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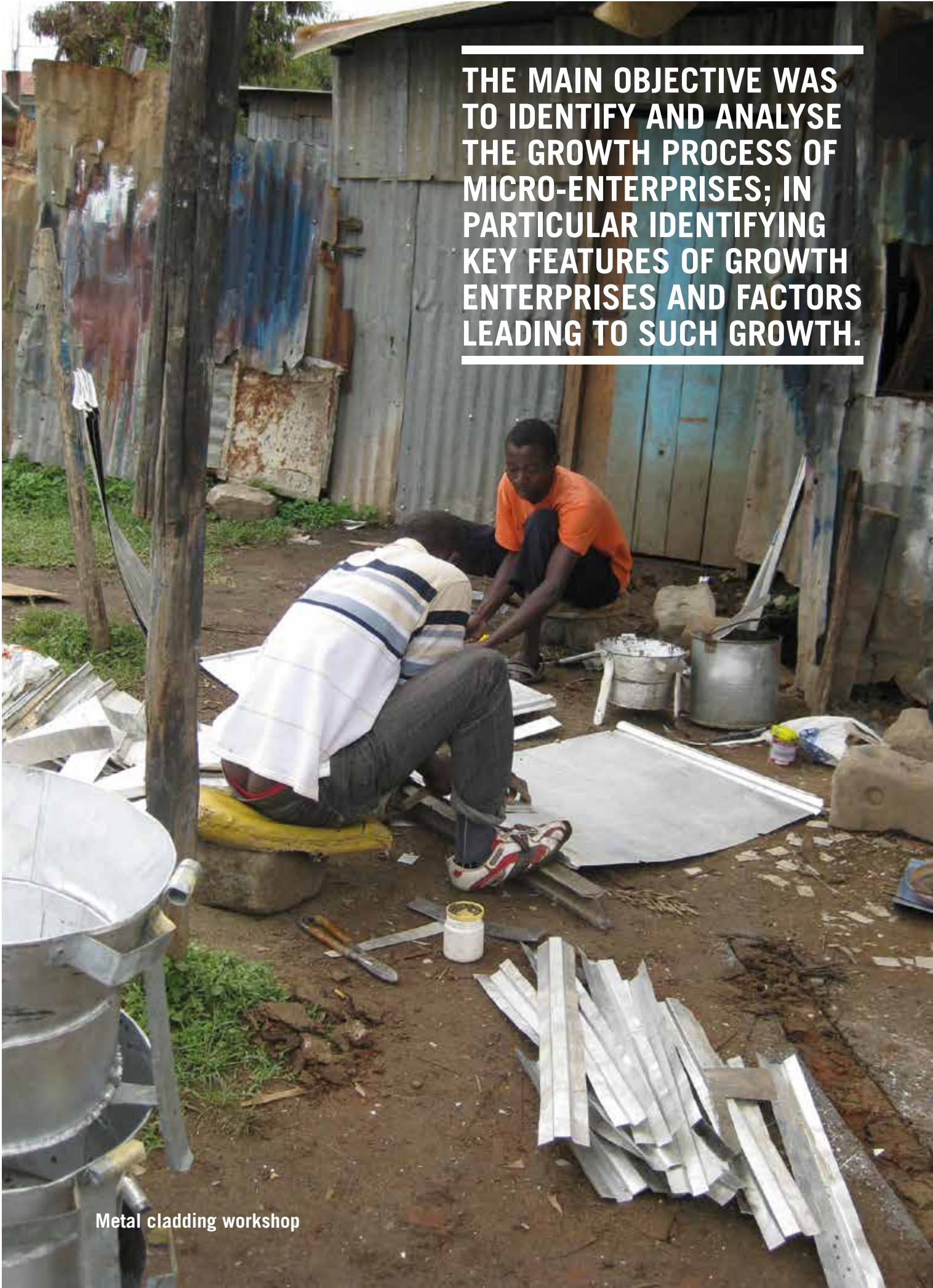
HOW DO ENERGY MICRO-BUSINESSES GROW

**UNDERSTANDING GROWTH AND
TRACING THE IMPACT OF GVEP'S
DEEP PROGRAMME**

Lennart Bångens & Simon Collings



THE MAIN OBJECTIVE WAS TO IDENTIFY AND ANALYSE THE GROWTH PROCESS OF MICRO-ENTERPRISES; IN PARTICULAR IDENTIFYING KEY FEATURES OF GROWTH ENTERPRISES AND FACTORS LEADING TO SUCH GROWTH.



Metal cladding workshop

EXECUTIVE SUMMARY

DEEP (Developing Energy Enterprise Project) was a business development programme, designed and implemented by GVEP, that focused on supporting informal micro energy businesses in East Africa from 2008 to early 2013. The approach was integrative which meant that the support covered a wide range of capacity building activities. As a follow up research exercise, 17 in-depth interviews of DEEP businesses located in Kenya and Tanzania, were conducted in late 2014. The main objective was to identify and analyse the growth process of micro-enterprises; in particular identifying key features of growth enterprises and factors leading to such growth. Hence, the study was not a traditional impact assessment but nevertheless aimed to understand the role of DEEP support in a broader context set by the micro, small and medium enterprises' (MSMES') growth process. There was a review of literature pertinent to MSME growth and the role of support programmes.

The key empirical findings disclose that about 30 % of the entrepreneurs were women, 13 Improved Cook Stove producers, 2 Solar PV charging businesses, and 2 briquette manufacturers. Five out of the 17 interviewed (29%) were considered successful businesses – so called champion businesses – that had taken off from the survival stage. This is probably higher than the average among DEEP supported businesses. Most of the entrepreneurs were around 40 years of age or older.

Educational levels were moderate; 50 % had only completed primary school, standard 7. For the remaining part, most had reached O-level but there was only one entrepreneur holding a university degree. The majority of entrepreneurs had comparatively short experience of running a business before joining DEEP. Most of the businesses were started a few years before joining DEEP, 16 out of 17 had earlier experience of business but often limited to a few years.

Diversification was not common among the businesses; only 2 had 'competing' diversifications that required time and effort at a different location. Several had opted for complementary diversification to expand business such as more products in the shop rather than just offering charging services, repair services for ICSs, other ceramic products using fired clay like pots, etc.

Formalization; five of the companies had proper licenses and registration. These turned out to represent the larger and fast growing businesses in the sample. Most of the other micro

businesses did not see the need for registration and formalization of their businesses.

Most of the entrepreneurs have bank accounts but normally use private accounts. There is seldom a differentiation between personal and business accounts. All revenues go in the same account. The capital for starting a business originated predominantly from own savings or from the family. The number of bank loans secured as a direct result of DEEP were few, four businesses, but several secured loans when they transitioned to a follow on programme, CARE2, or indirectly by using business plans and knowledge acquired during DEEP. The businesses that managed to be granted a second or third loan were exclusively the 'champions.'

Keeping records, which was actively encouraged by GVEP staff, had mixed outcomes among the companies. Several of the smaller micro-businesses stopped keeping records when DEEP was completed.

As to be expected in the MSME sector, cash is the preferred payment model. Some companies have developed their own credit models for customers that they deemed trustworthy. The larger, more successful businesses tended to rely more on credits which was partly explained by the higher extent of B2B (Business to Business) transactions and their relative solid liquidity. The stagnated micro-businesses relied more on the retail model; direct sales to users. Some failed to develop wholesale because of poor volumes and competing with their own wholesalers; i.e. direct sales and wholesale to the same market.

To be expected, employment is not a key goal for the MSMEs per se but seen as a necessary means for operating the business. Most of the enterprises

had 1 employee but the exceptional cases had even 5 or more. In fact, the only enterprises in our sample with more than 3 permanent employees were the fast growing champions.

The analysis of the findings shows that only a few factors are related to high growth rates. The predictors of likely fast growth seem to be:

- education/ability to learn and problem solve
- marital status/age – for women (or supportive spouse)
- loan size and speed of repayment, leading to 2nd and 3rd loans. The ability to save is closely linked to 'good' loan behavior.
- level of marketing activity and networking such as building B2B relationships
- degree of organization in the business (record keeping, costing, formalization, etc)
- employee numbers – 3/4 seems to be the point where economic efficiencies start to kick in
- ability to learn from external training and support such as DEEP

The outstanding observation is that all businesses interviewed have learned from training, BDS, mentoring, networking. Hence, it is evident that all enterprises have benefitted from DEEP; some more than others. The empirical findings disclose that about 70 per cent have grown moderately and today are operating small but sustainable businesses. A general observation was the comparatively high sustainability and growth rates among the businesses visited.

There is also tentative findings that growth and survival entrepreneurs are totally different 'creatures.' This observation is that based on a closer look at these fundamentally different cases which actually reinforces the argument that survival and growth-oriented entrepreneurs

AS TO BE EXPECTED IN THE MSME SECTOR, CASH IS THE PREFERRED PAYMENT MODEL. SOME COMPANIES HAVE DEVELOPED THEIR OWN CREDIT MODELS FOR CUSTOMERS THAT THEY DEEMED TRUSTWORTHY.

are different groups, rather than different stages in the trajectory of firms. More in-depth qualitative empirical findings are needed to conclusively make a case of path dependence but literature reviews support the fate of most micro businesses to stay 'micro'. From a poverty point of view supporting such businesses may be justified though there are strong counterarguments based on the poor efficiency of small, often one (wo)man business.

A first and overall question for programme designer concerns the overarching objective: Survival vs growth emphasis. The micro enterprises may not grow a lot but they may still be in operation providing livelihood for the owners. The proposition here is neither to favour pro-survivalist nor pro-growth but the implications on programme objective and design.

A second step is to develop a framework and methods to facilitate the segmentation of target groups into survival and growth-oriented entrepreneurs as the two categories follow qualitatively different logics. The predictors identified in this study could form the basis for such a framework.



Stoves on sales in a market

INTRODUCTION

GVEP's DEEP (Developing Energy Enterprise Project) was a business development programme that focused on supporting energy micro, small and medium enterprises¹ implemented in East Africa from 2008 to early 2013. The enterprises selected for joining the programme received support through a wide range of capacity building activities spanning from internal organisation to expansion of customer base, building customers and supplier relationships, etc. The DEEP model for building capacity comprises traditional training, interactive workshops but also mentoring, networking with other businesses, visits to market places, and exposure to the experience of successful businesses. Hence, an integrative approach that addresses internal business functions (production, organisation, book keeping, manpower, technology, business plans, etc.), sales, customer care, business relationships, and procurement (supplier selection, material selection, costing, outsourcing). Preliminary reviews and M&E data point to substantial growth in about 25 per cent of the businesses manifested in sales increase and job creation. The majority² of the eMSMEs interviewed remained micro, which is not surprising, but have grown moderately demonstrated in stable sales probably drawing from a more organised way of doing business.

From an impact assessment perspective, analysing broad ranging and holistic interventions such as the DEEP business support programme is a challenge. The DEEP's integrative approach has been effective for supporting sustainable business but by default less 'traceable' in verifying the precise cause of the businesses' improved performance. That is, the attribution of each BDS component to the development of an enterprise becomes difficult to measure. Business performance draws from a multitude of factors which argues for contribution instead of attribution. For the overall success of the programme this may not be a concern but for designing and evaluating various components such as mentoring, training, network efforts, the assumed impact must be somehow known.

Objective: To further identify and analyse the growth process of micro-enterprises; in particular identifying key features of growth enterprises and factors leading to such growth. A sub-objective is to assess whether the theoretically and empirically identified growth factors could be measured in practice and verified in an M&E system or left for impact assessment. An additional objective is to evaluate the possibilities of assessing the impact of specific sub-components delivered in DEEP. If the nature of support does not render such assessment of attribution, the overall impact of DEEP may be the adequate indicator. Of particular interest is the high growth businesses versus moderate/slow growth and the role of DEEP in triggering growth. A main issue – relevant for most interventions – is whether observed changes actually are a result of the intervention or they would have happened anyway. Secondly, if there is causality between a project's activities and observed impact the next issue concerns attribution or

contribution. Attribution tends to be problematic, if not impossible for complex interventions such as organizational change (O'Flynn, 2010). Specific attention will be paid to the mentoring process.

Method: The approach focused on the businesses' growth and development rather than starting from DEEP and possible impact. This meant among others that the interviews used the entrepreneurs' experience and perception of growth as the platform. The mission started with a review of literature that discusses among others the following: SME growth, business cycles, phased growth, growth patterns of micro-enterprises, transition from survival to formal business. The review also summarizes key findings from so-called BDS literature and support to MSME to identify pros and cons of intervention programmes.

The review phase was followed by collecting data from two sub-sectors carried out in November – December 2014; ICSs (Improved Cook Stoves) and briquetting in Kenya and solar phone charging in Tanzania. The focus is primarily on enterprises that received support in DEEP only, but includes a few that transited and currently receive support under CARE2. 17³ qualitative⁴ in-depth interviews were carried out with the business owner. The objective was foremost to document the entrepreneurs' perception of their businesses but also to collect factual data on the growth process which is outside the scope of DEEP's M&E. Further, the interviews would also establish their current level of development vs pre- and post programme interventions. The sample included a mix of male and female-led businesses.

GVEP staff were involved in the process which meant that they were part of the study and were able to provide their own insights and observations, staff were encouraged to engage and share their own reflection and learning through involvement in the process.

Differences in the experiences of male and female businesses owners with respect to business growth were explored, and any implications for delivery of BDS in future considered.

Tracing and verifying sales data from the period before DEEP and in the early years was a challenge as the memory of businesses was limited and records have not been properly kept. They did keep records during DEEP but commonly the filing of old records is poor.

THE APPROACH FOCUSED ON THE BUSINESSES' GROWTH AND DEVELOPMENT RATHER THAN STARTING FROM DEEP AND POSSIBLE IMPACT. THIS MEANT AMONG OTHERS THAT THE INTERVIEWS USED THE ENTREPRENEURS' EXPERIENCE AND PERCEPTION OF GROWTH AS THE PLATFORM.

LESSONS LEARNED FROM A LITERATURE REVIEW

The review discusses two main strands of literature; the growth process of MSMEs as well as the role of support programs in backing the development of sustainable micro-enterprises. Evidence on effectiveness of entrepreneurship support programs is however scarce and existing literature on growth is seldom linked to support programs.

The growth of small firms in sub-Saharan Africa has been poorly addressed and is commonly attributed to the characteristics of hard-working entrepreneurs that succeed in spite of the non-supporting business environment (Nichter and Goldmark, 2009). A general consensus on MSME growth is the limited growth potential as few actually go beyond a micro-enterprise; either measured in turnover or number of employees. Studies by Mead & Liedholm, (1998) and Liedholm (2002) reveal that only a mere 3 % will expand to four or more employees. Higher growth rates are even more rare. A striking finding from the surveys across Southern Africa is that less than 1% of firms will graduate from the micro-enterprise seedbed and become established enterprises which employ more than 10 workers (Mead & Liedholm, 1998, p. 67). Nichter and Goldmark (2009) observe that although growth is not the trademark of MSMEs the aggregated growth may reach 15-20 %. This is explained by a small number of high performance companies that demonstrate extraordinary growth rates. Nonetheless, MSMEs comprise the main employer in developing countries and contribute substantially to GDP, often more than reported due to their informal operations.

The impact of gender on MSMEs has been viewed as a key factor for the type of business established and the opportunity to grow. Mead and Liedholm

state that there are more female-led survival-oriented businesses than male in Africa. The main reason for the abundance of female MSMEs is the women's struggle to balance their various obligations and roles in the household (Karim, 2001; Marcucci, 2001). A study supporting this argument is Pingle (2005) who based on data from South Africa, Egypt, and Nigeria suggests that unmarried women and not having children under the age of 10 have higher chances of growing their micro business beyond the survivalist stage.

What are the factors behind MSME growth? Literature is not conclusive but there is an agreement that the factors driving growth are a complex combination of personal traits, firm characteristics, the firm's relations and networks, and the business environment. The entrepreneur's education and experience are important to an extent but only if relevant and above a threshold level. Having completed secondary school seems to provide a better platform for growth than those only having primary school education (Nichter and Goldmark, 2009). Work experience in the same sector exceeding five years tend to support high growth rates but there are few studies supporting the role of experience. At company level, younger firms (with experienced owners) show markedly higher and faster growth; some studies point to acceleration in the third year of operation.

Most MSMEs run their businesses informally with minimum level of formality and licenses, which slows down the opportunity for growth (Sleuwaegen & Goedhuys, 2002). There are several explanations on the role of informality; relations with formal companies and institutions suffer, access to credits, certain contracts are void due to lack of documentation, etc. Formalization per se may not automatically solve these issues. Access to finance is often cited as a key barrier to growth by entrepreneurs. It has been verified empirically that micro businesses struggle to access credits and loans. Nevertheless, there are few studies that support the hypothesis that access to finance enables growth. Akoten, Sawada, & Otsuka, (2006) study of garment business in Kenya finds that access to credits is not a key determining factor and concludes it may be a necessary but not sufficient condition for certain types of expansion.

MOST MICRO ENTERPRISES RUN THEIR BUSINESSES INFORMALLY WITH MINIMUM LEVEL OF FORMALITY AND LICENSES, WHICH SLOWS DOWN THE OPPORTUNITY FOR GROWTH

The companies' relations with other businesses in the value chain, competitors, networks, customers all have direct impact on performance and opportunity for long term growth. The general observation is that many MSMEs do not value or view the benefits of establishing the necessary relationships. Evidence points to the importance of maintaining such relations for sustaining growth.

The analysis of literature further discloses that those enterprises that add workers were more likely to survive than those that had remained the same size since their start-up (Mead & Liedholm, 1998). Another key determinant of firm survival was location with home-based enterprises exhibiting higher hazards and greater closure rates than enterprises which were located in commercial districts. In particular, businesses owned by women which were operated at household level tended to be less sustainable because of gendered constraints. The women entrepreneurs normally diversified rather than narrowly focusing on a single business (risk aversion strategy).

Turning to the other side of the coin, failures: The vast majority of new enterprise births tend to be one-person establishments, as was found in a micro-level study of Mathare Valley, the largest concentration of informal enterprise in Nairobi (Mwega, 1991). It is significant, however, that between 25 and 33% of closures occur either because the entrepreneur moves on to better opportunities or for personal reasons (retirement, sickness) rather than as a result of business failure (Mead, 1994b). In detailed research in Kenya,



TO CONCLUDE, MOST MICRO BUSINESSES DO NOT GROW SUBSTANTIALLY BUT RATHER STAGNATE AFTER A FEW YEARS.

60% of former entrepreneurs cited business failure as the cause of enterprise deaths, while the remaining 40% stated that their otherwise viable enterprise closed for reasons entirely unrelated to the enterprise (Dondo, 1998, p. 6). Most of the business closure, as with growth, happens within three years of operation (Liedholm, 2002). A key lesson from the African small enterprise experience is therefore that closure of a business must not be equated with failure.

Rogerson (2001) lists the following growth factors: 1) At the highest level of aggregation, manufacturing and services enterprises were more likely to expand than retailing, 2) there are benefits from agglomeration externalities (clustering and networking) 3) the level of human capital such as education, 4) macro-economy itself is healthy 5) for many micro enterprises there is often one missing ingredient, often working capital, 6) Non-financial constraints, most notably access to markets, loom large among the needs of fast growing firms, 7) for this group a key issue is that of finding buyers for their products and suppliers for needed inputs.

To conclude, most MSMEs do not grow substantially but rather stagnate after a few years. McMahon (2001) classifies these MSMEs as 'life-style companies' which by default are slow growing. Nichter and Goldmark, (2009) name them "survivalist MSEs," that do not have the ambition or capacity to grow. Rogerson (2001) views them as the result of 'enforced entrepreneurship' rather than the pull of market. On the other hand, the fast growing 'Gazelles' or winners exhibit very different traits but literature is elusive on how to foster such traits. Once a winner is identified, the support need to be specialized rather than building general capacity. To sum up, literature on enterprise growth in developing countries highlights a handful of growth factors: education, work experience, gender (male more growth oriented), location (outside and delinked from household faster growth), age of firm (younger grow faster), degree of formality (formal businesses in general prone to emphasize growth), access to finance (under the right conditions but not on its own), and various types of external relationships crucial for growth.

Entrepreneurship support programs have been in place for several decades with varying success. A recent review article by Cho and Honorati (2014) which is based on 37 impact evaluation studies comprises the starting point for the discussion on how to build a sustainable MSME sector. The key message conveyed is that immediate impact on business expansion and revenue increases is less evident whereas the effect on business knowledge and practice was measurable outputs from support programs. The review also identified package solutions as more effective than those targeting a narrow range of problems. Cho and Honorati conclude that support that addresses access to finance was more effective for women and existing businesses. The general lesson was that access to credit and loans did not automatically improve entrepreneurial activities. Business knowledge and practice included issues such as keeping records, separating business and private accounts/financing. The long-term effects on behavioral change that characterizes more developed enterprises were difficult to capture. Many programmes even failed to address and improve business performance. The authors find that programmes working with young entrepreneurs holding higher education degrees and located in urban areas had the highest chances of success. A key problem evaluating the role of support programs is causality: does business growth depend on the support/advice received or are fast growing businesses more likely to benefit from external support because of their learning ability? (Robson and Bennett, 2000). More importantly, what should be measured to verify entrepreneurs' performance? Murphy et al. (1996) suggest the following based on a review of empirical entrepreneurship studies that aimed to measure performance: i) Efficiency ii) Growth iii) Profit, iv) Size, v) Liquidity, vi) Success/Failure, vii) Market Share, viii) Financial leverage. The authors stress that a single measure of performance is seldom enough as it suffers from uncertainty. E.g. sales do not suffice to understand earnings if the profit margins are unknown. Their recommendations are that, as much as possible, studies should include multiple dimensions of performance.

KEY EMPIRICAL FINDINGS:

These findings comprise documentation and analysis of MSMEs that participated in GVEP's DEEP program supporting micro-enterprises in East Africa between 2008 and 2013. The study collected data from a small number of enterprises for the analysis; 17 in total (8 in Tanzania and 9 in Kenya). The data collection method comprised lengthy interviews with open-ended questions taking between 2-3 hours. The interviews were carried out in Swahili, vernacular, and/or English to guarantee that the respondents fully understood the questions.

Five of the 17 entrepreneurs were women (i.e. 29% which is slightly less than DEEP's average of 38%). The 17 businesses had the following distribution of business areas; 13 Improved Cook Stove producers/traders, 2 Solar PV charging, 2 Briquette producers. Five out of the 17 interviewed (29%) were considered successful businesses – so called champion businesses – that had taken off from the survival stage. This is probably higher than the average among DEEP supported businesses. Most of the entrepreneurs were around 40 years of age or older.

Educational levels were moderate; 50% had only completed primary school, standard 7 (Std 8 for some of the elders). For the remaining part, most had reached O-level but there was only one entrepreneur holding a university degree. Just one of the champion entrepreneurs had educational level less than O-level whereas two of the businesses with moderate growth had owners with A-level education. Hence, a tentative observation is that growth is facilitated if the entrepreneurs have an educational level above primary school⁵.

The majority of entrepreneurs had comparatively short experience of running a business before joining DEEP. Most of the businesses were started a few years before joining DEEP, 16 out of 17 had earlier experience of business but often limited to a few years. Only 2 companies had more than 10 years in business before joining. In the ICS sector several had a family background of pottery which helped them quickly to understand the technology of liners. Family history of entrepreneurship apart from pottery is rare among the respondents. However, in several families siblings were in similar

lines of business in spite of the parents' lack of entrepreneurial traditions. There is no clear linkage between experience and growth except the relative short time in business before take off; i.e. at the most 3-4 years for the champion businesses. The ones in the same business for more than five years without displaying substantial growth had commonly stagnated.

Many of the ICS producers were still using their home backyard for production whereas all PV charging businesses and briquette producers had their business location away from home. This is due to the character of the businesses; PV requires proximity to customers found in small towns whereas briquetting requires space for drying and the production process is viewed as too dusty for operating close to residential areas. The champions among ICS producers that managed to operate from home seemed to have found a way of separating household chores and responsibilities from the business. Thus, there is a better division of labour and time among these businesses.

Diversification was not common among the businesses; only 2 had 'competing' diversifications that required time and effort at a different location. Although many had other responsibilities in the household and/or at the family shamba (farm land). Several had opted for complementary diversification to expand business such as more products in the shop rather than just offering charging services, repair services for ICSs, other ceramic products using fired clay like pots, etc. The focus on a single line of business is also shown in the dedication to work; the majority spends 8 hours or more on the business. The quality and efficiency of those hours were not discussed. Although there are seasonal variations – mostly the effect of the rainy season when most business is temporarily declining. The briquette makers have a booming market in June to August due to the cold weather in central Kenya but face a slump in December.

The foremost reason mentioned for starting a business was often a concern for the environment among ICS producers but in reality there were few options and lack of jobs was probably the main driver. Many ICS producers realized quickly the potential to make a living in the profession. For

businesses located in urban areas, unemployment was the main reason cited. Very few cited family or family tradition of entrepreneurial spirit to play a role in career choice. Some of the older entrepreneurs were forced – in spite of high age – to continue doing business as their pension funds were not enough to maintain their livelihood.

Formalization; five of the companies had proper licenses and registration. These turned out to represent the larger and fast growing businesses in the sample. Most of the other micro businesses did not see the need for registration and formalization of their businesses. Some did not know what is required for formalization, whereas others believed it was very cumbersome and costly.

Most of the entrepreneurs have bank accounts⁶ but normally use private accounts. There is seldom a differentiation between personal and business accounts. All revenues go in the same account. The smallest businesses do not even use the account for business and prefer cash. The striking finding is that this behaviour is the norm for all businesspeople interviewed.

The capital for starting a business originated predominantly from own savings or from the family. There was not a single business that used bank loans for starting up the business. The amount invested was normally low as the businesses grew gradually. The ICS producers who focus on liners or clay stoves required less start up capital as compared to e.g. solar PV charging.

The number of bank loans secured as a direct result of DEEP were few, four businesses, but

THE MAJORITY OF ENTREPRENEURS HAD COMPARATIVELY SHORT EXPERIENCE OF RUNNING A BUSINESS BEFORE JOINING DEEP.



Clay cookstove workshop

several secured loans when they transitioned to CARE2 or indirectly by using business plans and knowledge acquired during DEEP. In total there were 9 loans disbursed. Almost all businesses that went from DEEP to CARE2 managed to secure bank loans. The majority of these loans had been repaid. Some of the companies had substantial liquidity to handle the need for cash, often as a result of delays in payments by large customers. (Suppliers must be paid but customers have a credit window). The businesses that managed to be granted a second or third loan were exclusively the 'gazelles.'

Keeping records, which was actively encouraged by GVEP staff, had mixed outcomes among the companies. Several of the smaller micro-businesses stopped when DEEP was completed. The CARE2 'graduates' carried on with book keeping (for obvious reasons). However, all interviewed stated that record keeping is necessary for running a business. How record

keeping affected business performance was not clear. Most businesses said that records help them understand costing, margins and profits better but the ones without record keeping claimed they had a rough idea anyway.

The companies do make profits but the reinvesting back into the business varies. Successful ICS & briquette producers tend to reinvest more in their businesses. The impression was that the small profits made among the moderate growth businesses were either spent on family, school fees, building a new house or partly on the business. Squandering money did not seem to be an issue among the entrepreneurs. (The business owners preferred to talk about sales rather than profits.)

As to be expected in the MSME sector, cash is the preferred payment model. Some companies have developed their own credit models for customers that they deemed trustworthy. The larger, more successful businesses tended to rely more on

credits which was partly explained by the higher extent of B2B⁷ transactions and their relative solid liquidity.

Marketing activities by businesses solely operating locally such as in a small town were normally very limited. ICS producers with high sales were more aggressively marketing their products whereas PV phone charging did almost no marketing. The briquette producers had a more targeted marketing since most sales were to other businesses and institutions which require relationship building.

The convention among micro businesses is that marketing is the full responsibility of the owner, like organising sales. Business is mostly cash-based though there is some extent of credits provided. Credits between businesses (B2B) are more common than B2C (Business to Consumers). Credits to businesses may stretch as far as a month whereas consumer credits are short term, from one day to a week. The champion businesses had in general a more developed sales network with agents that buy on recurrent basis. Wholesale or large customers (business or institution) is the preferred model among the fast growing companies. The stagnated micro-businesses relied more on the retail model; direct sales to users. Some failed to develop wholesale because of poor volumes and competing with their own wholesalers; i.e. direct sales and wholesale to the same market. Moreover, marketing activities were in general quite modest; the champions having understood the importance of personal relationships with large customers but also to aggressively market the company. Most of the stagnated businesses did little to increase the customer base and passively waited for customers to show up. The most passive businesses were found among members of a cooperative who trusted the cooperative to handle all marketing and sales efforts.

Very few businesses had carried out need assessment and established business plans before DEEP. Further, hardly any claimed they could actually write a proper business plan without the help of GVEP staff. The general opinion was that the plans were actually 'pushed' by the mentors prematurely before the entrepreneurs had understood the value. However, when confronted with a loan application the business owner realized the need for a proper business plan.

To be expected, employment is not a key goal for the MSMEs per se but seen as a necessary means for operating the business. Most of the enterprises had 1 employee but the exceptional cases had even 5 or more. Casual labour on as needs basis was very common as well. The fast-growing enterprises had in general more permanent employees but also a more engaged family in the business. Spouses were often active in sales, record keeping, planning etc. In fact, the only enterprises in our sample with more than 3 permanent employees were the fast growing champions. We did not discuss the rationale for adding more permanent employees or at what rate but we drew the conclusions that employment was directly linked to a reliable market demand.

Tracing sales data before and during DEEP was not a straightforward exercise as records were not properly kept and most respondents did not remember sales after a few years. The scarce data we managed to collect indicate that the smaller enterprises went from poor to modest sales, i.e. from pre- to DEEP, but tended to stagnate in the post-DEEP period. Nonetheless, sales seem to support the livelihood of these micro-enterprises that did not graduate to CARE2. The larger ones (and fast growing) showed much higher growth rates. The challenge for this group was the continuous search for new customers as

THE COMPANIES DO MAKE PROFITS BUT THE REINVESTING BACK INTO THE BUSINESS VARIES. SUCCESSFUL COOKSTOVE & BRIQUETTE PRODUCERS TEND TO REINVEST MORE IN THEIR BUSINESSES.

production was not a limiting factor in the same way as for the micro businesses. Some of the champions had also experienced a shortage of quality input supplies, which was a result of the large quantities needed.

The companies had substantial local knowledge of their sectors which could potentially be used for marketing and promoting sales. This was normally not the case among the slow growth businesses. A general perception of e.g. the national market was not common. They were aware of local competition which had picked up in the last five years. Several ICS producers claimed that their products were unique and better than local competitors but judging from their technology and skills our assessment was that the stoves were quite equal in terms of quality. (For ICS producers the increased competition may be a result of DEEP and CARE2!)

All companies had expansion plans and visions but for most micro enterprises it remained a vision. We were told how expansion would start next year resulting in double or triple production in the near future. (We would probably be told the same story next time). The champion enterprises were all characterized by having successfully expanded their operation though incrementally.

The enterprises faced a number of challenges in their daily operations but also while trying to expand operations. The following was mentioned by the entrepreneurs: finding new distributors, improving technology (ICS and briquetting), organise procurement of input material (especially large volumes), machinery break downs (only briquetting), transporting liners, seasonality of sales, capital for expansion, liquidity, stiff competition, organising time efficiently, grid extension. Both categories of businesses; stagnant and growing, had challenges but of slightly different nature. The champions had a better understanding of technology and markets and needed refinement and adjustment of technology. Their sales networks were in need of expansion rather than in an infancy stage. As an example, one of the Tanzanian champions was procuring inputs from Nairobi to minimize costs and secure quality. Many of the stagnant

businesses were still buying input material in small batches locally as they could not afford or organise production for bulk procurement.

Access to technology is normally through local suppliers but the process is sector specific. The solar PV sector seemed to require less time for adoption and the businesses could actually quickly learn how to use the technology which does not require in-depth knowledge of panels, batteries, charge controllers. Both ICS and briquette production, though less advanced technologies than PV, require the acquisition of more fundamental understanding by the producers. This was also reflected in the support offered in DEEP which among other things meant more work for the BDS coordinators and mentors to make sure technologies were properly understood.

The role of DEEP was evaluated by asking how the entrepreneurs perceived the various components such as training, workshops, BDS, and mentors. (During most interviews the BDS coordinators or mentors were present which may have affected the credibility of the answers. However, we felt that we received 'honest' answers). It became quite clear that the ICS sector was heavily influenced by donor funded projects. A number of businesses had received training by GTZ, SNV, etc prior to DEEP. This training mainly had a technical focus. The combination of workshops and mentoring was mentioned as the strength of DEEP but also MDAs and networking were seen as valuable. Many micro enterprises realized that e.g. marketing is needed having been too passive before DEEP. For ICS producers the mentoring was very helpful for understanding the technology and adjusting production including use and cost of material. The training model was appreciated for its interactive design with a lot of discussions and group work requiring active participants. To meet others in the same situation and share was seen as a good way of learning.

The networking events and MDAs (Marketing Development Activities) were very useful though most of the micro enterprises did not carry on such activities after DEEP. Contacts and business relationships were established that still to date are maintained. A plausible explanation for the



ALL COMPANIES HAD EXPANSION PLANS AND VISIONS BUT FOR MOST MICRO ENTERPRISES IT REMAINED A VISION.

Clay liner workshop

businesses' passive approach could possibly be related to cost and competing calls on available cash. The stagnating businesses tended to use profits to meet consumption needs rather than re-investing in the business. The 5 champion businesses were much more actively marketing their products and services, including visits to marketplaces but the establishment and maintaining of B2B relationships were the key for some of these businesses (this is partly technology specific since the solar PV businesses deal directly with customers and technology sourcing is not recurrent which means the need for B2B relations is less).

Mentoring was, by and large, viewed as very positive. The different intensity, stretching from once a week to once a month was not justified at least not explained to the businesses. It seemed like entrepreneurs who established a good relationship with continuous communication were benefiting more than those who had infrequent

contacts and too short visits. A weakness pointed out was the heavy focus on data collection when visiting the business. The role of mentoring in explaining and demonstrating on-site directly with the entrepreneurs should not be underestimated. The hands on approach was appreciated by the MSMEs.

The importance of costing, the cost of doing business, type of materials used, processes to put in place, and how to be more efficient was highlighted by many businesses as a key outcome of mentor interaction. The majority did not have the proper procedures to do costing pre-DEEP since record keeping was not done. Buying material in bulk and in different qualities were also seen among some of DEEP supported businesses.

ANALYSIS OF THE EMPIRICAL FINDINGS:

The empirical data display a wide range of elements related to the start up, running, and expansion of eMSMEs. We will use the dichotomy between the fast growing and those with moderate/slow growth to identify so called growth factors. Reference to literature on SME growth is made to relate the study's findings to relevant literature. A second step in the analysis is to discuss whether these factors are merely correlated to growth or the cause.

The owners' human capital is referred to as playing a decisive role in the business' development. Hence, education, experience, background all matter for turning into a successful entrepreneur (Rogerson, 2001). Family background and experience vary among the firms and there is no clear correlation between the entrepreneur's family background and success as a businessperson. Some of the ICS producers learn the liner business quickly because of a pottery tradition in the family. However, this was the case for both stagnant enterprises and the champions. Our study corroborates to some extent the literature but what stands out is the capacity to learn and solve problems which may be related to the owners' higher levels of education.

Gender is related to the opportunity to establish and manage a micro business. Women entrepreneurs commonly face more barriers and challenges than male because of the existing gender imbalances in sub-Saharan Africa (De Vita et al., 2014). Literature points out in particular that married women with small children remain in survivalist businesses and seldom manage to grow their businesses. In our study most of the female entrepreneurs interviewed were 'single' by divorce, widowed, or un-married. The few married ones had supportive husbands that were engaged in the business. As regards gendered aspects of business, the female business owners interviewed claimed that being a woman had not been a disadvantage. It might be interesting to explore

in any follow-up research the experiences of younger women with children, and women with less supportive spouses.

The separation of the business from private issues – financially, physically and organizationally – is viewed as a stepping-stone towards a mature business. This is particularly important for female-led businesses that are burdened with household obligations. The observation is that such ‘separation’ comes late in the businesses’ development as none of the businesses had made a total split between business and private. The star companies were nevertheless better at organizing their time and stayed focused on business commitments. Separation seems to be a weak indicator to explain growth.

The focus on a single business has been advocated as a key dimension for success and growth. Diversification was low except for adding complementary products and services among most of the businesses. This finding indicates that diversification does not strongly correlate to growth.

Loans and performance: Very few micro businesses secure banks loans. First, only 10-15 per cent will try because MSMEs know the banks’ policies, and second among the few who do try the success rate is about 20-25 per cent (Nissanke, 2001). All 5 champion enterprises were granted bank loans but this was the case for a few of the micro enterprises as well. It means that a bank loan, if it is a single episode, may not explain growth. A closer look at the loans reveals that the champions often secured several loans, after having serviced the first one fairly quickly. The loan amounts were also considerable higher than for the moderate growing businesses.

Linking loans with business plans; the stars clearly understood the need for a well-articulated business plan for convincing the bank. They all admitted that the mentors helped them write the plans but were more involved in the process than the survivalist businesses. Since few entrepreneurs can produce a business plan on their own, the use of BPs as a growth factor is probably invalid. The level of engagement of the entrepreneur in a planning exercise is however likely to be a significant indicator of growth potential.

Growth-oriented micro-enterprises typically start in the informal economy, but often acquire some more formal characteristics when becoming more successful (Berner et al., 2012). This was supported by our data that show that the star businesses have all acquired licences as well as registered their businesses. This was done to access certain customers that only deal with registered businesses but also for easier securing of bank loans. Formalization is a noticeable indicator of a growing business but probably not a driver of growth.

Business practice such as organisation of operations was more well-structured and thought through among the stars. E.g. costing, assessment of suppliers, refining and adjusting production were all done in a professional way, ‘relatively’. They had a clear picture of costs and how to make services and production more efficient. Most businesses kept records while in DEEP but the difference might not be record keeping per se but what the entrepreneurs used the records for.

Savings and the use of profits are critical for the development of micro-businesses because of the lack of formal financing services. Savings are also important for smooth operation of the MSMEs because of the requirements of working capital. Cash is king in Africa which means that businesses without liquidity will be very inefficient with high costs and poor output. According to Berner et al. (2012) growth oriented businesses tend to display a capacity to accumulate part of the income generated. Many of the interviewed entrepreneurs claimed that they were saving but few reinvested in the business. The exception is the champion enterprises that seemed to save more and make sure to build the business. The moderate growth businesses mostly bought plots, built houses, pay school fees, and maintained their standard of living using business profits. However, our limited data show that savings are too complex and lacking transparency to qualify as a growth indicator on its own. (Savings are most probably linked to loan behaviour as poor savers are equally poor at servicing their loans. We did not elaborate with the entrepreneurs on how much the profits were and what share went back to the business)

The organisation of sales such as developing an agent network, building long-term B2B relationships, credit arrangements, focus on wholesale instead of retail was salient features among the growth companies. Solar PV charging was the exception due to the nature of business. The high growth companies had made serious efforts to move away from the dependence on retail sales.

Employment and sales customarily represent proxies for business growth (Delmar, 2006). Interestingly, some studies have found that growth in sales and growth in the number of workers are highly correlated. Evans (1987) reports that estimates using employment figures are similar to those using sales. (Probably less true for micro-businesses as Parker's (1994)⁸ study of the growth in Kenyan MSMEs, for example, indicated that net increases in real sales were almost double the growth in employment.) One reason may be the significant gains in economic efficiency when a business moves from one employee to 3 or 4. For our champion businesses there is a weak correlation between employment and growth as only 40% of the companies have increased the number of permanent staff substantially. Some even relied on temporary labour. Literature points to the delay between sales growth and subsequent increase in permanent workers which may explain the reluctance to hire on permanent basis. The stagnant businesses predominantly rely on temporary labour although there were exceptions due to the type of business. Solar PV charging and retail shops tend to have permanent staff.

Literature on external interventions to speed up learning such as DEEP is scarce; in particular on the complementary role played by support programs in changing learning trajectory which is assumed to be dissimilar from the businesses without support. However, an assessment of the businesses' performance vis-à-vis support received, shows that it appears difficult or even fruitless to try to separate the particular effects of the DEEP from the effects of the businesses' own efforts and other means of learning. All businesses interviewed have learned manifested in various ways as discussed above. Since learning is closely linked to the business' absorptive capacity, i.e. capability to learn, the outcome of DEEP's efforts

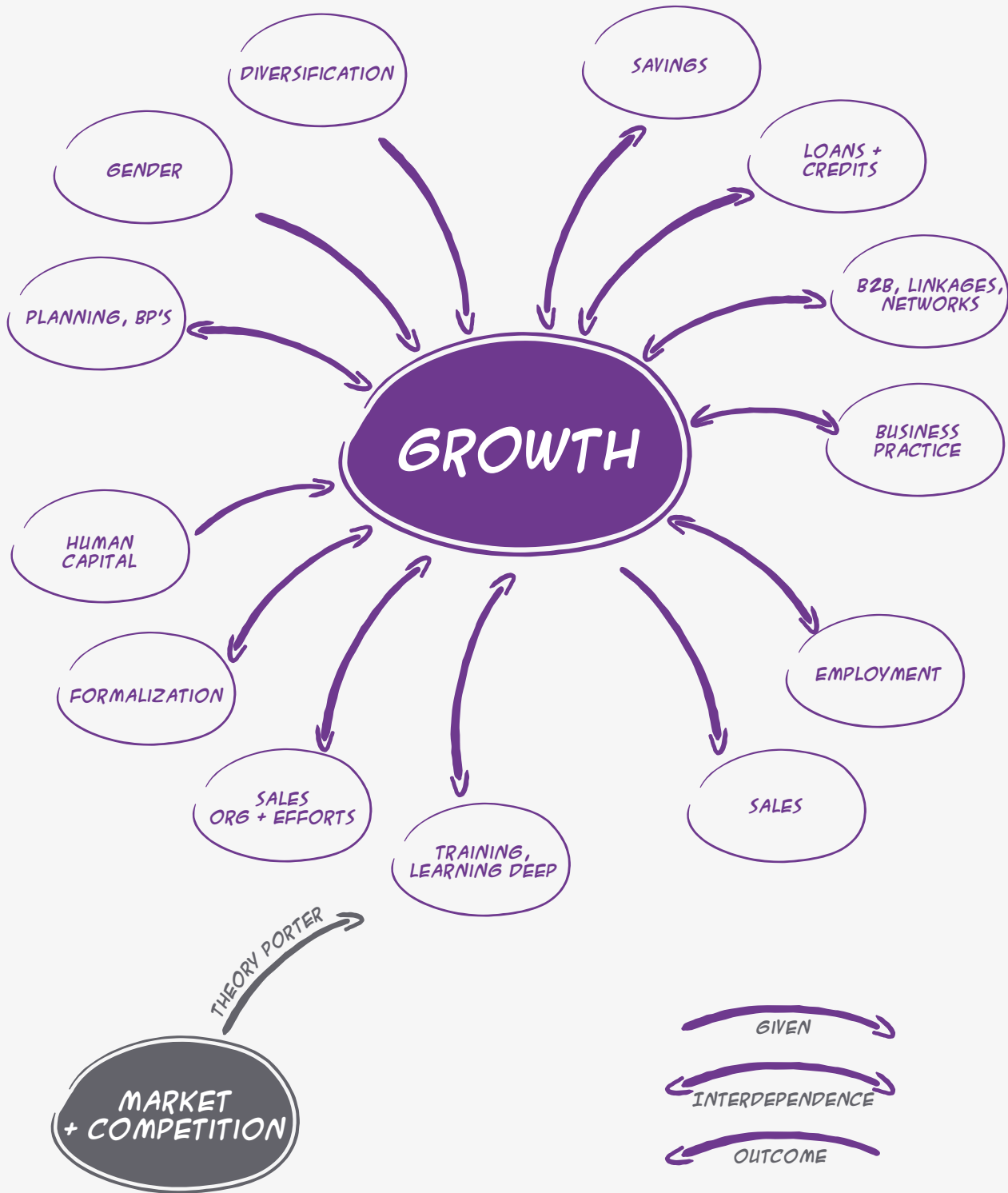
depends to a great extent on the entrepreneurs' learning ability. Hence, it is more pertinent to analyse and discuss the overall role of programme activities in enabling a growth oriented behaviour among the businesses rather than a futile search for attribution of DEEP's sub-components.

The discussion brings up a number of potential predictors of growth. However, as the analysis shows, only a few are related to high growth rates. The predictors of likely fast growth seem to be:

- education/ability to learn and problem solve
- marital status/age – for women (or supportive spouse)
- loan size and speed of repayment, leading to 2nd and 3rd loans. The ability to save is closely linked to 'good' loan behavior.
- level of marketing activity and networking such as building B2B relationships
- degree of organization in the business (record keeping, costing, formalization, etc)
- employee numbers – 3/4 seems to be the point where economic efficiencies start to kick in
- ability to learn from external training and support such as DEEP

The factors are depicted in figure 1 below. These factors comprise different roles in the development and support to micro-businesses. Some represent given preconditions that are impossible to change, such as an entrepreneurs' innate capability to solve problems, age of company, etc. Others may be difficult to change such as limitations imposed by gender roles, or the entrepreneurs drive, though 'empowerment' training and gender sensitive approaches may help.⁹ External factors might be given in the short term for individual businesses such as competition, laws, and regulations. These external factors have not received focussed attention in this study¹⁰. Other factors like employment and sales are a manifestation of growth and serve mainly as growth indicators in post assessment. However, employment is critical for continued and sustainable growth. One group of factors is the means to an end by facilitating growth e.g. linkages and networks, formalization, skills development, business practice, loan behaviour. These factors also serve as indicators of growth-oriented businesses.

Figure 1 Growth Factors/Indicators



Classifying these factors into various categories enables a better understanding of the causality among factors and the role of external support like DEEP. There are three broad categories: 1) preconditioning factors (the past), 2) activity based factors (what the business do, the present), 3) indicators verifying success/failure such as sales and employment (capturing performance in a tangible approach).

Most programme indicators tend to focus on category 3 using sales and number of employees as a proxy for performance and as a consequence pay less attention to measuring prerequisites and current operations, though DEEP did use a series of criteria in reviewing suitability of applicants wishing to participate in the programme.

LESSON LEARNED FOR UNDERSTANDING LONG TERM IMPACT

The outstanding observation is that all businesses interviewed have learned from training, BDS, mentoring, networking. Hence, it is evident that all enterprises have benefitted from DEEP; some more than others. The empirical findings disclose that about 70 per cent have grown moderately and today are operating small but sustainable businesses. The percentage of modestly growing or stagnating micro-businesses is probably much higher in the whole DEEP population. More important however is the finding that the businesses are sustainable in the sense that they provide earnings and a small profit to support the livelihood of the owners and their families. This is a significant lesson learned, as most micro enterprises are not expected to become 'champions'. It means that from a poverty alleviation perspective micro-businesses make a difference.

The survival rate and sustainability of the micro-enterprises in Africa is customarily poor. On the other hand, birth rates are equally high which means the micro-business sector is very dynamic. The average closure rate is about 15-20 per cent per year in sub-Saharan Africa¹¹. Equating sustainability with long-term survival, there is

GROWTH DRAWS ON A NUMBER OF FACTORS; BOTH INTERNAL AND EXTERNAL TO THE BUSINESS. THERE ARE INHERENT FEATURES OF HIGH GROWTH BUSINESSES THAT ARE LINKED TO THE OWNER'S PERSONALITY AND MOTIVATION TO DEVELOP THE BUSINESS

evidence that sustainable businesses are not necessarily growth-oriented (Mead and Liedholm, 1998) which is corroborated by our empirical findings as well. There are indications that older businesses, having experienced growth earlier, and not directly based or linked to a household will survive longer.

The remaining 30 per cent provide a platform for discussing why certain businesses pick up sales and employ more workers. The fact that several DEEP businesses have grown considerably is a surprising fact (and an accomplishment) in itself as the graduation from micro to SME is rare in sub-Saharan Africa. (Mead and Liedholm, 1998). The high number may be a result of DEEP's selection criteria which applied a tiered approach. The ones graduating to CARE2 were assessed by GVEP and should show growth rates higher than average. A few questions may nevertheless be posed: were they better at using the support offered, were they fundamentally different from the beginning and would have made it anyway, or was the support slightly different to the successful enterprises?

We do believe that growth draws on a number of factors; both internal and external to the business. There are inherent features of high growth businesses that are linked to the owner's personality and motivation to develop the business but this study has focused more on indicators or rather predictors of growth than identifying drivers. There are also indications that fast growing businesses react differently to training and support but also requiring different support. This is important for future design of programs.

ATTRIBUTION AND/OR CONTRIBUTION

Attribution is complex and not always measurable for integrative support programs. Existing data drawing on the 17 interviews show correlation between DEEP programme activities and outcome related to growth. However, the relations between input, output, and impact are complex, reciprocal, postponed, making an analysis of attribution a futile exercise. The impact of DEEP is multidimensional similarly to the programme's delivery approach.

Certain programme components lend themselves to assessment of attribution because of their narrow focus. For instance, the technical training workshops are probably easier to link with outcome and impact. Mixing of material, costing, production lay-outs, etc are more directly adopted by the enterprises but also observable by leaving a tangible imprint in the firms. In our opinion, the lesson learned from the study, is that it is more useful to focus on the overall impact of a programme like DEEP which contributes to business performance.

M&E, IMPACT – INDICATORS OF SUSTAINABLE GROWTH

A note on measuring impact: Monitoring and evaluation customarily focus on the measurement of activities and performance against objectives whereas impact assessment is more concerned with change such as behavioral and organizational change in target groups. Such assessment sets out firstly to identify changes that have taken place within the target groups, and secondly, to determine to what extent these changes can be attributed to particular interventions. Indicators which are designed to verify outcomes – or expected changes – are different from those designed to understand impact. From a more pragmatic viewpoint, projects and programmes need a variety of data and data collection methods to meet the demands of the M&E systems, for improving implementation, feedback from beneficiaries and target groups, to understand impact in the long run.

Programmes promoting entrepreneurship, aka business, customarily strive for business growth as a general objective. The measurement of growth is commonly done by tracking sales and employment data as proxies for growth (Delmar, 2006). The reason for the popularity of employment as growth measure is that it is fairly standardized and open to categorization as well as easily measured directly.

In line with Murphy et al (1996) we believe there is a need for multiple measures of growth for two key reasons; a single indicator may not capture the growth dimension fully, growth is process drawing

from a multitude of factors. Hence, post impact assessment focusing on a single indicator like sales will not disclose much about how business reached there.

Applying the three categories of growth factors it boils down to the following key variables. Among the preconditions educational levels stands out as a predictor which is easily measured. In addition, marital status and number of young children, in particular for women, indicate the potential of the entrepreneur to establish a growing business. The age of the business and experience add to a fuller analysis of propensity to grow. Checking for these will enable pre-screening of businesses entering into business promotion projects, assuming the objective is identifying high growth potential entrepreneurs. Programmes aiming to help women, with small children and other domestic responsibilities, establish businesses either need to set modest expectations about the scale of the businesses which will result, or work with the women to address the barriers that would enable them spending more time in the business.

The group of factors linked to on-going operations requires special attention as these are most commonly subject to programme intervention. Literature review backed by our empirical findings highlights a few critical dimensions. The capacity to market and promote one's business is identified as main factor in driving growth. Attention should be paid to B2B which seems to replace B2C when the business grows. Business practices and knowledge comprise another key factor linked to growth. Financial behaviours and sources of finance all have great effect on performance.

For a business support programme's overall impact, we would argue that it is reasonable to presume that sustained growth in general must be associated with good performance. Traditionally this is measured through the businesses increased revenues and profits but also as number of employees. These numbers should be recorded in absolute numbers and relative. Murphy et al. (1996) point out the importance of measuring the rate of change in sales and employees, not only in absolute numbers. For micro businesses both permanent and temp employment should be observed.

SUMMARY AND RECOMMENDATIONS

The Developing Energy Enterprises Project (DEEP) was designed to improve access to modern energy services in the East Africa region, with a country focus on Kenya, Tanzania and Uganda. This study is not a traditional impact assessment of DEEP (see Restio (2013) for a comprehensive evaluation of DEEP) but seeks to address a number of issues related to the sustainability of DEEP supported businesses. The main objective was to analyse the growth process of a small number of DEEP supported micro-enterprises. Particularly identifying key dimensions of growth enabling identification of growth predictors. Moreover, to draw conclusions on appropriate indicators for business support programmes; both M&E and impact assessment. A final sub-objective was to evaluate whether attribution can be assessed or impact assessment has to suffice with a discussion of DEEP's contribution to business growth.

A general observation was the comparatively high sustainability and growth rates among the businesses visited. This may be due to non-random selection of respondents but also a result of DEEP's pre-screening approach before accepting businesses in the programme. The study has identified a large number of factors related to growth. These are of very different types and need to be classified into three broad categories. 1) Given factors or preconditions (the past), 2) activity based factors (what the business do, the present), 3) indicators verifying success/failure such as sales and employment (capturing performance in a tangible approach). For predicting growth all three add to the complex task of forecasting business success.

Growth and sustainability are sometimes used synonymously but our study suggests that sustainability does not necessarily draw on growth. Growth may as well be unsustainable though our limited data do not support that line of argument. Many of the slow growth and stagnated micro businesses had survived for quite a number of years (>5 years) and there were no signs of immediate business closure. They would probably not grow further in terms of sales or number of employees but remain at the same level providing the owners with a fairly stable income. From a poverty point of view supporting such businesses may be justified though there are strong counterarguments based on the poor efficiency of small, often one (wo)man business. As a society develops many of the micro businesses disappear but it is outside the scope of this paper to deliberate further on this.



Briquette producers

There is also tentative findings that growth and survival entrepreneurs are totally different 'creatures.' This observation is that based on a closer look at these fundamentally different cases which actually reinforces the argument that survival and growth-oriented entrepreneurs are different groups, rather than different stages in the trajectory of firms. More in-depth qualitative empirical findings are needed to conclusively make a case of path dependence but literature reviews support the fate of most micro businesses to stay 'micro'.

In brief, the measurement of business growth and support to such growth remains a challenge because of the nature of entrepreneurship. Numerous studies and reviews have identified growth factors and under what conditions micro businesses will seize opportunities. For micro businesses the search for sustainability predictors rather than growth makes more sense due to the general poor growth scenarios.

The present study has not been able to confirm attribution due to the nature of the DEEP. Nevertheless, as argued earlier it is more useful to discuss DEEP's contribution to the businesses' development and particularly the role of programme components in sustaining long term survival.

IMPLICATIONS FOR PROJECT MANAGERS OF A MICRO-BUSINESS SUPPORT PROGRAMME:

A first and overall question for programme designer concerns the overarching objective: Survival vs growth emphasis. The micro enterprises may not grow a lot but they may still be in operation providing livelihood for the owners. Is it economically justifiable to support small enterprises that probably won't grow bigger? This will have implications on the logframe and KPIs communicated to external stakeholders (read funding bodies). The proposition here is neither to favour pro-survivalist¹² nor pro-growth but the implications on programme objective and design.

A second step is to develop a framework and methods to facilitate the segmentation of

target groups into survival and growth-oriented entrepreneurs as the two categories follow qualitatively different logics. The predictors identified in this study could form the basis for such a framework.

A two-step approach could be adopted whereby businesses will be screened and evaluated twice; at the inception phase but also after 12-18 months to identify potential high growth businesses. Thus, from a project management perspective it is paramount to collect M&E on a wide range of predictors; given preconditions, business practices and activities, indicators of growth. These M&E data are not necessarily input to the programme's logframe but serve a key role in adjusting and controlling the delivery of business services. Potential gazelles require special (customized) BDS relatively early in order to seize market opportunities.

For instance, the M&E need to include drivers of change such as business confidence, problem-solving capacity, risk taking, networking capabilities, decision-making, HR, Business practice. That is, factors causing the manifested results.

IMPLICATIONS FOR FURTHER RESEARCH; QUANTITATIVE AND QUALITATIVE

The study was limited in scope and time but nevertheless identified a number of issues for further inquiry. As the approach was qualitative focusing on growth factors rather than the factors driving growth, a follow up study should look behind the success in order to understand why certain businesses succeeded. Drivers may fall into the personal sphere of the entrepreneur such as exploring the role of personal traits, motivation, and attitudes. This area is quite well-researched in the entrepreneurship literature but may be addressed from a business support programme perspective. The rationale is that certain personal abilities can actually change and be learned through exposure and training in a programme like DEEP, assuming that entrepreneurship is to a great extent a learning

A TWO-STEP APPROACH COULD BE ADOPTED WHEREBY BUSINESSES WILL BE SCREENED AND EVALUATED TWICE; AT THE INCEPTION PHASE BUT ALSO AFTER 12-18 MONTHS TO IDENTIFY POTENTIAL HIGH GROWTH BUSINESSES.

process. Hence, many of the issues discussed earlier could be included in a qualitative follow up study, in particular the relationships between factors which is complicated to capture in day-to-day M&E activities.

To illustrate, the rate of change and the absolute values should be further explored. To verify and analyse how fast employment and sales increase and at what percentage are normally the basis for understanding growth.

In-depth interviews would also be useful for understanding the reason for businesses closure. GVEP's M&E data for Kenyan DEEP show that at least 14 % had closed down¹³. Most micro businesses tend to start a new business – over 50 % – which could imply overcrowded market or better opportunities found elsewhere. There is no data on DEEP business failures to date. However, there is little evidence that DEEP entrepreneurs' fail more than micro businesses in general, on contrary survival rates are high. Mead and Liedholm (1998) report on closure rates around 13% annually which over 5 years would accumulate to a much higher rate than the 14 % among DEEP businesses.

Qualitative in-depth interviews are a common method for writing case studies of business growth in a context that captures the learning process and interaction among growth factors. Hence, a number of such cases could be documented and published by revisiting a small number of businesses to further probe specific issues.

A survey covering a greater number of DEEP businesses could provide answers to a different set of questions about growth in general. It should be noted that businesses qualifying for DEEP might not

represent MSMEs in general in the targeted EAC countries due to pre-screening and selection of participating entrepreneurs. Such a survey could explore the role of gender, level of education, age of business (and owner) in predicting growth oriented businesses. Further, marketing activities and sales orientation towards retail or wholesale should be inquired.

Birth and survival rates of DEEP supported businesses would probably fall outside the percentages reported elsewhere but need to be collected as a context for the growth orientation among DEEP entrepreneurs. Births rates may actually require a re-definition as most DEEP entrepreneurs were already in business but may have adapted and adjusted their business as a result of training and support.

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APPENDIX I AN M&E FRAMEWORK FOR PREDICTING GROWTH ORIENTED BUSINESS

The M&E framework presented here is not traditional in the sense that it aims to collect and analyse key components of the logframe. Traditional M&E systems are built on the causal chains input, outputs and how these are linked to desired outcomes and possible impact. This specific framework¹⁴ should instead be seen as a tool for program implementation to verify intended outcomes and impact relatively quick and effective without conducting time-consuming impact assessment studies. A main purpose of the framework is to identify, conceptualize, and quantify growth predictors to enable measurement of a business' growth potential and performance.

The framework comprises of three sets of indicators: 1) Given factors or preconditions (the past), 2) activity based factors (what the businesses do, the present), 3) indicators verifying success/failure such as sales and employment (capturing performance in a tangible approach). Checking for these will enable pre-screening of businesses entering into business promotion projects, assuming the objective is to identify high growth potential entrepreneurs.

Preconditions: Some of the preconditions are set and not easily changed, whereas others may be altered in the long term. The business' skill base is the key asset enabling growth but for M&E purposes the level of intangibility varies. The entrepreneur's motivation, drive, attitudes (represented in personality) are manifested in how the business is run but the measurement of the individual factors is far from trivial due to their 'intangible' nature. The recommendation is that programmes should focus on tangible and measurable factors. Among the preconditions educational levels stands out as a predictor which is easily measured. Completed educations should be recorded by programme staff at the

inception phase. (for a tentative list of questions for respondents that correspond to the M&E framework see Appendix II).

In addition, marital status and number of young children (and/or other dependants), in particular for women, indicate the potential of the entrepreneur to establish a growing business. The view and role of spouses are important for the success of female-led businesses. Programmes aiming to help women with small children and other domestic responsibilities establish businesses either need to set modest expectations about the scale of the businesses which will result, or work with the women to address the barriers to them spending time in the business.

The age of the business and experience add to a fuller analysis of propensity to grow. Businesses normally either fail or start growing in the 2-3 year. Hence, younger businesses are high risk as they may either grow or fail. The analysis of business age must be correlated with the owner's experience in order to predict the outcome.

The activity based factors (what the business do, the present) are those that are linked to on-going operations. Therefore, they require special attention as these are most commonly subject to programme intervention. The capacity to market and promote ones business is identified as a main factor in driving growth. Marketing activities are both defined as those that target the market in general through awareness building and understanding of the product, and also the specific effort paid to business relationships which are important to wholesaler and other large customers. Hence, attention should be paid to B2B which seems to replace B2C when the business grows. For B2B it is paramount to collect data on the relationships such as commitment, contracts, and number of years doing business together. Business practices and knowledge comprise another key factor linked to growth. These tend to be partly intangible and require a degree of quantification. Record keeping is the first step, which may be difficult to evaluate if it is a prime component of a programme's BDS. More importantly, the actual use of records should be observed and recorded. Growth oriented businesses tend to pay more attention to costing

and profit margin than survivalist businesses. As a business grows, there is more attention paid to lay out of workshop and use of space in a more efficient way. An indicator of growth is also when the business becomes too complex to handle as a one-(wo)man show, requiring specialization of labour. Hence, there is a degree of delegation. Financial behaviours and sources of finance all have a major effect on performance. The number of loans and loans institutions should be monitored as well as the FI's evaluation for granting loans.

Finally, growth must be measured through the business' performance. For a business support programme's overall impact, we would argue that it is reasonable to presume that sustained growth in general is associated with good performance. Traditionally this is measured through the businesses increased revenues and profits but also as number of employees. These numbers should be recorded in absolute numbers and relative. Murphy et al (1996) point out the importance of measuring the rate of change in sales and employees, not only in absolute numbers. For micro businesses both permanent and temp employment should be observed.

A MAIN PURPOSE OF THE FRAMEWORK IS TO IDENTIFY, CONCEPTUALIZE, AND QUANTIFY GROWTH PREDICTORS TO ENABLE MEASUREMENT OF A BUSINESS' GROWTH POTENTIAL AND PERFORMANCE.

APPENDIX II

PRELIMINARY QUESTIONNAIRE ON GROWTH FACTORS

(A NUMBER OF QUESTIONS CAN BE ANSWERED BY OBSERVATION AND INTERACTION WITH THE BUSINESS OWNER)

| I GENERAL, EDUCATION, FAMILY | | |
|------------------------------|--|---|
| 1 | Gender of the respondent | (1) Male <input type="checkbox"/> (2) Female <input type="checkbox"/> |
| 2 | Marital Status | (1) Never married <input type="checkbox"/> (2) Married <input type="checkbox"/> (3) Separated <input type="checkbox"/> (4) Widowed <input type="checkbox"/> (5) partner (not married) <input type="checkbox"/> |
| 3 | Marriage & business | Spouse's view and involvement in the business |
| 4 | Marital status remark | (1) year of marriage, divorce, widowed |
| 5 | Family situation | (1) Number of dependent children, elders (2) Housemaids, employed or extended family maids |
| 6 | Age | (1) Below 18 <input type="checkbox"/> (2) 19 – 25 <input type="checkbox"/> (3) 26 – 34 <input type="checkbox"/> (4) 35 – 41 <input type="checkbox"/> (5) 42 – 46 <input type="checkbox"/> (6) 47-55 <input type="checkbox"/> |
| 7 | Completed Education and year of completion | 1) None <input type="checkbox"/> (2) Primary <input type="checkbox"/> (3) Secondary <input type="checkbox"/> (4) College/University <input type="checkbox"/> (5) Others specify <input type="checkbox"/> |

II EXPERIENCE, WORK & BUSINESS

| | | |
|---|---|--|
| 1 | Employment before starting the business | Type, informal, formal, length |
| 2 | Business experience | Type (sector) and year of start |
| 3 | Participation in other programs | Name, duration and type of support |
| 4 | Status of former business | active & closure (also success-failure) |
| 5 | Reason for self-employment | No employment, seizing opportunity |
| 6 | Reason for failing in earlier business | Competition, credit, staff issues, selling on credit |
| 7 | Start of current business | Year started |
| 8 | Size of business at start | No of perm & Temp employees |

III ACTIVITY BASED FACTORS MARKETING, BUSINESS PRACTICES & ORGANIZATION

| | | |
|---|--|---|
| 1 | Business practice (internal) | i) records and use of them ii) lay out of workshop, shop iii) degree of delegation |
| 2 | Business understanding of costing, profits, purchase | i) clear knowledge of costing ii) search for input material iii) bulk procurement iv) evidence of applying costing |
| 3 | Business formalization | Business license, registration, VAT and reason for such registration (or not) |
| 4 | General marketing | Visits to marketplaces, flyers, radio, Tv |
| 5 | Business relationships (supplier and customers) | i) Number of B2B, ii) strength of relationships (duration, contracts, etc) iii) Single sourcing or multiple iv) credits & payments |
| 6 | Loans secured with FIs | Banks, SACCOs, MFIs, etc. Number of loans and time of disbursement |
| 7 | Size and repayment rate of loans | Value in local currency and time in months |
| 8 | Key motivation for being granted a loan | FI's evaluation of the borrower |
| 9 | Main use of loan | Machinery, building, working capital, input material, etc |

SUCCESS & FAILURE INDICATORS

| | | |
|---|---|--|
| 1 | Number of employees at the point of joining the programme | i) No of perm employees ii) No of temp employees (how often?) |
| 2 | Sales at the time of joining | i) sales in units ii) sales in local currency per month |
| 3 | Employee and sales update | Every three-month the employee and sales stats should be updated. Any delay between sales increase and adding employees should be noted. |
| 4 | Liquidity | Amount of cash needed and available to run the business |
| 5 | Ability to fund growth | Savings, loans from banks, relatives, etc |
| 6 | Physical expansion | New workshops, sheds, offices, machinery |

APPENDIX III

INTERVIEW MANUAL FOR DEEP IMPACT STUDY

GVEP STAFF MWANZA & NAIROBI

The M&E data is very fragmented, lacks context, history and background of business not documented, the actual BDS received not reported, etc. Discussions and interviews with key GVEP staff involved in the DEEP should therefore address the following:

GENERAL INFO ON THE SECTOR:

- ii) The status of the sector in pre-DEEP period (around the start and a few years back)
- iii) Electrification plans for rural Mwanza

DEEP MODEL&APPROACH

- i) Choices and criteria for selection of PV charging as a suitable sector
- iv) The identification, selection, and recruitment of microenterprises
- v) Conditions for support?
- vi) The training of GVEp staff? Courses, or on the job training with experienced GVEP staff?
- vii) How different was GVEp compared to earlier support programs?
- viii) What was your background before DEEP?
- ix) Explain the DEEP process (training, needs assessment, mentoring, etc)
- x) List the various workshops (training)

- xi) List the network sessions, linkage workshops,
- vii) Support and intervention in the value chain (interest of the pv dealers)
- xviii) effort to standardize technology (solar kits?)
- xix) Mentoring, how often? What was discussed and reported

THE BUSINESSES AND THEIR PROGRESS:

- xii) Describe the entrepreneurs gender, education, experience, business mentality, survival business, accessed loans prior to DEEP
- xiii) Were the businesses startups or running, if already in business, for how long
- xiv) What observable changes took place in the businesses?
- xv) Did any secure loans under DEEP?
- xvi) Funds used for what?
- xx) More details on the businesses' growth; sales data
- xxi) Job creation, full time, family, the owners' hours spent on the business
- xxii) Formalization of the firms, impact
- xxiii) The motivation and drivers for the owners
- xxiv) low growth linked to market, owner's drive?
- xxv) The effect of DEEP activities visible immediately or the delay

2) INTERVIEWS ENTREPRENEURS

SECTION A THE ENTREPRENEURS AND THEIR BUSINESS

Introduction: Why we are undertaking this study. Why we need this data. We are not evaluating the enterprises per se but want to improve the delivery of our services which means we need to know both positive and negative aspects.

- i) General information on when the business was started, why it was started. Who inspired him/her to start the business? Capital for starting came from where: Own savings, from family, loans, bank, etc. Is this a survivalist business or entrepreneurial set up for growth purposes?
- ii) Educational background of the owner; primary, secondary school, English skills, diplomas, certificates, etc
- iii) Other entrepreneurs in her/his family?
- iv) Location of business, close to home, business district
- v) what is the business – let the entrepreneur describe in own words
- vi) how many hrs spent on the business every day?
- vii) No of employees (full time, part time) family or other
- viii) Why did they employ more staff? (when ?)
- ix) Do you have any other businesses? Please specify
- x) If yes, why more than one?
- xi) is the business formalized? Why – why not? Any pros and cons?
- xii) the key skills for running a phone charging business
- xiii) the main challenges
- xiiii) marketing activities, if any? Customer loyalty
- xv) Book keeping, records, etc
- xvi) handling of cash
- xvii) savings or use of profits
- xviii) Their goal and ambition for the business. What have they done to grow the business and what are the ideas for the future?

SECTION B THE BUSINESS ENVIRONMENT AND MARKET.

How the whole PV charging business has been growing in general. The sales of mobile handsets and extension of GSM networks in rural areas.

- i) Their perception of the growth in the telecom sector (number of handsets per HH in 2008 compared to today)
- ii) Network coverage today as compared to five years ago
- iii) Customers purchase power, the price charged for charging over the years
- iv) The access to technology today and cost
- v) The number of PV phone charging businesses in the area

SECTION C THE DEEP AND CARE2 SUPPORT.

Although some years have passed since DEEP started it is important to verify the attribution of support on their current way of doing business

- i) What activities did they participate in? List training sessions, workshops, etc.
- ii) What did they do in the immediate period that followed these training sessions?
- iii) What was the role of the initial need assessment of their business? Who did it? GVEP staff or in cooperation? How was this assessment followed up?
- iv) Who was their mentor? How often did they meet and what was discussed?
- v) Connections and linkages supported by DEEP such as relations with suppliers?
- vi) Technical specs of equipment purchased? Who did this?
- vii) How did the mentor followed up on the training? Any formal guided process that would help the companies understand better what was taught in the workshops.
- viii) Theory classroom vs. practical training. the understanding of concepts and theories to be applied (this one is a it tricky to phrase)

SECTION D THE GROWTH PROCESS.

It is important to understand critical events and the learning process that contribute to a more effective and efficient way of doing business. However, growth is displayed in many areas apart from sales such as behavioral, procedure and process applied, the emphasis on good location, DoL and more staff, etc. Hence a developed enterprise shows different characteristics than a typical micro-enterprise.

- i) The development of sales over the years, seasonal sales or stable?
- ii) Space – location moving or building a specific space for the business or moving to a business district away from home
- iii) Investment in equipment over the years. More panels, new batteries, inverters, wiring, etc
- iv) Additional investment in computers, printers, smart phones
- v) use of Mpesa – Tpesa in business
- vi) Secretary, admin, book keeping who does and how often?
- vii) Additional staff in sales & service
- viii) Use of external funds for technical expertise and maintenance
- ix) Cash flow management, working capital constraints? Savings and planning in general
- x) Relations with customers – customer care? Supplier relations
- xi) Turn over – profit understanding. Cost of doing business
- xii) DoL in business if any?
- xiii) Networking with e.g. other enterprises to solve problems? TAREA, cooperatives, Chamber of Commerce?

Clay liners



APPENDIX IV TERMS OF REFERENCE

GVEP fact finding mission
November 2014
How do the businesses grow and develop?

Lennart Bångens

Introduction: GVEP's CARE2 is business support programme that focusing on energy MSMEs. The enterprises selected for joining the programme receive a wide range of capacity building training spanning from internal organisation to expansion of networks, building customers and supplier relationships, etc. Preliminary reviews and M&E data point to substantial growth manifested in sales increase and job creation.

However, CARE2's integrative approach is effective but by default less 'traceable' in verifying the precise cause of the businesses' improved performance. That is, the contribution or attribution of each BDS component to the development of an enterprise becomes difficult to measure. For the overall success of the programme this may not be a concern but for designing and evaluating various components such as mentoring, training, network efforts, the assumed impact must be somehow known.

Objective: To further identify and analyse the growth process of micro-enterprises; in particular the linkages between outcome vs the programme's output and input. A sub-objective is to assess whether theoretically identified growth stages or behaviour can be measured in practice and verified in CARE2's M&E system. Specific attention will be paid to the mentoring process. An additional objective is to 'test' the likelihood of verifying GVEP's approach in the upcoming DEEP impact assessment study. The method will not be identical though to Enclude's proposition.

Method: The mission will start with a review of literature that discusses among others the following:

SME growth, business cycles, phased growth, growth patterns of micro-enterprises, transition from survival to formal business. The review will also summarize key findings from so-called BDS literature and support to MSME to identify pros and cons of intervention programmes.

The review phase will be followed by collecting data from two sub-sectors; ICS in Kenya and solar phone charging in Tanzania. The focus will be on both earlier DEEP enterprises and those receiving support under CARE2 in roughly equal proportions. The goal is to carry out around 20 qualitative in-depth interviews with business owner to establish their current level of operation/development vs pre- and post DEEP/CARE2 interventions (for DEEP the immediate post DEEP as compared to today). The sample will include a mix of male and female led businesses.

GVEP staff will be involved in the process so that they are part of the process of discovery and are able to provide their own insights and observations, Staff will be encouraged to engage in their own reflection and learning through involvement in the process.

Difference which can be identified between male and female businesses owners with respect to business growth will be captured, and any implications for delivery of BDS in future commented on.

Time table: Meet with the Kenyan office on the 25-26 of November and then travel to Central Province for interviews in 2-3 days. On Dec. 1st flight to Tanzania and start interview in Mwanza on the 3rd. There will be interviews in Mwanza for appr. 3 days. Time will also be allowed for meetings with mentors and BDS staff to discuss preliminary observations and seek their inputs. It is envisaged that total man-days for the assignment will add up to 14 days. (3 days prep, 8 – 9 days in the field including transfers, 2-3 days analysis and report writing)

Inception report on literature review by Nov 25th

Draft report by Dec 13th including observations on how the design of further BDS interventions to support micro-businesses might be strengthened,

including gender aspects, implications of the finding for how the DEEP sustainability study should be conducted, and specific suggestions on 1-2 additional KPIs which it might be practical to track within GVEPs M&E.

Feedback from GVEP and Sida by Dec 19th

Final report Jan 2015

- 1 In practice there were mostly micro businesses.
- 2 Maybe this conclusion is a bit premature as it is based on 17 enterprises. There is a need to look at the M&E data and/or carry out a mini-survey in Kenya.
- 3 Transcripts from all interviews are available in an Excel spreadsheet file.
- 4 The goal was to carry out 20 interviews but due to time limitations, logistics, entrepreneurs not present, etc., the planned number could not be reached.
- 5 The empirical findings comprise 17 cases which is too small to attain any statistical significant result. Further, the sample was drawn using non-random methods which means the 17 may not represent the population of almost 1000 businesses.
- 6 The account is opened for private use but may be used for a business in the case of MSMEs as the owner is the one that almost always handles all financial transactions.
- 7 B2B (Business to Business)
- 8 Cited in Liedholm (2002).
- 9 <https://www.empowermentinstitute.net/index.php/docman-default-enabler/behavior-change-research/93-delivering-agency-in-the-developing-world-an-evaluation-of-the-imagine-kenya-initiative/file>
- 10 There is evidence suggesting that internal factors (depending on the entrepreneur) may explain up to twice as much variance in performance as external economic factors (Tvorik and McGivern, 1997).
- 11 Remarkably low death rates among the DEEP companies. (preliminary m&e data indicate xx% since project completion)
- 12 To build a support system to promote growth is rather mainstream in the sense that is the norm in capitalist society. A programme that merely aims at sustainability or survival of businesses to alleviate poverty may not attract the same attention of Development Partners.
- 13 For around 110 the contacts were outdated or not working so currently there is no verification on the status of these businesses.
- 14 It is similar to RBM that differs from traditional implementation-focused M&E in that it moves beyond an emphasis on inputs and outputs to a greater focus on outcomes and impacts.

Charcoal stoves



GVEP International

Fifth Floor – Totara Park House
34-36 Gray's Inn Road
London WC1X 8HR
United Kingdom
Telephone: +44 (0) 207 242 8602
E-mail: info@gvepinternational.org

GVEP International Africa

Mbaruk Road, Off Muchai Drive
Off Ngong Road, Opposite Panorama Court
P.O. Box 76580 00508
Nairobi, Kenya
Mobiles: +254 (0) 722 508 789 or
+254 (0) 725 708 842
Landlines: +254 (0)208 000 642
E-mail: east.africa@gvepinternational.org

UK. Reg Charity No. 1119168

Front cover: exhibiting improved cookstoves at a regional market fair.