markets
Aside from profit, will the business create any other value for the local community or markets? For example, is the product or service currently inaccessible locally, while very needed? Will the provided service strengthen other businesses in the value chain? Does the service have a clear social character (e.g. social services for elderly)? Are the target customers mostly vulnerable groups and will the product/service improve their lives?

Respect of gender equality and non-discrimination principles
Does the applicant consider and follow the principles of nondiscrimination and gender equality, especially from an HR perspective? Are the products or services accessible to anyone and under the same conditions?

Ownership and profit distribution (can be interesting for social enterprises)
How is business ownership structured? Can e.g. employees benefit from the profits (have shares)? How is the profit used? Only for the personal purposes of the owner(s), is it fully reinvested; or is it used to support charities, etc.? Are there any rules for profit distribution described directly in the memorandum/deed?

5.1.10 REQUIRED DOCUMENTS

Additional documents are requested from applicants: 1) to **verify that eligibility criteria** are met, 2) to **complement the BP or pitch**, and to provide the committee with additional data for evaluation, 3) for **monitoring** and evaluation purposes (often as a baseline data). Because some of the documents may be required at the beginning of the program, some right before the competition and some when the grant contract is signed, it is important to plan the collection in advance.

It is up to the sensitive consideration of the project manager to choose which documents should be requested to verify the eligibility and what can be omitted to lower the bureaucratic burden. For example, in a project where the target group consists of widows or single mothers, the documents required from the registry may be too excessive and inappropriate.

The commonly requested documents include a photocopy of an **ID or passport**, a **grants history** (which can be directly in the application form), and optionally **criminal records**. Start-ups should provide a **CV** of the applicant with any relevant **certificates**. For already-existing businesses, it is a **must** to collect the **Income Statement** for the previous tax period, and the **Business Registration/License.** The bigger enterprises (LLCs) can also be asked for the **Balance Sheet**. Optionally, in countries where social or health insurance is mandatory for employment, the **confirmation of indebtedness** from relevant public authorities can be requested as well.

5.1.11 DATES

Another important aspect of grant competition is timing. Not only in terms of particular components (e.g. giving the selection committee members enough time for proper evaluation of BPs or giving the businesses enough time to prepare them), but also regarding scheduling the competition itself. The event should take place at the end of the main training to ensure that participants already possess the necessary skills to plan their business. On the other hand, if a competition takes place at the end of the project, there would not be enough time to provide **further support** nor the **time to see any impact** from the intervention. It usually takes at least one year to measure the change of economic indicators. Another important aspect is **the season**. When the grants are awarded in autumn and the majority of grantees are farmers, it may take a full year (depending on the climatic zone) to see any impact on the yield.

When the timeframe of a small grants competition is prepared, the following concerns should be taken into account:

- → Time to finish activities before and after the event,
- → Donor spending policies (some donors work with annual budgets),
- → Monitoring and aftercare period,
- → Season (not only in agriculture),
- → Availability of participants (high/low season, holidays, etc.),
- → Reserve for possible delays.

5.1.12 CONFIDENTIALITY

Any entrepreneur applying for the grant will have to provide many details about his business (no matter if existing or intended). Unfortunately, many people believe that the biggest danger to their business is that someone will steal their ideas. Although these fears are rarely well-founded, taking part in the competition can be considered risky and there will always be people who will not apply just for this reason.

It is possible to take a few measures which will increase security and strengthen the participants' **trust**. One is the **promise of confidentiality** in all **contracts** between participants, implementing organizations and all third parties involved (trainers, committee members, etc.). The secrecy is in **contradiction to the transparency**, but it is also possible to make the **pitching competition closed to the public** although it devalues its benefits. Generally, there is no reason for participants to uncover or describe their precious know-how – they can always brush over this.

These measures are recommended **only in special cases**, when the target group seems to be indifferent to participation, or when the project focuses on larger and technology-oriented companies. Incorporating them as a precaution is not recommended.

5.1.13 CONTRACTS

The implementing organization has to sign a contract with each grantee. PIN has **prepared a template** in ELO (https://elo.pinf.cz/web-CZE/#/archive/(8D51A754-2AD6-D9A6-28FD-2356DF8812F9)/) and the legal department can provide additional advice. If the grant reward is in any way conditional, the conditions must be stated in the document, the competition rules should be agreed to and consent to further monitoring be given. The awarded business should agree to provide all **required documents** even if it is 1-2 years **after the event, for monitoring purposes**. The grantees are also obliged to provide all documents confirming how the money was spent (invoices, bills, etc.).

The alternatives to business grants and any form of subsidies are described in the following chapters (additional tips can also be found at Financial Support and Assistance chapter: https://resources.peopleinneed.cz/documents/459-good--guide-practice1-absolut-final-web2.pdf).

5.2 CREDITS FROM BUSINESS PARTNERS

Traders and processors **in the agriculture sector** very much depend on a reliable supply of produce and the quality it meets. Especially those who buy from a large number of small farms, face high uncertainty every season. They may already know that the best way to improve their odds is to **support their suppliers**.

It is a global practice to **lend them equipment** (e.g. milk tanks) or provide them with **credit** (e.g. for seeds or fertilizers) at the beginning of the season, often for free and without interest. This measure will influence crop quality and ensure that farmers do not sell the harvest to competition, as the loan is usually paid back in the form of supplies (it is, in fact, advance payment). The **farmers benefit equally**, as they can invest in better productivity while having guaranteed sales even in case of a surplus in the market. In case of a shortage in market supply due to difficulties during the season, they may benefit less from the high market prices, but still may have at least some yield, contrary to those who cannot afford quality seeds or other inputs.

The traders will **not provide the credit or support to just anyone** who appears at their doors. They only support the producers they know well and who they **trust**. Another criterion for their decision is the **volume** which the producer can offer. It would not be worth equipping a farmer, who only has two cows, with an expensive milk tank and testing equipment. Neither would it be worth traveling long distances for a few hundred kilograms of vegetables. For subsistence farmers, the most important precondition of collaboration with a trader is sufficient volume of production. It means, they may need to join forces with a trader first.

Although this widespread practice is mainly typical for agriculture, it can exist or be piloted in any industry.

5.3 FINANCIAL SERVICES

Helping Micro-Finance Institutions (MFI) or banks **to reach the target group** with their **financial services** should always be a first consideration. Keeping in mind the sustainability of the intervention, such a solution initiates **the change at the market level** instead of committing all resources to a limited number of subjects. Moreover, finance institutions already possess professional capacity in finance management, as opposed to e.g. a business association establishing a revolving fund.

The cooperation with banks may be more challenging than in the case of MFIs and usually requires an adjustment of existing or preparation of new products. For large banks, it is generally more difficult to find a balance between profitability, risks, and costs when introducing an affordable product to poor people with low or no ability to provide collaterals.

In contrast, some MFIs share a **vision of social impact** and already target customers with lower incomes. The **highest risk is in the selection of reliable partners** capable of providing reasonable conditions and **avoiding** cooperation with an organization which intends to profit from **shark loans**. A potential partner's existing products and history have to be examined before signing any agreement. The implementing organization can be involved in market research, advertisement, capacity building, or creation of a new business model, etc.

Some international NGOs and MFIs can also arrange small loans for entrepreneurs provided by micro-lenders from economically developed countries. Such a scheme is sometimes called **crowdlending** and lenders can directly choose which businesses they want to support. The conditions are usually similar to microcredits and interests are low. Among the providers could be mentioned www.zopa.com, www.lendwithcare.org, www.kiva.org or www.charitybank.org/ethical-savings.

5.4 REVOLVING LOAN FUND

A revolving loan fund[41] is a fund which perpetually replenishes its finances for continuing operations **from the loan repayments** instead of creating profit for its owners. It is a common tool used by governments or NGOs to provide affordable loans to communities or SMEs when the target group lacks access to commercial sources of financing. The fund can be founded within a project **partner**, who will further **own** and **manage** it. Typical options include **local public authorities, local development agencies, business chambers and associations, business incubators** and sometimes also community-based CSOs, especially those based on paid membership or with a functional system of savings. The fund can also be created by **large private subjects** in order to develop small suppliers or small companies involved in the distribution chain.

While in theory revolving funds seem to be a perfect solution, the reality is not always a walk in the park. Many funds have a **short life due to a lack of ownership, defaulters and bad management**. They also can be vulnerable to misuse, corruption, and nepotism, as well as reinforce a non-repayment culture in case of fund failure. These measures can help to improve the odds:

1. Although in practice many funds are managed by informal subjects, the organization should have **legal status and clear ownership**,
2. The owner should have a good **perspective on sustainability**, proven by his own organization's longevity while the fund objectives have to **match the owner's statutory goals and mission**,
3. The owning organization and its staff have to be **experienced or trained** in financial fund management,
4. The **clear rules and policies**, allowing enforcement of repayments, and loan contract templates have to be prepared, optimally with the assistance of a private company or financial institution with the necessary expertise,
5. The fund itself and its policies have to be verified to **not violate local laws** (e.g. certain financial services, fees or enforcements may require a bank license),
6. Similarly, the **eligibility conditions** have to be defined for borrowers (e.g. only for members) and a list of possible **loan purposes** prepared. It is good practice to provide the loans to people after they have made **prior savings**, as saving habits make clients more resilient to unexpected events and enforce the repayment discipline,
7. The fund **management roles and responsibilities** have to be clearly defined and connected with specific people or positions,
8. The **initial investment** cannot only come from the project or other external donation. In fact, the **donation should cover less than 70%** and the rest should be **contributed directly by the fund owner**,
9. From the beginning, the fund should have ensured at least minor **secondary sources of income**. It can be member fees, group savings, government subventions or even commercial activities,
10. The **interest rate** has to fully cover the inflation rate, administrative costs, and should create at least a small reserve (according to many surveys the flexibility in collateral and accessibility of financing is more important for borrowers than interest rates),
11. The loans should require a **contribution** (at least 30%) and be used **together with other sources** of financing (savings, commercial loans, etc.),
12. Applications should be evaluated by **well-defined criteria**, similar to those used by grant competitions,
13. The interest rate and possible fees or penalties should be **regularly reviewed** (at least once per year),
14. If possible, the fund should **not operate on a cash basis** and all operations should be done by bank transfers.

41 Council of Development Finance Agencies: Revolving Loan Funds (RLFs); https://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=rlffactsheet.html

The revolving funds usually provide new loans on selected terms and consider all collected applications at the same time (but applications can be gathered on an ongoing basis) with the intention of providing loans to the best candidates.

PIN should never establish the revolving funds itself and always **look for a partner organization** which will take **full ownership and management of administration**. Experience from Ethiopia in the leather sector, has shown that when the fund is perceived as only a part of a project, and the project does not have a clear and **sustainable exit strategy**, the 'repayment morality' can become low. In Ethiopia, one out of two funds has experienced these issues. PIN also donated resources to a pre-existing revolving fund in the Moldovan business incubator, which was able to turn over all available resources three times in the three years of its existence, without any significant loss.

In **extremely poor or excluded communities,** it is better to start with group **Saving and Loan Associations**[42] and **financial literacy training** before considering revolving funds.

5.5 CROWDFUNDING

New technologies are opening up new funding opportunities to SMEs, which are able to introduce innovations and gain the interest of large numbers of people through attractive ideas. Crowdfunding platforms allow entrepreneurs **to raise money from a large number of small contributors on the Internet**. The platforms are usually commercial and a certain percentage is charged as a fee when the campaign succeeds. If the idea is not supported by a sufficient amount of money, the resources are usually returned to the supporters. Some platforms are donation-based, while on some others, advertisers provide supporters with rewards (from letters of thanks to t-shirts to the promoted products themselves). Also, modifications are emerging which are based on support in return for equities or as a form of borrowing.

Crowdfunding perfectly **complements the Lean Startup** approach, allowing entrepreneurs to test their Minimum Viable Products and business models at low cost and with a large group of potential customers. Besides **valuable feedback**, the campaign has an **advertising** effect and can help to establish the business's **reputation**.

So far, PIN only has experience in facilitating access to finance to renewable energy companies in Cambodia through crowdlending (on www.kiva.org). However, it has the growing potential to facilitate access to capital in market development,[43] especially where the projects introduce innovations.

Unless the ventures are bringing something completely unique and accessible to people overseas, they will have a better chance of succeeding on **local platforms** operating directly in their country. Besides a good product, the campaign usually needs to present an **attractive story**, best in the form of a **short video,** and has to be well promoted on **social networks**.

CROWDFUNDING PLATFORMS[44]	
PRODUCTS	SOCIAL PROJECTS
www.kickstarter.com	www.indiegogo.com
www.indiegogo.com	www.crowdrise.com
www.rockethub.com/funding	www.mightycause.com
www.ulule.com	www.gogetfunding.com
www.gogetfunding.com	

When crowdfunding is **recommended to program participants** (start-ups) **as a possible source of financing**, PIN assistance may include:

→ Training (crowdfunding, social networks, online marketing, video shooting),

→ Consultancy or coaching on crowdfunding,

42 Ji-Yeune Rim, John Rouse: The Group Savings Resource Book - A Practical Guide to Help Groups Mobilize and Manage Their Savings, FAO, 2002

43 InfoDev: Crowdfunding's Potential for the Developing World ; https://www.infodev.org/infodev-files/infodev_crowdfunding_study_0.pdf

44 GoDaddy: Top 20 crowdfunding platforms of 2019; https://www.godaddy.com/garage/top-20-crowdfunding-platforms/

→ The lending of needed equipment (e.g. video camera),

→ Provision of professional service of specialized agency,

→ Promotion (especially on social networks), etc.

Crowdfunding can also be very interesting for **social enterprises**, as some of the platforms directly target projects with social goals.

5.6 OTHER ALTERNATIVES

Most **private investments** take place on the stock markets, but there are also people or companies who invest directly, and some of them seek promising SMEs or even start-ups. They are usually labeled as **Venture Capitalists** or **Angel Investors**. Contrary to the second name, they are not boundless altruists and they will rarely provide capital for untested ideas or to ventures in the earliest stages. They may accept an invitation to a pitching competition, when businesses are being innovative, are from the technology or other trending sector, and with functional business models. Few of these investors are also interested in social issues. It is necessary to be realistic and invite investors only if competitors are 1) in the scaling stage and ready for investment, 2) with real growth perspective, 3) willing to sell the business share, 4) informed (or trained) about investment practices and 5) without exaggerated expectations. The negotiations are usually uneasy, take a long time, and often fail during the process. Potential investors usually circle around technology and innovation centers or can be found in angel groups or business angel networks.[45] A better chance of finding a match would be with local investors searching for opportunities directly within the country.

Besides investment into equities, or convertible debts (a loan which is fully or partially paid by a business share in the future), some investors may offer **revenue-based financing**. This is basically a loan that is repaid by a percentage of ongoing gross revenues. Repayment goes on until the investment, multiplied by the agreed value, is fully repaid. It is of great advantage to entrepreneurs who will be able to keep all equities, but it is quite a new approach and not yet widespread. The borrower will need a stable revenue and high product margins to be capable of managing the debt payments.

Other options, like selling part of the company shares on the stock market or using/facilitating Social Investment Bonds[46] exist, but are unlikely to be feasible in contexts where PIN operates.

Supporting mergers and cooperation between small entrepreneurs (cooperatives, business associations, joint ventures), is not a straightforward way to secure finances for local businesses. However, as the members share various resources, it does **decrease the costs** and therefore also a need for investment. Moreover, joint businesses or associations will usually have a better chance of receiving support from banks, cooperate with other market actors (who can provide them with a loan), or they can again establish their own saving or revolving funds.

45 A list of investors is also here: https://angel.co/locations

46 Goldman Sachs: Social Impact Bonds; https://www.goldmansachs.com/insights/pages/social-impact-bonds.html

6. BUSINESS DEVELOPMENT

It is not uncommon for projects to end direct support of SMEs through grant awards, and only continue to focus on the monitoring. But in fact, this is exactly the period when beneficiaries can most do with the help and advice. Moreover, such support is more cost-effective as it only targets grantees and contributes to a better chance of investments paying off.

The most common 'aftercare' is probably mentorship, consultancy or coaching, but the support can be very variable and **fully tailored to the business needs**. The prerequisite is the **trust** of entrepreneurs, who should not feel uncomfortable **asking for help**. It is also necessary to **explain in advance** that the support is available, but has to be approved and that it has a limited budget.

The most common support needs include specific **technical advice for the procurement** of expensive equipment, or regarding **import or customs duties**. **Legal advice for** important agreements (e.g. with an investor, supplier or even important customer) can prevent disasters. Other options may include **training of staff**, **promotion**, help with participation in **trade fairs**, arrangements for **design or creative marketing services** (webs, logos); and **links** to different suppliers, service providers, partners or organizations (e.g. business association or chambers). For international NGOs, it is easy to approach almost anyone, while the small entrepreneur can be refused even before reaching the right (and possibly interested) counterpart in a bigger organization.

BUSINESS IS ABOUT THE RIGHT IDEA AT THE RIGHT TIME

When introducing a product, the timings and fit to customers' desires (which are often influenced by trends), is without a doubt extremely important for the business. But it would not be fair to presume that all success depends on luck alone. The tabloids writing about people who become miraculously rich in just a few months, usually skip the part where the entrepreneur was only scraping along for years while changing approach again and again, working hard and being on the verge of giving up. It is better to bet on diligence, flexibility, and endurance because 'chance favors the prepared mind.'

6.1 MARKET FACILITATION

SME development programs can often take advantage of the **synchronicity** with other available support, services, or events accessible to the SMEs. It is worth researching what is already available or planned, and what can help entrepreneurs to accomplish their goals. There is a wide range of **organizations and services which focusing on supporting small businesses**, e.g. **information centers, extension services, internet portals, business chambers, associations; and trade fairs**. Contributing to the development and growth of these organizations or events ensures benefits to more people than only those who are targeted by the project. They also contribute **to coordination and cooperation** within their value chains. The project can eventually support the establishment of such organizations or functions, but to increase sustainability it is best to work through the **existing private** (or public) sector partners.

For any business integrated into the market system, it is important to keep reliable **market links.**[47] They can be understood as long-term relations with other market actors, either on the supply or demand side. Healthy market relations are based on a **win-win** strategy when cooperation is beneficial for both counterparts. The links should be seen as more than just ordinary customer-supplier relations, as they allow mutual coordination and cost sharing in the form of connected **embedded services**. The role of the project staff and partners, is to find ways of making the cooperation more effective by removing or mitigating the barriers of cooperation and promoting business opportunities. Strengthening market links on the demand side can be a response to the problem of poor access to markets, while on the supply side it can target better access to more quality agriculture inputs, or to specialized but essential services (veterinary care or financial products), etc.

47 Katie Clancy, Sasha Parameswaran, Mark Thomas: Making Market Linkages Topic Guide, Nathan Associates London Ltd, 2014; https://assets.publishing.service.gov.uk/media/57a089f940f0b6497400035a/Market-Linkages-Topic-Guide.pdf

The middleman purchasing produce from small farmers can provide transportation of goods, information about markets (e.g. what varieties to grow), agricultural training to improve the quality, or even credits for better seeds. S/he may not be able to pay farmers the same price as they can get directly at the marketplace, but that can be balanced out by the pre-negotiated (certain) purchase and before-mentioned embedded services. So why don't such links always emerge naturally? The barriers can include a mutual lack of trust, lack of coordination among farmers who can individually only produce small volumes of product; or, for example, just a lack of information on either side.

Support for the creation and strengthening of market linkages is one of the core methods of facilitative approach like MSD. Chapter 6.4 includes references to relevant resources, which elaborate systematic ways of how to achieve this.

6.2 COOPERATIVES

Producing and selling in large quantities is always better as it saves costs, and **purchasing in bulk** is usually cheaper as well. This is a disadvantage for small businesses; in particular, those from the primary sector where the volume is a key factor. SMEs can deal with such handicaps by cooperating with each other and by establishing looser or tighter unions and alliances. Joint forces can also help them to be better heard when **advocating** for their causes, and to **share their know-how, information and means** or equipment, which would be otherwise unaffordable.

The process of making people work jointly is never smooth and simple, but the path from individual to cooperative farming or production does not have to be fast and straightforward. Trust can first be built in **informal cooperative groups.** The effort will require a **good time allocation**, the **guidance of an experienced facilitator**, and also a **good assessment of the targeted group**. There are four preconditions absolutely essential for success:

1. Basic **trust** and good relations among the future members,
2. A capable **leader**, generally accepted and willing to take on such a role,
3. The problem, for which there is a **strong will** to participate in finding a solution and which can be **solved only by cooperation** (e.g. insufficient volume of crops to be sold to a trader, lack of essential machinery, etc.). Cooperatives established only for project purposes are usually not viable,
4. The benefits of cooperation must outweigh the necessary contributions of members.

The new groups **can start small**, and even a few founders can create a stable **core**, which can grow later when others start to see the benefits. The **basic principles**[48] [49] on which cooperatives are founded include **1. Voluntariness, 2. Democracy and 3. Ownership**.

Sometimes the cooperatives are joining together into cooperative associations, unions, secondary (or even tertiary) cooperatives. Secondary cooperatives usually take the role of marketer and intermediary but can be also involved in advocacy, and providing advice and support for the establishment of new primary cooperatives.

More information about cooperatives is also in the chapter Forming or Supporting Community–Based Enterprises to Supply Products/Services of PIN Good Practice Guide (page 18):

https://resources.peopleinneed.cz/documents/459-good-guide-practice1-ab-solut-final-web2.pdf

In post-communist countries especially, the cooperatives have a bad reputation and attempts to convince farmers to work together can fail quickly due to distrust caused by previous negative experiences. A workaround for these concerns was used by one of the PIN partners in Moldova. They proposed to farmers that they form Business Associations instead, with blended goals and approaches typical

48 FAO: Agricultural Cooperative Development, Rome, 1998; http://www.fao.org/3/a-x0475e.pdf

49 Faith Gilbert: Cooperative Farming, NESARE; https://greenhorns.org/wp-content/uploads/2018/07/Greenhorns_Cooperative_Farming_Guidebook.pdf

for associations as well as cooperatives, but tailored to the real farmers' needs.

In **business associations**[50] the members are still considered as competitors, they keep their property and share only the means and goals they cannot acquire or reach individually. The associations can usually accommodate a much higher number of members than cooperatives and usually have different objectives, mainly:

1. Networking and social relations,
2. Representation and advocacy on behalf of industry actors,
3. Information and knowledge sharing,
4. Creating consent on standards, norms and rules within the industry,
5. Arranging trade and partnerships between members, exporters and actors from other industries.

6.3 ACCESS TO INFORMATION

Decision-making is an important and inevitable part of any entrepreneurship. A sound decision requires the support of good data; and having a **reliable source of information** is essential for any businessperson from a stock market trader to a small producer of broccoli.

A subsistence farmer is selling his crops once per week in the market place of the nearest big city, 60 km far from his farm. He needs to make the decision whether to go there on Monday, Wednesday or Saturday. Whatever the case, he will have to pay the transport cost and rent for the stall. He will spend all day there and in case he does not manage to sell all his produce, he will dispose of the excess at a dumpsite and suffer the post-harvest loss. He does not know whether all the stalls have already been rented, if the marketplace owner has increased rent fees, how many competitors with broccoli are currently present and pushing the prices down, or even the fact that there is a special evening market planned on Sunday. All of these questions could help him choose the right day, **decrease the sales costs** and **avoid the risk of vain losses.** Without this information, he has to give it up to chance.

The SME development project can connect enterprises with **existing information channels** or **establish new ones.** The data can be **regarding the markets (prices, supply, demand, trends)** as well as have a **technical character.** Even the **news, press releases or advertisements** have information value. How else would small farmers get to know about the new processor of pickled cucumbers who has opened a factory in their region, and who might be searching for suppliers. Or about the sale of discounted pesticides?

The provision of information is a service, and if it is done for **commercial purposes**, it often has a better chance of being **sustainable**. PIN should not create new channels directly, but rather through private actors. The information they provide can in most cases be provided for free, if it is complemented with a paid advertisement. Other good sources of information are **public authorities or state agencies,** sometimes international organizations**, business chambers and associations, or relevant market actors**, for example, the suppliers or processors.

The data may be already available, but entrepreneurs may not know about it, or the medium may not suit them. Subsistence farmers of an older generation, may find it difficult to use a mobile application or Internet platform requiring registration. Any action should be preceded by an **assessment** of:

What kind of information SMEs need but lack?

What kind of information they already have?

What information sources and media they currently use?

Would they be willing to pay any fee for specific data?

What channels can they access without further investment (Internet, SMS, TV, radio…)?

In some cases, **training** in the use of some channels can be provided, but it should always be decided if the proposed use of medium can be naturally adopted or not.

50 An interesting paper about role of Small Business Associations in improving business environment: http://www.businessenvironment.org/dyn/be/docs/128/Session4.4Paper4.4.1Dyce.pdf

6.4 MARKET SYSTEM DEVELOPMENT

! The main **limits** of direct support of small businesses **are scale and sustainability**. The scale is basically fixed as the number of participants in training, mentors or small grants which are always limited by the project budget. The supported SMEs can grow and influence others, but the support itself will not be available to anyone else, as it will end together with the project.

The Market System Development and other **facilitative approaches** solve these constraints by working with targeted businesses indirectly, trying **to change the environment and market systems** where they operate. Such projects try to avoid direct support of SMEs, but in reality, some direct activities are from time to time needed.

Similarly, direct interventions can partially advance towards market facilitation to improve the scale and sustainability of impact. The first step can be in following some MSD principles. For example, by:

→ Involving local private market actors in solving existing problems,

→ Improving coordination and relations among the existing market actors,

→ Considering and improving the local and national enabling environment (laws, standards, informal rules, etc.),

→ Strengthening supportive services,

→ Supporting initiatives and allowing adaptiveness,

→ Using local commercial service providers as contractors for delivery of direct activities (e.g. capacity building, management of funds, etc.),

→ Avoiding or minimalizing external interventions in functional markets,

→ Avoiding creation of artificial and unnatural structures in value chains (e.g. long-lasting NGO driven provision of services).

The broad list of resources on MSD and similar approaches can be found at: https://resources.peopleinneed.cz/documents/731-guidepost_msd_final.pdf and https://resources.peopleinneed.cz/files-filter/market-development-17c

The indicators relevant for MSD (but also for SME development in general) are listed here: https://www.indikit.net/sector/10-market-development

The MSD guides, prepared or recommended by PIN are:
Julien Brewster: Enabling poor people's access to essential products and services, PIN, 2018; https://resources.peopleinneed.cz/documents/459-good-guide-practice1-absolut-final-web2.pdf

Julien Brewster: Increasing poor people's demand for essential products and services, PIN, 2018; https://resources.peopleinneed.cz/documents/460-good-guide-practice-2-absolut-final-web2.pdf

Julien Brewster: Improving small producers' access to profitable markets, PIN, 2018; https://resources.peopleinneed.cz/documents/461-461-good-guide-practice-3-absolut-final-web.pdf

Julien Brewster: Improving employment opportunities through market driven vocational education and training, PIN, 2018; https://resources.peopleinneed.cz/documents/381-good-guide-practice-4-absolut-final-web.pdf

Springfield Centre: Operational guide: Making markets work for the poor, 2015; https://resources.peopleinneed.cz/documents/359-sc-2015-operational-guide-making-the-markets-work-for-the-poor-.pdf

7. MONITORING AND EVALUATION

Monitoring is an important part of any development project and programs focused on SME development are no exception. Its main purpose is not in reporting or complying with donor requirements, but in informing the project team whether the **desired outcomes** will be accomplished or if there is a **need for project adjustments**. Thus, the monitoring has to be a **continual activity**, not something to be set aside for baseline and endline studies. It is likely that any project which was implemented exactly as was stated in the proposal, and seemingly delivered all indicator targets, was in fact just insufficiently monitored. Every project manager should understand that it is they and the project team who will benefit the most from the collected information. Any field visit or even a phone call is an opportunity for observation and informal interviews and provides helpful qualitative data. But **data will be lost** when questions are not targeted, and answers are not **recorded**, discussed and analyzed.

This chapter does not cover all the possible indicators and methods which can be useful for designing logical frameworks or result chains. Many of these, together with instructions, can be found here:

https://www.indikit.net/sector/10-market-development

Instead, it focuses only on these aspects of SME measurement, where:

→ Understanding of limitations is important (e.g. performance, sustainability),

→ Correct execution is necessary (e.g. employment),

→ Brief and easy guidance is not easy to find (e.g. competitiveness, innovations),

→ New methods for improving or extending current practice are available (e.g. value for money, conversion funnels).

7.1 MONITORING OF SMES

The monitoring should follow all the components and activities, mainly answering these questions:

→ Were the activities conducted as planned? (number of participants, grants, hours of consultancy, etc.)

→ Were the deliverables of sufficient quality? (feedback, pre-post testing, etc.)

→ What is the impact on business performance? (interviews, but mainly financial data)

→ Are the supported businesses contributing to the project goals? (FTE jobs, increased incomes, etc.)

→ Can the impact be attributed to the provided support? (control groups, triangulated interviews, or just a strong impact story and arguments)

It may look like the assessment of **project attribution** to overall impact is rather the subject for the final evaluation, while monitoring can omit it. But when the presumed impact is occurring of its own accord for external reasons, the environment is apparently changing rapidly. That means the project theory of change requires a full review as the implementation may already be treading water. It has to be admitted that creating **proper control groups** is extremely difficult in SME support programs, if not impossible – the enterprises, along with the environments/contexts in which they operate, are simply too different. Moreover, excluding some of the applicants for monitoring purposes is **first of all unfair and secondly against the effort to pick the best of them**. In rare cases,[51] it is possible to use a **step-wedge design,**[52] where the participants are divided into two or more groups which proceed through the program activities, but start with a substantial time lapse from the last one. Then, the second group can be considered as a control group for the first one, which is several steps further ahead. But in most cases the (quasi-) experimental methods are superfluous, and it is sufficient to focus on

51 Projects lasting 3 and more years, supporting large number of enterprises

52 Statistics How To: https://www.statisticshowto.com/stepped-wedge-design/

a **comparison of external conditions alone**. It can mean making a control group from **similar sized enterprises** in the **same industry** and, for example, climate, but in **non-targeted areas**. Or, especially in agriculture (e.g. for yield), national **statistics** can sometimes replace the control group, when the improvement is measured against average increment.

The interviews about business performance are important to help understand how the change has manifested itself, what issues accompanied it; and conversely, what constraints are preventing it. However, the **performance** itself and its development should be measured **mostly using financial** (or eventually numerical) data.

Monitoring starts with the project kick off, but it has to continue when the grant awards are distributed. Businesses develop slowly and it is better to expect the first results no sooner than after six months. This should already have been considered in the planning stage, as forcing enterprises to hire new staff (before their costs are covered by increased income) can lead to fast failure. In the period after grant distribution (*Annex 09_MonitoringVisitReport.xlsx*), the project team should focus on monitoring the **prerequisites of the project outcomes and goals,** and provide **additional individualized support** when solvable problems are discovered.

It is worth keeping a record of any information which can be used later. The high staff turnover on country programs leads to a **loss of institutional memory**. Each mission should keep the details of capable past service contractors in an **address book**, together with remarks about their performance. It is a shame to have to search for new trainers, web-designers, or lawyers, over and over again when there was great experience with some providers in previous projects. Quality contractors are rare and difficult to find. Indeed, the **procurements rules** still have to be kept, and even the proven providers will have to pass the selection in tenders. Then, the procurement plan can even consider contracts covering the whole timeframe of project, decreasing the number of tenders opened for each single activity.

7.2 EMPLOYMENT

Employment is among the most common objectives of all SME support programs, and it seems to be easily measurable, answering simply how many new jobs have been created. But the jobs are not all the same. Some jobs are regular,

Photo © People in Need

taking eight hours per day over a full week, month and year; others are just part--time, or seasonal, or even ad-hoc and depend on the current commissions of the employer. To make the calculations comparable, the jobs are usually **converted to the full-time equivalent (FTE)**.

One FTE job is usually understood as a job lasting **8 hours per day, 5 days per week and at least 240 working days** (including vacations) **per year.**[53] According to this logic, 4-hours of daily work is equal to 0.5 FTE; 3 days per week = 0.6 FTE; and a 3-month long seasonal job = 0.25 FTE. Working times in different countries may vary significantly, and customs or laws may define full-time jobs as consisting of different lengths of time. However, rather than reaching universal accuracy for the world, it is useful to **keep consistency across the program or country mission**. Similarly, when there are no data available about the exact length of part-time jobs, practitioners usually stick to the rule of thumb, considering two part-time jobs as one FTE.

A typical indicator counting FTE jobs may look like this: "# of new net FTE jobs created by supported SMEs". The word "**net**"[54] is important and refers to another complication with job counting. The company may create some new jobs, but at the same time, during the monitoring period, it may dissolve other already existing jobs and dismiss even more employees than it employs. Another risk is a displacement of employees from one company to another, which is paying better. That should lead to zero calculation of new net jobs, but only if both firms are monitored.

net new FTE jobs = created FTE jobs – dissolved FTE jobs

Alternatively, some projects measure the FTE jobs created and sustained: "# of FTE jobs created or preserved by supported SMEs", counting the difference between baseline and endline. This should give the same total number, but the information about created and dissolved jobs would be lost and therefore the "net jobs" are preferred.

Besides total number, it is worth disaggregating the jobs according to concerns targeted by the project. Usually, the jobs created **for women and other targeted groups** (PWDs, youth, elderly, etc.) are measured by additional indicators (https://www.indikit.net/indicator/198-employment-of-vulnerable-persons). Disaggregation can also include **direct** (created by supported businesses or partners), **indirect** (by other market actors) or even **induced** (created by a strengthened economy) jobs.

Although the conversion to FTE jobs is widely used and recommended, it still has its weaknesses. First of all, it is usually impossible to covert the irregular jobs, where the workload significantly changes from month to month, and where the payment is connected to e.g. the number of produced pieces instead of working hours. Secondly, there is no obvious way of taking into account the character and quality of provided jobs. So, when three people in highly paid positions are dismissed in favor of four new demanding and underpaid jobs, the impact will still look positive despite reality. Luckily, there is a complementary way to quantify employment: the **total expenses paid on salaries**. The metric should include all employment-related costs, not only net salaries but also social and health insurance, taxes, bonuses or other benefits.

Using employment costs **together** with the number of FTE jobs allows easy calculation of the **average salary of employees** (see: https://www.indikit.net/indicator/10-markets-and-income/103-income-from-employment). Average salary can be compared to other projects or to national or sectoral data. Collecting both metrics together, and separately for each target group will give a much more complete picture.

The data about employment and especially about salaries are **very sensitive** (mainly for personal and competitive reasons) and are also a **common subject of manipulation** (for tax reasons). Their collection should be connected with a **promise of confidentiality** and all information should be **triangulated**. Although the company employment records are a primary resource, it is better to verify the numbers by observation and interviews with employees.

Additional tips can be found here: https://www.indikit.net/indicator/3793-number-of-jobs-created

53 Nabanita Sen, Adam Kessler and Donna Loveridge: Guidelines to the DCED Standard for Results Measurement: Defining indicators of change and other information needs; DCED, 2018; https://www.enterprise-development.org/wp-content/uploads/2_Implementation_Guidelines_Defining_Indicators.pdf

54 https://www.enterprise-development.org/wp-content/uploads/MeasuringJobCreation_WP_MarketShareAssociates_for_DCED_16June2014.pdf

7.3 WORKING CONDITIONS / JOB QUALITY

Except for the number of jobs, the project staff may want to be informed about the working conditions and quality of created jobs. Although often interchanged, the job quality is not exactly the same thing as employee satisfaction and the data collected from employees should be **triangulated** with the information provided by employers and possibly also by observation. The collected data will mainly be of qualitative character, but it is possible to create **scales** for answers and quantify the results for comparison.

According to theory[55 56], job quality has **seven dimensions**:

1. Physical environment (e.g. vibration, noise, temperature, exposure to health, safety, biological or chemical risks, etc.)
2. Social environment (personal relations, social support, discrimination, abuse, management quality, etc.)
3. Working time quality (duration, arrangements and flexibility, atypical daytime, overtimes, leave, etc.)

4. Prospects (status, career, job security, etc.)
5. Work intensity (quantitative demands, pace, interdependency, etc.)
6. Skills and discretion (decision latitude, participation, training availability, use of cognitive skill, etc.)
7. Earnings (compared to averages in the sector, country, etc.)

Trying to assess every possible aspect of working conditions would lead to very extensive research, and thus the evaluator will need to simplify. **OECD and ILO have elaborate methodologies**[57] about job quality measurement, but for the projects, where working conditions are just one of many subjects for evaluation, their application would be neither cost nor time-efficient. The solution is to select only the **key characteristics**, which will be the most variable in the selected sample, and if possible, try to **cover all** of the listed **dimensions**.

Indicators related to working conditions can be found here:

https://www.indikit.net/indicator/696-income-and-employment/3803-security-of-employment and https://www.indikit.net/indicator/696-income-and-employment/3801-employee-satisfaction-index-esi

7.4 MEASURING PERFORMANCE

The assessment of enterprise **performance** should always be **primarily based on financial measures**, as money is what every business should create and what fuels it at the same time. Moreover, the financial data should always be accessible as any business should collect them for its own sake. There are two good reasons for motivating enterprises to keep the books: helping them to be and stay informed about their own performance, and making sure the project can gather data for monitoring and evaluation.

There are three financial reports used all over the world, which together con-

55 UNECE: Measuring quality of employment, Geneva, 2010; https://www.unece.org/fileadmin/DAM/stats/publications/Measuring_quality_of_emplorment.pdf

56 OECD: Guidelines on Measuring the Quality of the Working Environment, 2017, OECD Publishing; https://read.oecd-ilibrary.org/employment/oecd-guidelines-on-measuring-the-quality-of-the-working-environment_9789264278240-en

57 Ibid.

tain basically all data about a business: **Income Statement, Balance Sheet** and Cashflow Statement. The first one, which is the simplest and contains information about revenue, costs, and profit, should always be gathered from any supported business, which is legally incorporated. There is no reason to ask someone verbally about the estimated numbers when s/he should be able to provide them to the highest accuracy and in written form. People can be secretive about their incomes,[58] but they are obliged to provide the same data to the tax collector, and there should be no reason to refuse if they are informed about such **conditions before they receive support**. Especially, when the support includes any donation. The smallest enterprises may find it difficult to provide the Balance Sheet, but if the target group (e.g. all LLCs) can deliver this report, the monitoring options will become much better. The reports should be collected periodically (at least for every fiscal period), and if possible, even for the year after the project ends for any late evaluation.

The common **mistake** is when the project monitors **only one performance indicator**, either revenue/turnover or profit. And even worse, if it measures just a percentage of increase of value, because a single number can be misleading when stated alone without any other context. The examples of Company A and B in the enclosed table could be wrongly assessed if only revenue data is collected. The example of company C shows that even knowing both numbers may not be sufficient for the right conclusion, because a small business can invest all its profit (or even more) into equipment.

	Revenues		Profits		Impression vs. Reality
	2018	2019	2018	2019	
Company A	$15	$360	-$985	-$640	Revenue increased by 2,400%, but still in high loss and basically not functional
Company B	$160 000	$60 000	$3 500	$6 000	Revenue dropped, but the company is doing better and may have, instead of one gov. contract (small margin), hundreds of small customers (higher margin).
Company C	$5 000	$4 800	$800	-$50	Looks worse according to both metrics, while the company has invested in equipment.

In the first case, the social enterprise (company A) is producing handmade gift cards and bookmarks. In the first year, they sell goods to their supporters at a total value of 15 USD. In the second year, after the training in business planning, they start to distribute their goods to stationery shops and make a revenue of 360 USD. Their yearly turnover was increased by an unbelievable 2,400%, but here the story ends as the money from the grant is spent and 360 USD is not enough to cover the one-month expenses. The second case is a small SME (company B) trading toners for laser printers. In 2018, they won a government tender, thanks to making the lowest price offer. They sold 10,000 toners in a total value of 160,000 EUR to government offices, and made a profit of 35 cents per piece, 3,500 USD in total. The contract finished, but in the next year, they opened a successful e-shop, where the sales were of 3,000 toners for 60,000 USD with an average margin of about 2 USD and a total profit of 6,000 USD. The revenue has fallen to a terrible 37.5%, but their profit has almost doubled and the business is becoming stable with diversified sales channels.

Another issue is that profit can have a **different meaning** for the owner of a microenterprise and owner of a standard company. An owner of a LLC can be also

58 Miehlbradt, A.,Posthumus, H.: Gathering Information from Businesses; 2018; https://www.enterprise-development.org/wp-content/uploads/MRM-Practitioners-Note-1-Gathering-Info-from-Businesses.pdf

an employee of his/her company with a salary, which will be included in the costs. On the contrary, a small farmer considers all profit as his/her salary and does not include it in the costs. If the salary (even minimal) were issued to him/her every month, in some cases, the business could then in fact be suffering a loss. From the monitoring perspective, however, it will still look profitable as the reported profit is higher than zero. This means that if an owner's salary is included in costs, this has to be identified and added to the calculations. Alternatively, the data should at least be disaggregated by legal form. It is also one of many reasons why **profit (or even revenue) cannot ever be compared to salary** (e.g. to measure attribution to profit using average salary statistics).

Anyway, the profit and revenue as the main business metrics should always be gathered (and included, together with costs, in the Income Statement). But it is always worth complementing them with other information which is relevant for the project, and which can add to full picture.

7.5 ECONOMIC SUSTAINABILITY

The economic sustainability of a business can be considered either as the **ability to stay profitable over time** or alternatively as a **low likelihood of bankruptcy.** Measured from either perspective the result should be the same. It is the **most important metric** for any kind of enterprise because sooner or later an unprofitable business will not survive, and the archived impact will disappear.

There are not many reasons for doing so, but **sustainability should not be measured for start-ups in the first 12 months**. Such companies are basically unsustainable by definition, and even if they reach a profit very quickly, the available data will probably be insufficient and possibly misleading. In such cases, it is better to measure the **preconditions of sustainability** instead. The following indicator is accompanied by an explanation of method: https://www.indikit.net/indicator/10-market-development/3820-expected-sustainability-of-supported-businesses. A similar principle is used by the tool provided in *Annex 11_EvaluateMSE-Sustainability.xlsx*, developed by the author of this document. It is suitable for start-ups or companies in the early stages of growth, and reports on the six steps on the scale towards sustainability. The tool is intended for use in assessments or evaluations. The excel template calculates the results automatically.

It is not possible to determine the economic sustainability accurately, because it would require predicting the future. None of the presented methods is 100% reliable and does not take into consideration unpredictable events that may occur. For example, political or macroeconomic instability, entry of a strong competitor or personal issues of the owners. Some of the methods are also demanding in terms of data collection. If sustainability is selected as a project indicator, it is recommended that you choose the evaluation method in advance, preferably during the design phase.

7.5.1 BY PROFIT AND REVENUE

The simplest but least reliable method for evaluating sustainability, is to compare the company profits and revenues over a **longer period**:

Sustainable: if the enterprise creates a **profit,** it has a **mostly positive cash-flow**, and **revenue grows** or stays about the same.

Unsustainable: If there is **no profit** and **cash-flow is mostly negative**, or if both **profit and revenue** show a significantly **decreasing tendency** over time (at least 20% each year).

The information is best collected from the **Income or Cash-flow Statements,** which can be printed from any accounting software, and for any period. If there is no other option, an assessment can even be done with estimated figures provided by the respondent. The **measured revenue** must not include the **external funding (grants)**. The data should be checked for this and corrected if need be.

It is helpful to have at least two yearly reports. In the case of monthly reports, a bigger sample is necessary (twelve or more), as the data can be distorted by seasonal fluctuations.

This method can give only simple **yes-no information without any details**. Although a company operating at a loss with a significantly decreasing revenue is almost definitely unsustainable, there are also several reasons why a **sustainable enterprise may declare loss instead of profit**. One of them is the recent investment in property, in promotion or in people. Another one is "tax optimization", and however dirty it may sound, almost all businesses tend to do this to some degree. At least, they purchase more at the end of the year and postpone the issuing of invoices to January.

7.5.2 BY ALTMAN Z-SCORE

The Altman Z-score takes a different approach, instead estimating the danger of financial failure. The formula for **predicting bankruptcy** within two years was first published in 1968 by Edward I. Altman and is still commonly used by stock investors. The final calculation is also a good indicator of **financial health**. In the later tests, the model was approximately **80%–90% accurate** in predicting bankruptcy one year before the event. While the original formula was optimized for those companies with publicly traded equities, other variants were added later, including the one for private firms, for non-manufacturing companies and also for **enterprises in emerging markets**.

The computation requires company **financial statements**, including the **Balance Sheet**. This is also the biggest **disadvantage** of the method, because some of the micro and small enterprises may not be able to deliver the necessary data. But the formula can definitely be applied to "bigger" businesses, particularly those registered as LLC or JSC.

There are many **free on-line calculators** available and one is also **enclosed in the collection template** (*Annex 10_AltmanZScore.xlsx*). Below is a formula for the purposes of illustration (for emerging markets):

$$Z = 3.25 + 6.56*X1 + 3.26*X2 + 6.72*X3 + 1.05*X4$$

Where:

X1 = (current assets – current liabilities) / total assets

X2 = retained earnings / total assets

X3 = earnings before interest and taxes / total assets

X4 = book value of equity / total liabilities

A **higher number means higher sustainability.** Results are divided into three zones, the first indicates full sustainability, while the last zone indicates near bankruptcy:

Safe zone: for **Z > 2.6**

Gray zone: for **1.1 < Z < 2.6**

Distress zone: for **Z < 1.1**

The seeming complexity of the formula had not caused any difficulties in PIN Moldova, where the index was used as an indicator on outcome level, as all variables were simply copied from unified tax forms into a pre-prepared template. The challenge appeared instead with the collection of Balance Sheets from some monitored subjects, which were not bound by a formal contract. It is better to use the index **only for monitoring of directly supported businesses** and set the **targets** while taking into account that it may not be possible to gather some of the statements.

7.5.3 SURVIVAL RATE

The survival rate of the supported enterprises is easy to measure and should be mentioned in any late evaluation of SMEs. It is defined as the **percentage** of supported businesses which are **still operating after a fixed time period** from an intervention's inception. It has been researched in several countries through large scale surveys, and results are **fairly consistent for longer periods of time**. This table shows the results from a few studies[59] [60] [61] with the most dissimilar outputs:

	US (SMALL ENTERPRISES)		UK (ALL)	RUSSIA
Years	Range	Mid	Mid	Average
1	74%-81%	77.5%	91%	90%
2	62%-69%	65.5%	75%	79%
3	55%-61%	58%	60%	68.5%
4	49%-55%	52%	51%	61%
5	47%-50%	48.5%	45%	55%
6	44%-46%	45%		50%
7	41%-42%	41.5%		46.5%

59 U.S. Bureau of Labor Statistics, 2016: https://www.bls.gov/bdm/entrepreneurship/bdm_chart3.htm

60 Office for National Statistics: Business demography, UK: 2016; https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/bulletins/businessdemography/2016

61 Evgeny A.Kuzmin: Data on empirically estimated corporate survival rate in Russia, 2018; https://www.sciencedirect.com/science/article/pii/S2352340917307060#t0055

The difference is mainly caused by the different **methodologies**, but the **local environment and events influencing the macroeconomic situation** may also play a role. The American study is probably most reflective of the general trend, as it was provided by the Bureau of Labor and therefore is not based on canceled business registrations alone.

The survival rate can be effectively measured only after an adequate period of time has passed. The results can be expected to be roughly similar to the below (in later years dropping even more slowly):

In 2 years	**about 70%-75% of survival rate**
In 3 years	**about 60%**
In 5 years	**about 48%**
In 7 years	**about 42%**

A certain divergence should be expected, especially for smaller samples, but the results still might be indicative. For example, when the rate is 40% after three years, one can assume that some mistakes must have occurred in the past. In contrast, an 80% rate after 3 years is a real success. In both cases, a deeper examination to discover the root cause(s) of these survival rates should be performed, taking into consideration that may not necessarily be project related.

The indicator: https://www.indikit.net/indicator/10-market-development/3811-survival-rate

7.6 PRODUCTIVITY

Despite public perception, productivity is not about extensive working hours, unpaid overtime and stress. In fact, harsh working conditions are rather detrimental to productivity. The productivity of the workforce is; moreover, only one of many elements in overall productivity and rarely the most limiting. Productivity can be best increased by advanced technology, know-how, logistics improvements, better management, and staff training.

Productivity should not be ignored by development projects as it directly affects sustainability and competitiveness as well as the companies' ability to pay higher wages. It is an economic measure of **output per unit of input** and it gauges the **effectiveness** (doing things right) and **efficiency** (doing the right things) of the SMEs in generating output using the available resources.[62] Higher productivity means that more value has been created with fewer resources.

The simple formula of "output per unit of input" conceals the measurement inconvenience. **What output per what input?** It is a question to be answered **specifically for each case**. The choice always depends on **what exactly should be measured** and how the data will be **compared or aggregated**. The most commonly-used formulas for subsistence farmers is:

productivity of farmers = harvest in kg / land size

productivity of farmers = total sales / land size

> Looking at the simplest example of measuring the productivity of a fruit farmer, the output can be quantified in kilograms of apples or as the amount of money for which the apples were sold. But a kilogram of apples cannot be compared to a kilogram of watermelons, while two farmers with similar yields can sell their apples for different prices. With regard to inputs, there are also several options: the area occupied by the orchard, number of trees, number of workers, total costs (labor, inputs, water).

With other types of businesses, there can be even more options, but usually, something as simple as productivity = revenue / (number of workers) or (kg of manufactured units) / (kg of raw material), works well. Productivity assessments can be narrowed down to some very **specific topics**, like productivity of capital, labor, advertisements, machinery; or can be restricted to branches or departments.

Economists often put the **Value Added** (VA) figure on the output side, as it represents a value which the company created. There are two ways to compute

62 George Wong: Handbook for SME productivity measurement and Analysis for NPOs, Asian Productivity Organization, 2015; https://www.apo-tokyo.org/publications/wp-content/uploads/sites/5/Handbook-for-SME-Productivity-Measurement-and-Analysis-for-NPOs.pdf

VA – both should give the same number:[63]

a) Subtraction Method (Wealth Creation):

Value Added = Sales – Costs of Materials & Services

b) Addition Method (Wealth Distribution):

Value Added = Labor Cost + Depreciation + Interest + Profit + Tax

The targeted productivity can be calculated as for example:

Labor Productivity = VA / Number of Employees

Capital Productivity = VA / Fixed Assets

Related indicators with explanation:
https://www.indikit.net/indicator/4-agriculture-and-nrm/208-agricultural-productivity
https://www.indikit.net/indicator/207-reported-crop-yield-per-unit

7.7 COMPETITIVENESS

Competitiveness[64] is a very complex concept without a single and commonly accepted definition or measurement methodology. At the most general level, it can be described as "the ability to provide products more effectively and efficiently than the relevant competitors".[65] It is important to always determine **what competitiveness** is discussed or measured. Is it competitiveness **of product, enterprise, area, sector or country**? Also, which markets should the subject be competitive in? A product can be very competitive at local markets, but uncompetitive on global markets.

The measure can also be understood either as **current and past performance**, competitive potential, or as a **sum of capabilities**. The competitive potential is basically the potential for innovation, which is the subject of the next section. Competitiveness, in the sense of performance, can only be increased **at the expense of other market players (competitors),** unless the target market were to simultaneously grow and the business exploited only new demand. But such math is very far from real life, and thus any externally driven increase of competitiveness, in this sense, creates a distortion.

7.7.1 MARKET AND EXPORT SHARE

The most straightforward way to measure the **competitive performance** of a product, business, region or sector is to **calculate its market share**. The formula is simple:

Market share [%] = total sales of measured subject * 100 / total revenue of industry

The variables should be accessible from the accounting books (for product or business) and/or from the official statistics (provided by the government, or relevant trade organization or chamber). The share can be calculated in **currency** or in **units of products,** but the formula ignores the difference in margins of particular competitors, so the results will be different. It is therefore wise to complement it with a **profit margin comparison**. The market share is usually measured over one fiscal period (year).

A similar formula may inform about competitiveness on foreign markets against other local exporters. Access to foreign markets is one of the typical cases when the monitoring of competitiveness can be appropriate:

Export share [%] = total export of measured subject * 100 / total export of industry

As an alternative, or complement, to the market and export share indicators, other indicators are also used by researchers. For example, the **Return on capital employed**. Whether it really measures competitiveness, or rather efficiency/productivity, can be disputed, as it does not take competition into consideration. The formula is:

Return on capital employed [%] = net operating profit * 100 / (Total Assets – Current Liabilities)

63 Ibid.

64 EC: Measuring Competetiveness, EU, 2017; https://ec.europa.eu/docsroom/documents/28181/attachments/1/translations/en/renditions/pdf

65 Muller, Marié-Luce: Competitive intelligence and competitiveness. SA Journal of Information Management. 10. 10.4102/sajim.v10i1.1., 2008.

7.7.2 CAPABILITIES

When competitiveness is considered as a **sum of capabilities**, the comparison with competitors does not have to be a part of the measurement, and the judgment regarding its improvement can reflect the improvement of the capacity alone. Unfortunately, there is **no complete and generally accepted list** of capabilities with a direct influence on competitiveness. Moreover, some capacities can have a greater effect than others, and their **influence can vary** according to the industry (e.g. branding will have more importance in the textile industry than in agriculture). The researcher who decides to assess these, will have to create his/her **own approximate definition of competitiveness,**[66] suitable for the researched environment, objectives and feasibility of assessment. S/he will also have to decide what weight to give to each variable. Such an approach is quite common and there are **several competitiveness indexes** available, but most of them report on the competitiveness of countries, regions or industries.

A tentative list of factors, influencing the competitiveness of enterprise may include:

- → Productivity,
- → Skills of employees,
- → Employees satisfaction and turnover,
- → Know-how, patents, and R&D,
- → Physical and financial assets,
- → Intangible assets (e.g. brands),
- → Skills and attitudes of management,
- → Corporate culture,
- → Networks and partnership,
- → Marketing budget,
- → Relations with customers,
- → Type of ownership and its advantages.

It is also possible to take into account external influences like government regulations, inflation, access to finances, or quality of infrastructure. The index measuring competitiveness would use a formula like:

$$\text{Competitiveness} = w_1 * C_1 + w_2 * C_2 + \ldots + wn * Cn$$

Where w represents the weight (in %) and C stands for numeric evaluation of specific capability on a fixed scale (e.g. 1=poor, … 5=excellent).

7.8 INNOVATION PERFORMANCE

Performance in innovation is a very important characteristic of businesses, and its measurement is interesting for many projects as well as for enterprises themselves. As it is again a very general concept, the methodology is very **individualized.**[67] Usually, companies use a **set of indicators on the input** and set of indicators **on the output**, which are selected according to the goals and strategies needed to reach them.[68] This means that an indicator which is very suitable for one company can be useless or confusing for another enterprise. A project which is trying to measure innovation performance across a group of supported enterprises, has basically two options. Either to select a **set of general indicators**, which would presumably be relevant for the whole target group; or, to help entrepreneurs create individual indicators and targets while measuring only **how many of those targets were met**.

<u>Examples of indicators for input (innovative culture)</u>:

# of new employee ideas tested
# of customer suggestions for improvement addressed

66 Roland Schmuck: Measuring Company Competitiveness, University of Pecs; http://kgk.uni-obuda.hu/sites/default/files/SchmuckR.pdf

67 Soren Kaplan: The Complete Guide to Innovation Metrics – How to Measure Innovation for Business Growth, InnovationPoint LLC; https://www.innovation-point.com/innovationmetrics.htm

68 Soren Kaplan: How To Measure Innovation (To Get Real Results), FastCompany online magazine, 2014; https://www.fastcompany.com/90501241/my-companys-always-had-4-day-workweeks-heres--why-theyre-more-important-than-ever

$ invested in staff training

# of employees trained in innovative approaches

$ (or % of the time) invested in R&D

Examples of indicators for output:

new products introduced to the market in the past XY years

% of the total revenue from new products

% of total revenue from new customer segments

# of new patents registered

$ revenue from patents and licenses

Such quantitative data often require **further explanation**, which can be provided only by qualitative research, usually connected to the indicators reporting. This may include focus group discussions and in-depth interviews with employees, executive staff and customers. Many companies also connect the data with results of customer and employee satisfaction surveys.

7.9 CUSTOMER SATISFACTION

If there were a competition for the most popular research conducted by businesses, those focused on customer satisfaction would probably take first place. Many shops still have the customers' complaint logbooks and the majority of entrepreneurs have conducted **customer satisfaction surveys** at least once per career. The Internet and social networks have brought new opportunities for **online ranking** (and even for the insidious defamation of competitors).

The satisfaction of customers may be interesting for project staff, especially in cases when the project **promotes** some **products or services** among target beneficiaries. Early feedback can help to improve the campaign as well as the product itself.

It is true that customer surveys have long been criticized for **low reliability**. Probably everyone has been in a situation where s/he unthoughtfully confirmed satisfaction to the waiter in a restaurant, despite getting a disappointing dish. Intentionally or not, people are not always honest with their answers. This barrier led to the introduction of two popular improvements: **Net Promoter Score** (NPS) and **Customer Effort Score** (CES).[69] Also, the methods based on an **observation of customer behavior** are generally considered more reliable, but are often difficult to execute.

The **Net Promoter Score**[70] replaces the customer survey questions with only one: On a scale of zero to ten, how likely are you to refer/recommend the product/brand? The score is calculated in an unusual way with the percentage of the low or average score (0-6) being deducted from the percentage of answers with the highest score (9-10). The answers in the range of (7-8) are ignored. The average NPS is about 10-15%, and generally, everything over 15% is interpreted positively. There are also benchmarks for different industries which are collected and sold by marketing companies.

See: https://www.hotjar.com/nps-calculator/

Similarly, the **Customer Effort Score** uses only one question, this time with the agree-disagree scale. The idea is to ask if the product has helped customers to solve their problem (the reason for purchase), and the scale describes the **amount of effort** they have put into the solution, as the product is supposed to minimize this effort. The question asks for agreement with a specific statement, for example: "The provided service helped me to save money".

The relevant indicator can be found at: https://www.indikit.net/indicator/89-customer-satisfaction

7.10 RETURN OF INVESTMENT, VALUE FOR MONEY

Value for Money (VFM) is a measurement of the **costs invested** in reaching outputs or outcomes. It can reveal how much was paid, for example, for each created FTE job or for an established business. PIN has its own templates and step-by-step guide, which will help researchers with the calculation:

69 Pascal van Opzeeland: 6 Proven Methods for Measuring Customer Satisfaction, Userlike blog, 2016; https://www.userlike.com/en/blog/6-proven-methods-for-measuring-your-customer-satisfaction

70 Bain & Company, Inc.: https://www.netpromotersystem.com/about/measuring-your-net-promoter-score/

https://www.valueformoney.guide/

Although the metric is mostly comparable only in the local context, it allows the assessment of the **efficiency of different approaches**. The question can be, for example: How much would it cost to create one job for a PWD through vocational training and provision of job seeking advice, compared to how much would it cost if he were provided with a direct grant to start his own business?

For SME-focused projects, the VFM is a **perfectly suitable tool**, especially because the Value in the equation, can often be **quantified in currency**. In such a case, the result can be judged as a **Return of Investment** (ROI) when assessing the impact. The information that a project invested, for example, 5,000 EUR into a new business which made 10,000 EUR (or 200 EUR as a contrasting example) of profit in the first two years, can completely change the view on the quality of the result. The increased revenues, profits, business values, salaries or even the savings on expenses can all be compared to the money invested by the project.

If under any circumstance it is difficult or impossible to calculate Value for Money properly, it is still possible to apply a basic return for investment formula with the estimated and inaccurate costs (if the deviation is not too big). The estimated costs must include all direct (grants, training) and indirect (transportation, project staff) expenses, including the relevant proportion of administrative costs.

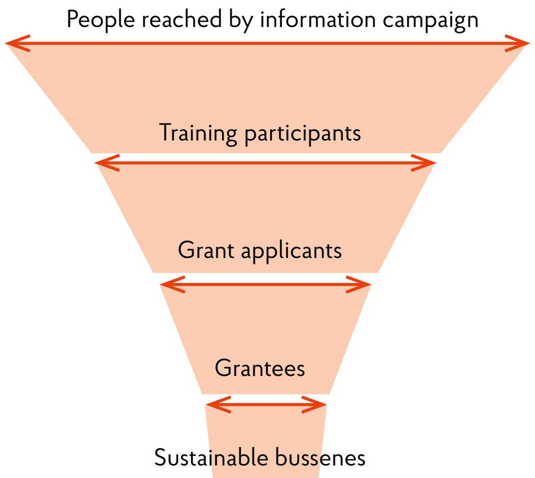
ROI = (Value of Impact * 100) / total costs

e.g.: ROI = (sum of all salaries paid in newly created jobs * 100) / corresponding part of project budget

Especially for profits, the ROI does not have to cross 100% in a short period and it will rarely happen within a few months. But if there are good prospects for 100% to be crossed within the foreseeable future, the money will not have been wasted.

ROI related indicator: https://www.indikit.net/indicator/3812-return-on-investment

7.11 CONVERSION FUNNELS



The **conversion funnels** are used by marketers mainly to track the acquisition of new customers with reference to four phases: awareness, interest, desire, and action (purchase). Not everyone aware of the product actually becomes interested, and desiring the product does not automatically lead to the purchase. So, when a company starts an advertisement, it has to expect some losses between the ad being seen and the product being bought. An advertisement which is more targeted is also more effective, as proven by the resultant higher conversion rate. This also means fewer costs per customer acquisition. The funnel, which splits the process into four or more phases, helps to identify which part of marketing is not working well. If there is a very low conversion rate between potential customers seeing the advertisement and becoming interested (measured e.g. by reading the article or by clicking on the web address), then the advertisement is not appealing enough, or is misplaced (overshadowed by some stronger stimulus).

There are not many reasons for NGOs to measure the effectivity of private sector advertisements, but there are plenty of reasons for them to **use the same methodology** for their own awareness-raising campaigns and they can **adopt it** for any situation where the project is trying to create conversion of some sort. The funnel can be created simply by connecting certain **indicators** from a Result Chain or Logical Framework together. This can be done whenever there is **logical continuity and** a theory of change is being designed. The following example demonstrates this for an agricultural project:

1. # farmers reached by information campaign = 100 (100%)
2. # farmers signing for the agricultural and business training = 60 (60%)

3. # farmers succeeding in the final test of training and receiving the certificate = 59 (98%)
4. # trained farmers investing in soil inputs for first time = 18 (30%)
5. # trained farmers using the soil inputs and new practices 6 months after training = 14 (77%)
6. # trained farmers reporting higher yield = 12 (85%)
7. # trained farmers reporting higher income = 12 (100%)

The conversion **rate assigned to each step** in the funnel reveals **exactly what worked well and where the main gaps in the intervention are**. The example clearly shows, that while the new farming practice was properly explained and has a real impact on farmers' productivity and income (6-7), the effort to convince farmers about it basically failed twice: First, when the farmers were invited to participate in the training (2), and especially the second time, during the training itself (4). The flaws are often connected with **wrong assumptions**. In this case, it could be the belief that farmers would have to pay for soil inputs if the benefits are clearly explained to them.

It may seem that the conversion funnel may simply be using the data from the logical framework, but there are a **few differences** regarding measurement within the funnel. First of all, the numbers are counted **for the same group of people/businesses** through the whole transition from the first phase to the last. It is usual practice that a participant convinces their neighbor to apply the new practice. In a logical framework, the neighbor would be included in the impact measurement for that indicator, which is not the case for the funnel. The group of people measured must stay exactly the same from beginning to end, and they are only counted **on condition that they pass the designated stage**. If someone does not purchase the soil inputs, but still increases yield (in a different way), s/he should not be counted from level 4 up.

The conversion funnel can be used during the evaluation, but its real **power is** in combination with **batches** and in **monitoring pivots or experiments**. The batches are basically the groups of beneficiaries **of the same size**, going through the same process independently. For experimental reasons, **the procedure for each batch is slightly adjusted** and then the results of conversion mutually compared. The previous example could require a different form of information campaign (or even just different leaflets), some extension of training (e.g. additional exposure visit), or even the introduction of a subsidy on the first purchase of soil inputs. It is important to always introduce **only one** or two small changes for each batch, to make sure that possible effects will be attributed to the right improvement. It can also be that adjustments lead to worse results, and in such a case, it is necessary to take a step back.

The best use of the conversion funnel is in combination with the **step-wedge design**. In this way, each batch would start with a reasonable delay allowing each subsequent group to benefit from improvements made along the way. The described example shows the funnel being applied to the whole project and at least one agricultural season, but it can be easily cut or split after the fourth or fifth level. It is more practical to use funnels **for shorter processes** and mostly where the success depends on important **assumptions** or is connected with some **risks**. If there were four or five consecutive batches, the project team could perfect its approach and then provide the support in far better quality in the next season or during the next project. An additional plus is that the **indicator targets** can also be estimated in a more precise way.

The measured results can become a **source of lessons learned**, and also **shared across the country programs for comparison**. The method is well suited for SME development, where the program participants pass through several events and stages, but it can also be used in other sectors, e.g. for monitoring of behavioral change.

The conversion funnels may be perceived as quite demanding, but the benefits can significantly outweigh the additional labor. Although used in marketing for some time, the funnels were improved and popularized recently by Eric Ries in his book 'Lean Startup', as they are easily automatized for businesses providing web-based solutions or services. Thus, they are also known as **Lean Metrics**.

7.12 IMPACT OF SOCIAL ENTERPRISES

In the many interviews with Social Enterprises (SE) conducted on behalf of PIN, the need for a feasible methodology to measure impact was expressed. Unfortunately, there is no simple method, formula or indicator to measure the universal impact of any SE, because their goals vary as much as the objectives of the development projects. However, as the objectives are very similar, the **methodology should be similar** as well. If the SE aims to employ vulnerable people, it should measure the number of provided FTE jobs. And if its aim is to provide social services to the elderly, it should be measuring the hours of service provided to their clients. The SEs usually have several objectives defined, and assigning an indicator to each of them is a natural solution.

Some of the objectives and indicators can be unusual for development projects and specific to SEs, as for example, **percentage of equity ownership**, when the enterprise is partially owned by its beneficiaries; or **fair profit distribution** (comparing how much profit is used to cover the impact with how much is withdrawn by a possible private investor). But because the types of SE vary so much, there is no need to consider such indicators for all SEs, but only if they are relevant to the specific character of the legal entity.

Maybe, what SEs really need is not only the information about impact but mainly the data about **impact efficiency**. And that is a measure especially interesting for their donors and investors, as it allows them to compare this with other approaches to social investment. The SE which creates a profit, is fully sustainable and independent of external funding. It is basically like a machine in perpetual motion with an ongoing social impact which nobody can question, because no further financial injections are needed (only in cases of expansion). But if an SE cannot survive without additional support and finishes every fiscal period in the red, it automatically raises the question of whether the donated money creates enough impact to justify the losses to operational costs. That leads back to the **Return of Investment metric**, which in such a case can only use the sum of total external funding as the costs, because all other expenses come from the enterprise's own revenue.

8. GLOSSARY AND ABBREVIATIONS

Accounting (Bookkeeping): the process of recording a financial transaction about costs and incomes

Advertising: communication with the customers in order to promote a product

B2B: Business to business

B2C: Business to consumer

B2G: Business to government

Balance Sheet: the report on the company's assets, liabilities and shareholders' equity at a specific point in time

Blended Finance: a strategic subsiding in order to catalyze investment from the private sector

BMC: Business Model Canvas; Tool for business planning

Bootstrapping: starting a business with one's own limited capital and without external resources

Brand: name, term, design, or symbol that distinguishes a business or a product from its competitors

Break-Even Point (BEP or B/E): point of balance, where the total incomes and total costs are equal and the company makes neither a profit nor a loss

Business Plan (BP): a written document describing the nature of the business, the sales and marketing strategy, the financial background, and containing a projected profit and loss statement

Business Model: the conceptual structure supporting the viability of a business, which describes the rationale of how an enterprise creates, delivers and captures a value

Cash Flow: the difference in the amount of cash available at the beginning and at the end of a specified period. It can be positive or negative.

Cash Flow Statement: a financial report which sums up a business's cash (or cash equivalents) transactions throughout a given period

CEO: Chief Executive Officer; the title used usually by the highest positioned manager in a company

Competition: the rivalry between companies selling similar products with the goal of achieving revenue, profit or market share growth

Competitiveness: the ability to provide products more effectively and efficiently than the relevant competitors

Crowdfunding: fundraising method, when the raised amount is collected from a large number of small donors or investors

CSR: Corporate Social Responsibility; the responsibility of enterprises for their impact on society[71] or environment; also referred to as Responsible Business Conduct (RBC)

Customer Relations: processes by which a business develops, establishes and maintains relationships with its customers

Customer Segmentation: the process of dividing customers into groups based on common characteristics so companies can market to each group effectively and appropriately

Demand: desire and willingness of customers to pay a price for a product

71 The European Commission: A renewed EU strategy 2011-14 for Corporate Social Responsibility; https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52011DC0681

Depreciation: an accounting method of allocating the cost of a tangible asset over its useful life; the permitted methods of depreciation are defined by national legislation

EBITDA: earnings before interest, taxes, depreciation, and amortization

Exit Strategy: the plan to sell the ownership of a company

Financial Plan: a projection of income and expenses for an enterprise

Fixed Costs: a cost that does not change with an increase or decrease in the number of goods or services produced

FTE Jobs: Full-time equivalent of jobs (8 hours per 240 days in a year)

HACCP: Hazard analysis and critical control point; a management system in which food safety is addressed through the analysis and control of biological, chemical, and physical hazards from raw material production, procurement, and handling, to manufacturing, distribution, and consumption of the finished product.

HR: Human Resources; the division of a company that is focused on activities relating to employees.

ILO: International Labor Organization

Income Statement: the report on a company's financial performance over a period of time

Intermediaries: (also middlemen) facilitators of sale: e.g. agents, brokers, wholesalers, distributors or retailers

JSC: joint-stock company; stock shares are tradeable

Labor Market: supply and demand of labor; market with jobs

Lean Canvas: a tool for business planning derived from BMC and adjusted for use by Lean Startups

Lean Startup: the approach for building a new business based on validated learning. It was introduced by Eric Ries in 2011 and later turned into a movement of entrepreneurs, who apply it and continue developing it

LLC (or ltd.)**:** limited liability company

Logistics: the process of planning, implementing, and controlling the efficient, effective flow and storage of goods, services, and related information from the point of origin to the point of consumption for the purpose of conforming to customer requirements

Management: organization and coordination of the business activities

Market Fit: (also product fit) having a product for which enough customers are willing to pay so that the company can stay in business

Market Research: discovery methods applied to decision making in marketing. It includes exploration of customers, trends, competition, suppliers, etc.

Market Saturation: Level to which demand for a product is covered by sales

Market Share: a percentage of total sales volume in a market captured by a product or company

Market Size: is the total volume (buyers or money) in a given market

Marketing: a set of business activities leading to understanding and satisfaction of customer needs

MFI: Micro-Finance Institution; an organization that offers financial services to microenterprises

MSD (or M4P): Market System Development approach (Markets for Poor is the former name)

MVP: Minimum Viable Product; the simplest version of the product, which delivers customer value (the term is related to the Lean Startup)

Net Promoter Score (NPS): Tool for measurement of customers' loyalty

Positioning: the way in which to differentiate one product/brand from competing products/brands

PR: Public Relations; a practice of maintaining and shaping the image of an organization to the public in such a way that a favorable point of view is developed for the concerned entity

Premium Price: a pricing strategy, when the price exceeds the price of competition in order to make the product appeal to more exclusivity-seeking and wealthy consumers

Price: a value that will purchase a finite quantity, weight, or another measure of a good or service

Pricing Strategies: methods companies use to price their products

Product: the service or item offered for sale. It can be in physical or in virtual form

Product Margin: the difference between the price and product costs expressed as a percentage of the price

Productivity: an economic measure of output per unit of input

Profit: the surplus remaining after total costs are deducted from total revenue; a financial benefit from the business activity

PWD: people with disability

R&D: research and development

ROI: Return of investment; a measure of investment efficiency

Revenue: the income that a business receives from the sale of goods and services to customers

Revolving Fund: fund set up for specified purposes which replenishes itself from repayments

Production Capacity: the maximum volume of products or services that can be produced by an enterprise using current resources

Sales Channels: a way of bringing products to market so that they can be purchased by consumers (can be direct or indirect)

Seed Funding: Investment (donation/grant) provided in order to help recipient start a business

Sheltered Workshop: organization providing a safe working environment for people with disabilities

SME: Small and medium-sized enterprises

Social Enterprise (SE): organization using commercial strategies to address social or environmental goals

Sole Proprietor: the exclusive owner of a business

Subsidy: A benefit given to a business or person, by a government or NGO, to ease some specific burden.

Supply Chain: a network of entities, people, resources and activities required to manufacture and deliver a product to the customer

SWOT Analysis: strengths, weaknesses, opportunities and threats analysis

Target Customer: a specific group of consumers who are the focus of a company's advertisements

Total Assets: accounting term meaning total value or resources owned by enterprise

Turnover: (in accounting) the same as Revenue, used in the U.K.

TVET: Technical and Vocational Education and Training

Value Chain: a model that describes the full range of activities needed to create a product or service

Value Proposition: a business or marketing statement that summarizes why a consumer should buy a product or use a service


Photo © People in Need

9. RECOMMENDED READING

Capacity building of SMEs:

- David de Wild: Business Skills Training Course for Beneficiaries of Microeconomic Initiatives, ICRC, 2014; https://www.icrc.org/en/publication/4202-business-skills-training-course-beneficiaries-microeconomic-initiatives
- EWB: B2B Exchange Visits – a Guide for Market Facilitators; http://www.seeplearning.org/jobtools/wp-content/uploads/2016/01/B2B_Exchange_Visits_guide_EWB_1.pdf

Financing SMEs:

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- Miehlbradt, Posthumus: Gathering Information from Businesses; 2018;

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- George Wong: Handbook for SME productivity measurement and Analysis for NPOs, Asian Productivity Organization, 2015; https://www.apo-tokyo.org/publications/wp-content/uploads/sites/5/Handbook-for-SME-Productivity-Measurement-and-Analysis-for-NPOs.pdf
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Market System Development:

- Catalogue of resources (PIN): https://msd.peopleinneed.cz/

- Julien Brewster: Enabling poor people's access to essential products and services, PIN, 2018; https://resources.peopleinneed.cz/documents/459-good-guide-practice1-absolut-final-web2.pdf
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- Fitzpatrick, Rob (2013), The Mom Test: How to talk to customers & learn if your business is a good idea when everyone is lying to you. Leipzig, Germany: CreateSpace Independent Publishing Platform.
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- Ries, Eric (2012), The Lean Startup: How current entrepreneurs use continuous innovation to create highly successful companies. New York: Crown Business.

10. LIST OF ANNEXES

1. **Example of questioner for skills/needs assessment of SMEs** – Chapter 3.6

   Can be used to identify the needs and skill gaps of SMEs, which can be targeted with tailored support.

   [01_Business_SkillsNeeds_Assessment.docx]

2. **Examples of training agendas** (when BMC or Lean Startup is used) – Chapter 4.2.5

   To be compared and discussed with a hired trainer for business planning training.

   [02_TrainingAgendas.xlsx]

3. **Business Model Canvas, Lean Canvas & Value Proposition Canvas** – Chapters 4.2.2-3

   The tools for electronic use or print can be distributed to participants.

   Source: Business Model Foundry AG (use under Creative Commons License)

   [03_Business_Model_Canvas.png, 03_business-model-canvas.xls]

4. **Business plan structure** (for startups + existing companies) – Chapter 4.2.1

   Suitable for preparation of BP template. Should be used together with annexes 5 or 6.

   [04_Business Plan Structures.docx]

5. **Template for calculation of Break-Even Point** – Chapter 4.2.5

   Training tool. Can be used together with the Business Plan or independently.

   [05_BreakEvenPoint.xlsx]

6. **Template for Financial Plan/Sales Forecast** – Chapter 4.2.5

   Training tool. Can be used together with Business Plan or independently.

   [06_FinancialPlan.xlsx]

7. **Survey of training participants** – Chapter 4.2.7

   Questioner for anonymous survey to collect feedback about business training.

   [07_AnonymousSurvey4TrainingParticipants.docx]

8. **Scoring sheet template for business competition** – Chapter 5.1

   Template for recording scores of grant competition participants.

   [08_ScoringSheets_Templates.xlsx]

9. **Report from monitoring visit, phone survey of supported businesses** – Chapter 7.1

   Example of monitoring visit questionnaire, and table for recording data about SMEs from phone survey for evaluation or assessment.

   [09_MonitoringVisitReport.xlsx]

   Tools for evaluation: Altman Z-Score – Chapter 7.5.2

   Tool for recording financial data from Balance Sheets, and calculation of Z-Score.

   [10_AltmanZScore.xlsx]

10. **Tools for evaluation of MSEs – Sustainability Questioner** – Chapter 7.5

    Questionnaire for preliminary assessment of MSE sustainability, adjusted for start-ups.

    [11_EvaluateMSE-Sustainability.xlsx]

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SME COOKBOOK

A reference handbook for the support and development of small businesses.

People in Need, Czech Republic
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