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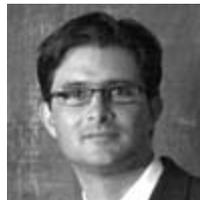
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Effectively Catalyzing SME Growth Through Business Plan Competitions: Innovative Examples from Latin America



Andrés Rico
Peter Ippolito



TechnoServe

March 9, 2011

Introduction

Who we are



Background

- The role of entrepreneurship in poverty reduction

The problem at hand and Evaluation of Methodology

- Strategic planning
- Access to capital
- Other problems
- Overview of BPC impact study and results

Next Steps

- Results
- Lessons learned
- Beyond BPC's

Q and A

TechnoServe is an international nonprofit development organization providing business solutions to poverty

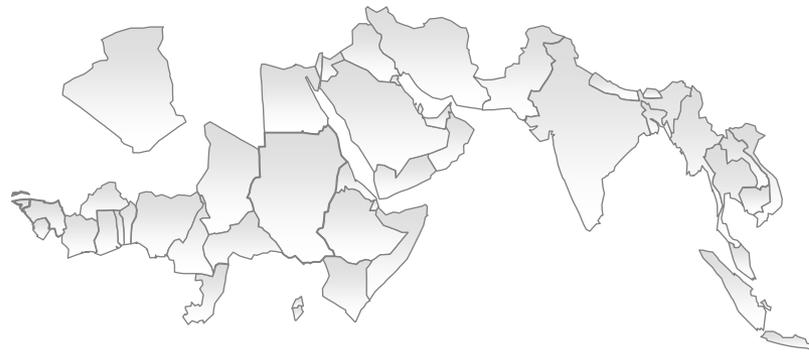


- Empower people in the developing world to build businesses that break the cycle of poverty
- Work in over 25 countries throughout Latin America, Africa and Asia
- Founded in the US in 1968
- 2009 revenue of \$50M
- Obtain funding from diverse sources including U.S. and foreign government agencies, multi-lateral organizations, corporations, foundations and individuals

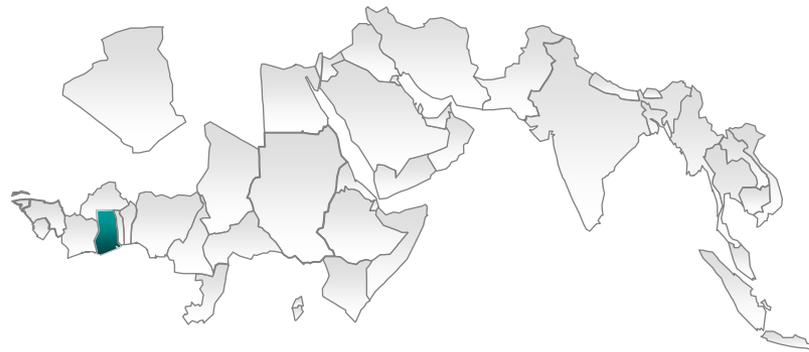


From BPC we evolved to SME Promotion, to Business Accelerator

*Began with McKinsey
based BPC format for 15
competitions between 2002
in 2006*

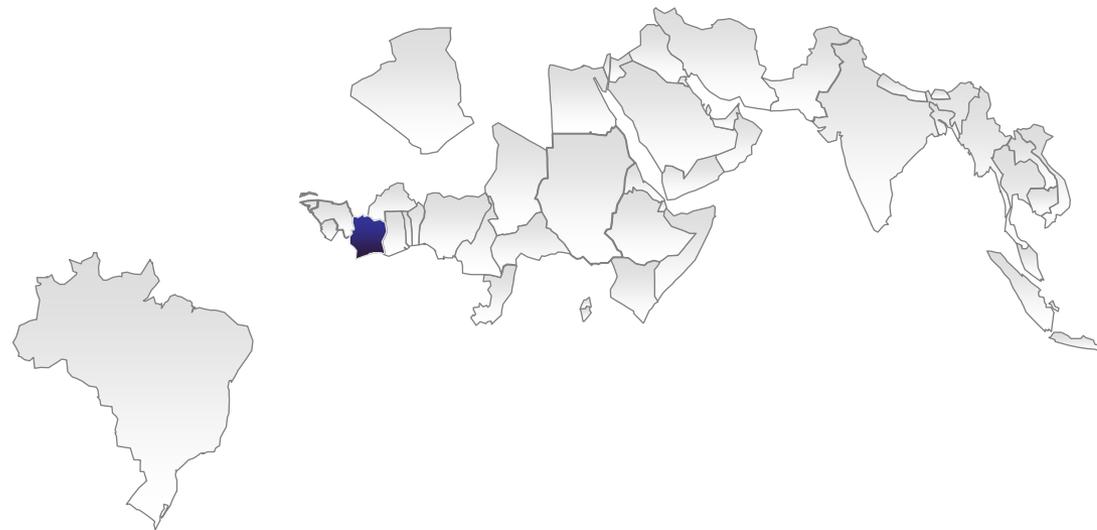


From BPC we evolved to SME Promotion, to Business Accelerator



Follow up of
Central America
effort beginning in
2003

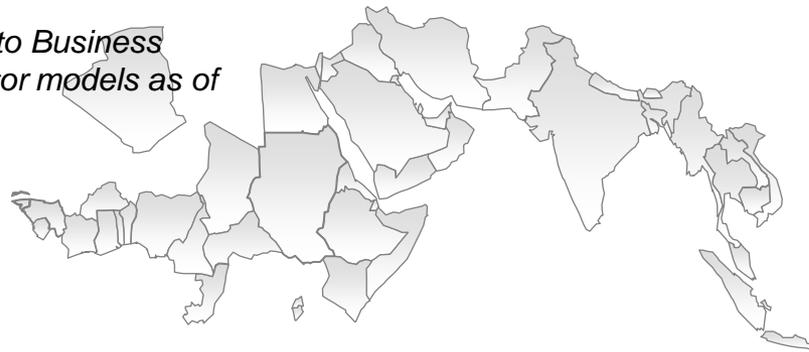
From BPC we evolved to SME Promotion, to Business Accelerator



Six country simultaneous effort with MIF grant creating an SME Promotion effort in 2008 with replication in Africa in 2010

From BPC we evolved to SME Promotion, to Business Accelerator

*Evolving to Business
Accelerator models as of
2012*



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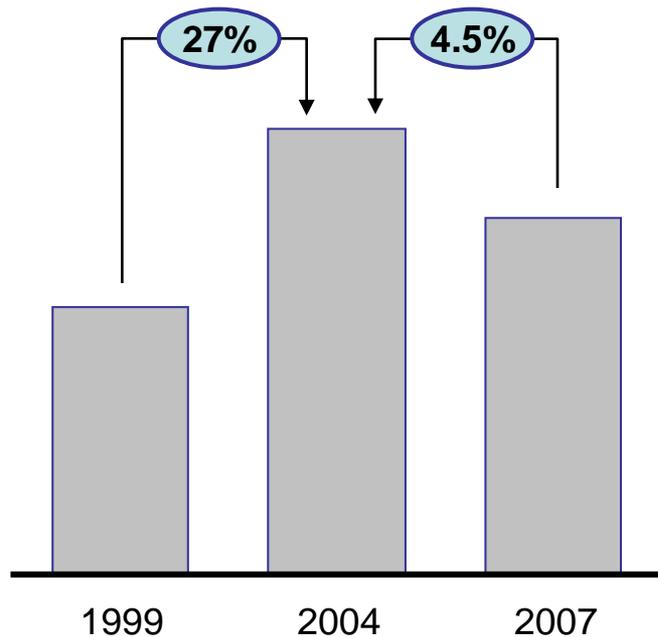
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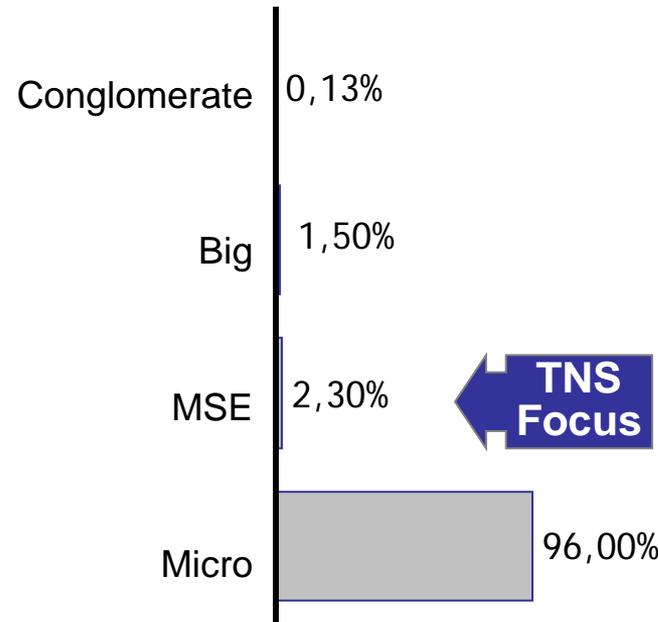
Q and A

Latin America lacks thriving SMEs

Increase and decrease in poverty in L.AC between 1999 and 2007 (relative to 1999 figures) *



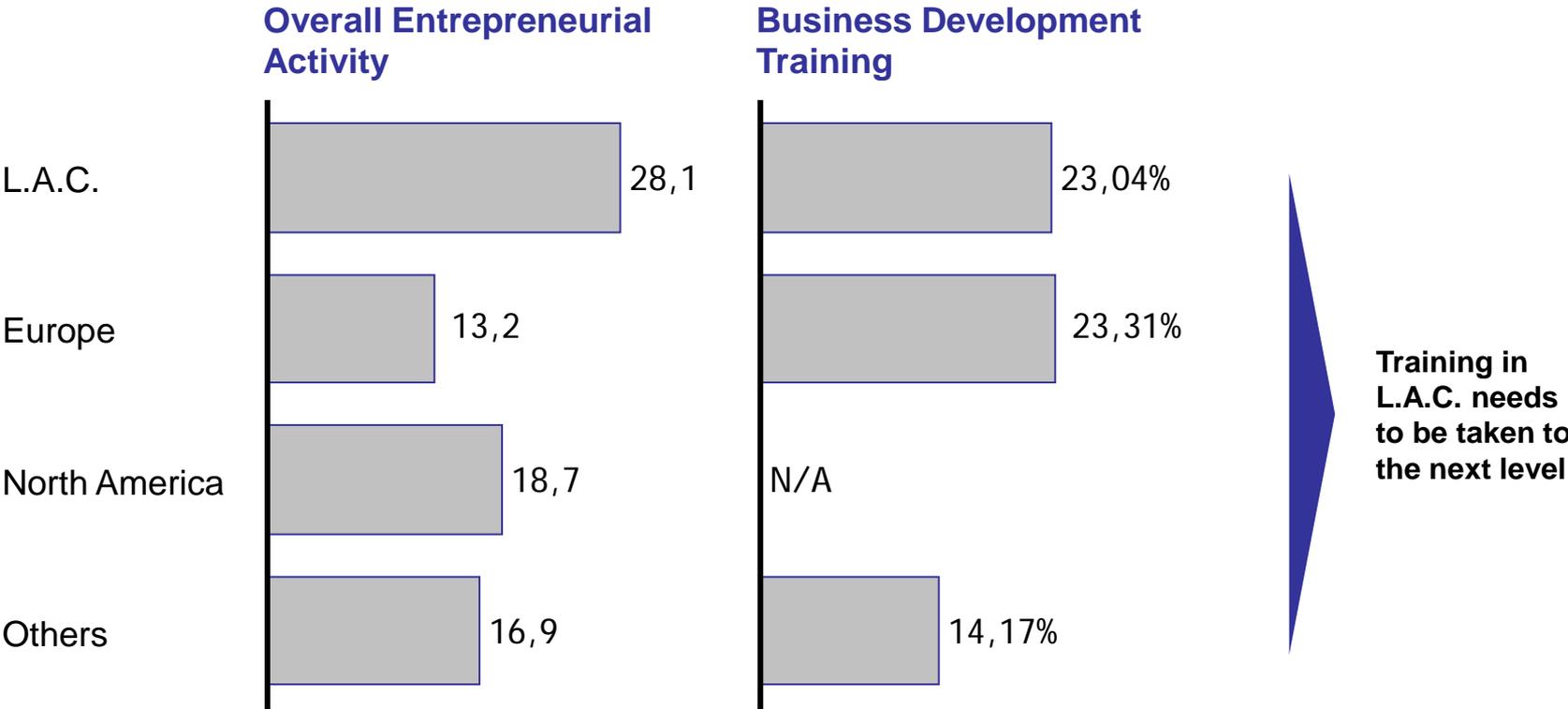
Businesses by size in LAC



Entrepreneurship development is a key to promote change

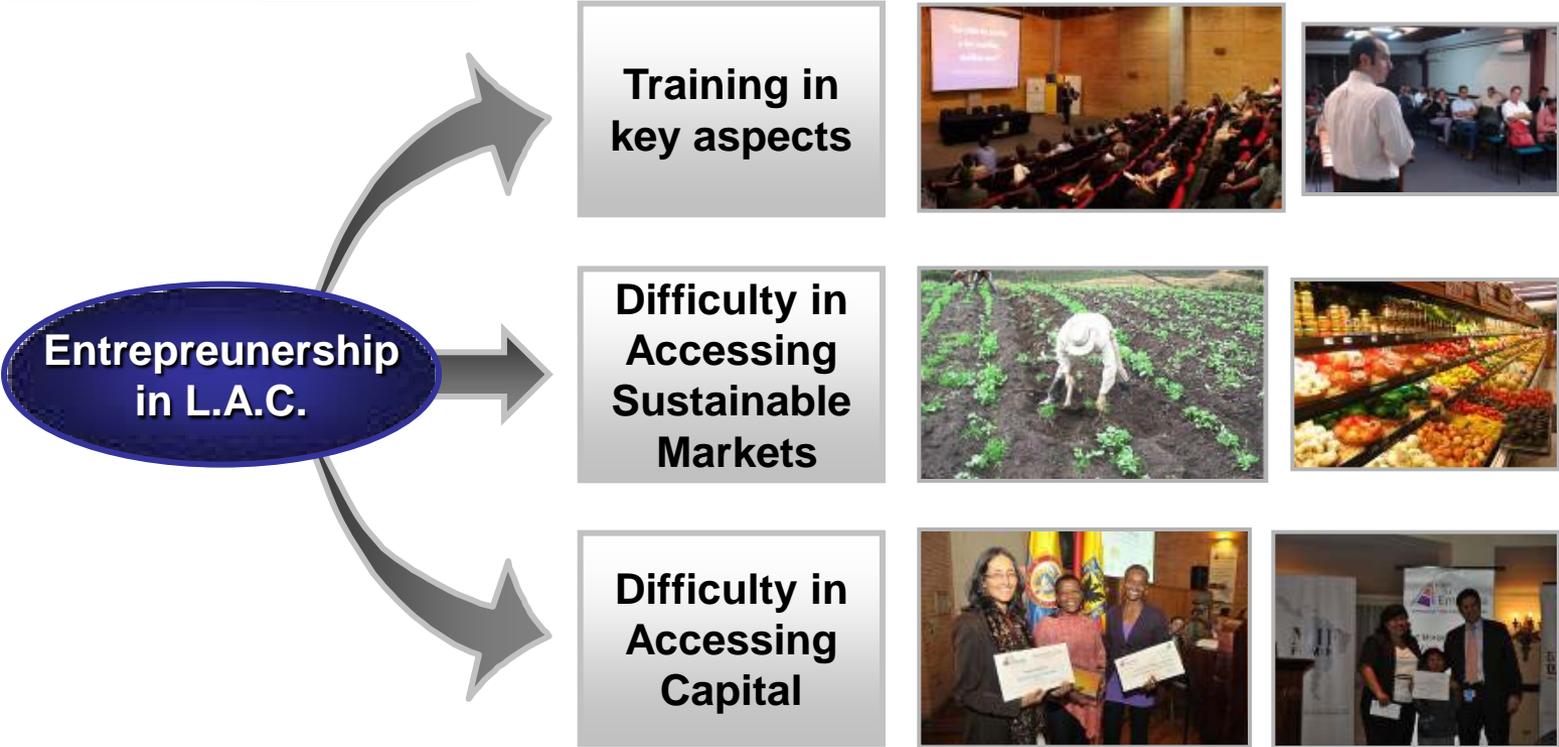
* In terms of number of people living with less than \$8/day

Despite strong entrepreneurial activity in Latin America, the region lags in Business Development Training



TechnoServe has interpreted the problem in three instances of solution

Issues for SME's at an early stage



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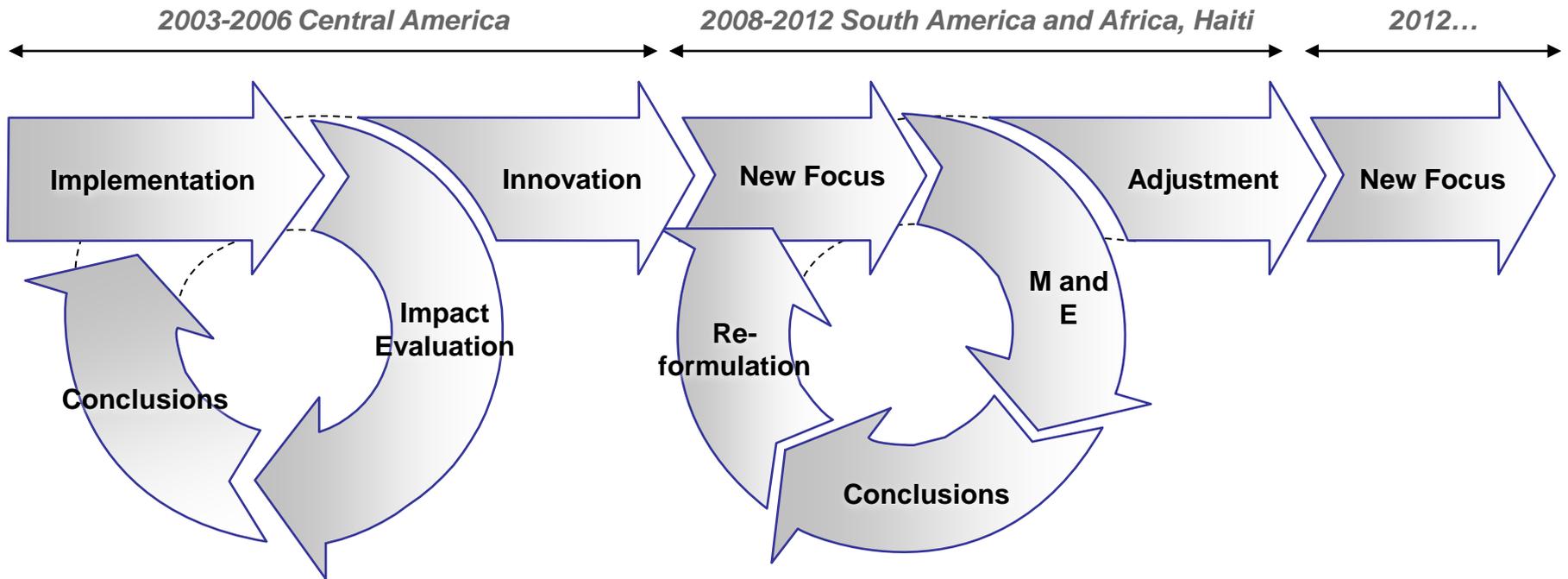
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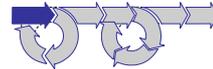
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Q and A

Since 2003 we have continuously iteratively evaluated and innovated entrepreneurship programs





The BPC is a cornerstone of how TechnoServe has envisioned the solution

BPC Basic Process



- Convene businesses in different industries that are looking to start or grow
- Provide practical training for building a useful business plan
- Selection based on quality of business plan
- Select best pool and provide seed capital



Key Questions

- Is our selection process effective?
- Are we attracting strong applicants?
- How can it be improved?

- How useful is it?
- How does impact breakdown amongst groups?

- How effective is it?
- How effective is our selection?

- What happens to the winners?



Study Methodology (Summer 2009)

Preparation

Data Collection

Data Analysis

- Process*
- Research plan based on previous study by Harvard Professor Bailey Klinger and other academic papers
 - Survey designed based on input from senior TechnoServe team members
 - Interns thoroughly trained
- 4 interns administering survey over phone
- Reached out to each person multiple times at different times of the day, both via phone and email
- Each survey checked by supervisor. Data double checked and compared with previous surveys
- **Employed a process to approximate randomized sampling (credible counterfactual) to measure true impact**
- Multiple regression analysis allows us to control for a variety of variables and see impact of specific pieces of training
- Simple comparisons demonstrate robustness
-
- Results*
- Survey efficiently designed with study goals and methodology in mind
 - Interns prepared
- Large dataset, confidence in data integrity, and reduction of response bias
- Confidence in measurement of impact
- Wide variety of metrics analyzed

Dataset

- 590 entrepreneurs surveyed: 60% participants, 40% non-participants
- Almost 85% of the people we spoke to completed the survey

Company Information

- Sector
- Annual Sales (by year)
- Annual full time and part time employees (by year)
- Capital raised (by source, before and after BPC)
- Level of formality
- Year and reason for failure

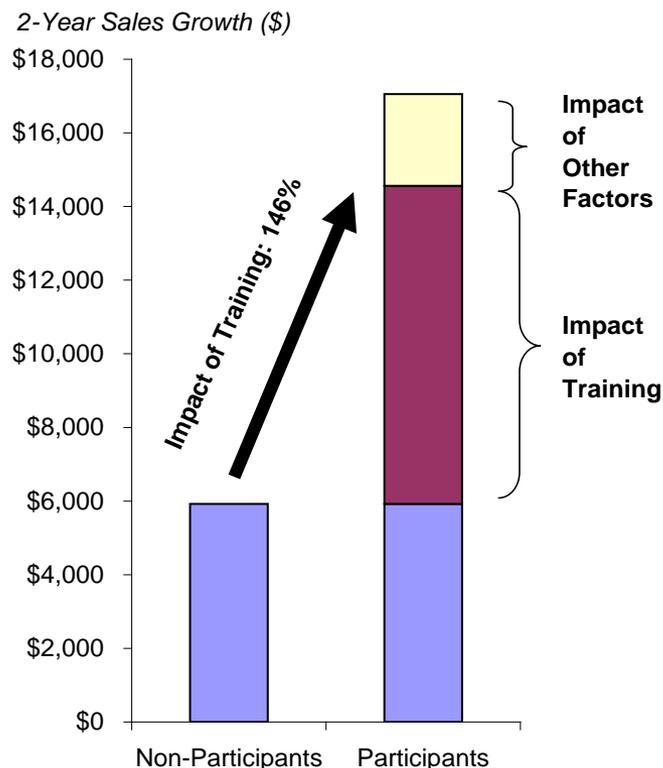
Entrepreneur Information

- Demographic information (age, education)
- Previous companies founded
- Other companies founded after competition (including sales, employees, capital raising, formality)
- Key areas of training
- Additional training desired
- Use of business plan



The BPCs had a strong impact on sales growth

Impact of Acceptance on \$ Sales Growth (a)



Notes on Analysis

- Multiple regression and other analyses confirm a strong impact, *even controlling for selection bias*
- Strong impact also seen in 1-year sales growth, capital raised, initial success, new business survival rate and rate of formalization

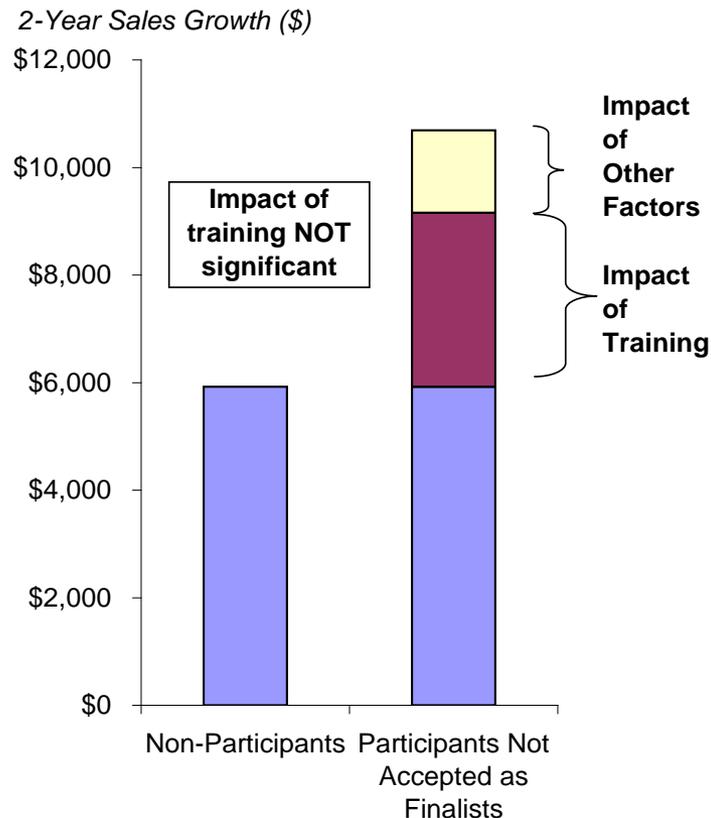
Key Insights

The BPCs as a whole have a strong impact

(a) Based on multiple regression analysis, controlling for age, gender, year, country and selection bias. Other factors include these variables as well as unobserved differences.

Phase I (business plan training) Appears to Have an Impact

Impact of Phase I on \$ Sales Growth (a)



Notes on Analysis

- Neither multiple regression nor other methods found a significant impact of phase I, BUT *data set is small and selection bias exists*
- Impact of Phase I not found across other KPI's

Key Insights

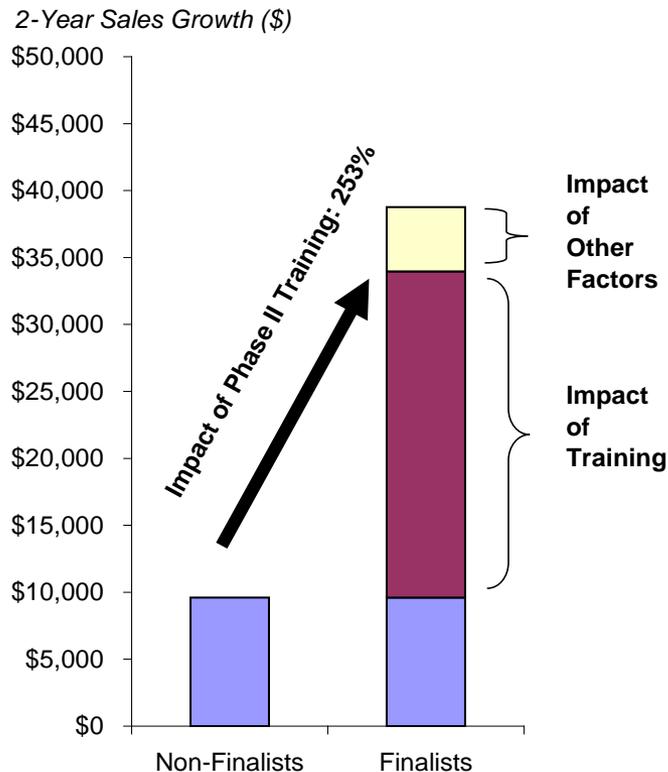
The impact of training is not *statistically* significant at a 95% level. This means that there is a very good chance that it does have an impact.

The standalone impact of Phase I is ambiguous

(a) Based on multiple regression analysis, controlling for age, gender, year, country and selection bias. Other factors include these variables as well as unobserved differences.

Phase II (Business Plan Improvement) and the Prize Awarding Have a Strong Impact

Impact of Training on Sales Growth^(a)



Notes on Analysis

- Regression analysis, controlling for age, gender, country, year, selection bias shows strong predicted impact, even controlling for effect of prize
- Results robust through a variety of techniques and across other KPI's

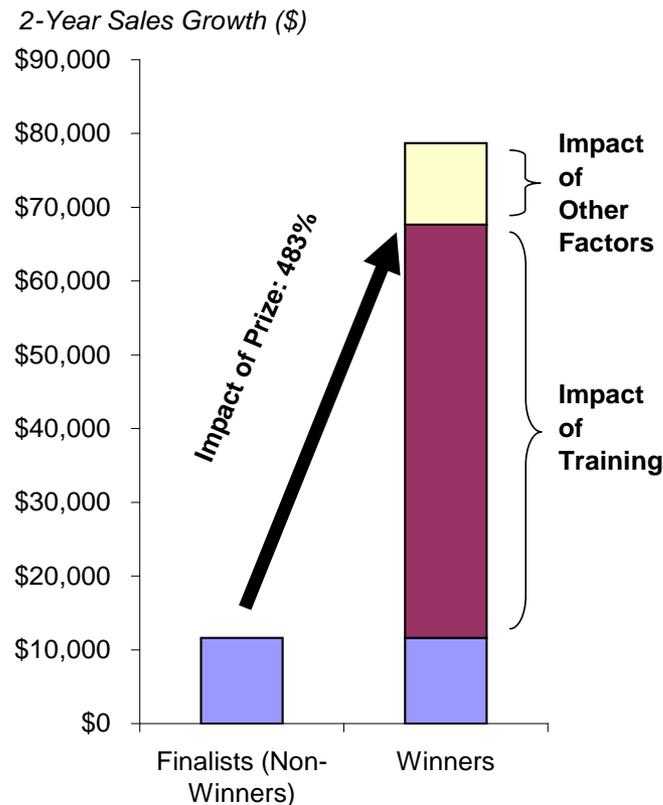
Key Insights

The second round of training combined with the possibility of the prize has a significant impact on business success and growth

(a) Based on multiple regression analysis, controlling for age, gender, year, country and selection bias.

Prize Awarding Has a Very Substantial Impact

Impact of Prize on Sales Growth^(a)



Notes on Analysis

- Results robust through a variety of techniques and across other KPI's
- Selection bias is not controlled for due to a small sample size

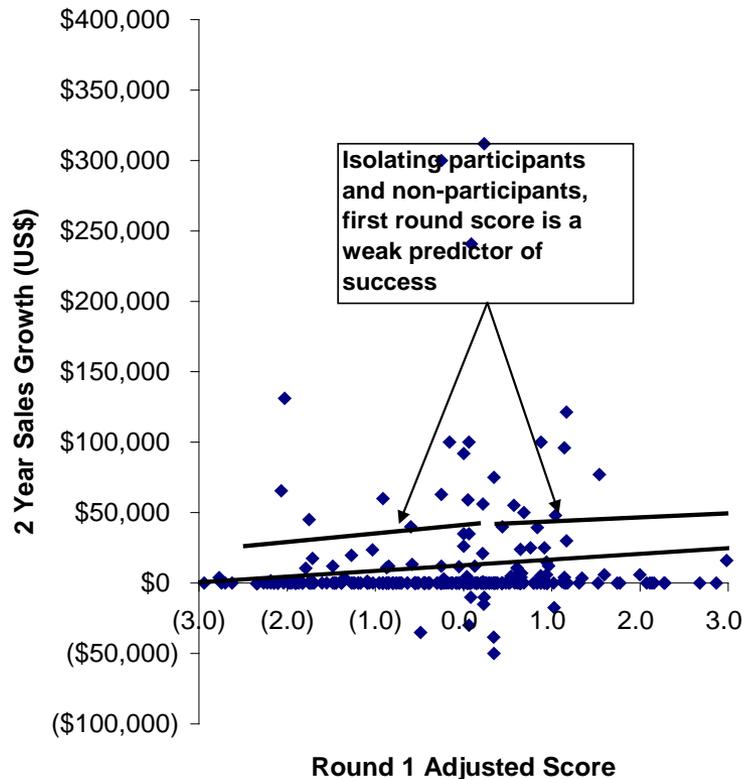
Key Insights

- The prize is a major advantage, however we could not test the impact of the prize without training.
- Focus groups and 1-on-1 interviews suggest that the prize's impact was multiplied by the training.

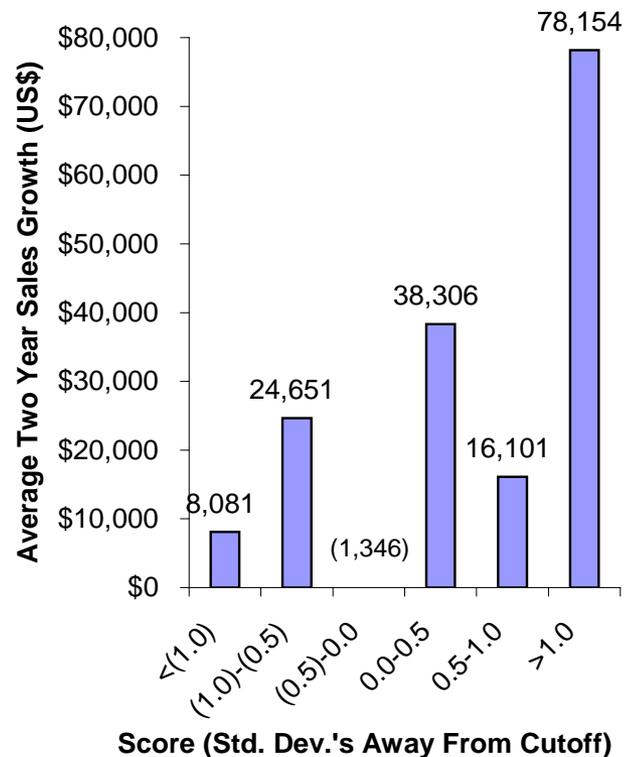
(a) Based on multiple regression analysis, controlling for age, gender, year, and country. Selection bias is not controlled for as all finalists are assumed to be of high-quality.

TechnoServe's Original Participant Selection Methodology was Not a Predictor of Success

Adjusted Score vs. Sales Growth



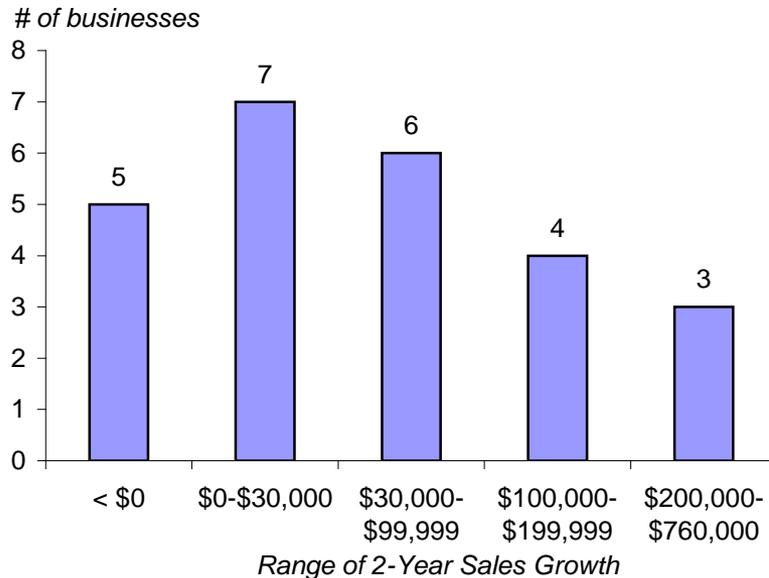
Final Selection Round



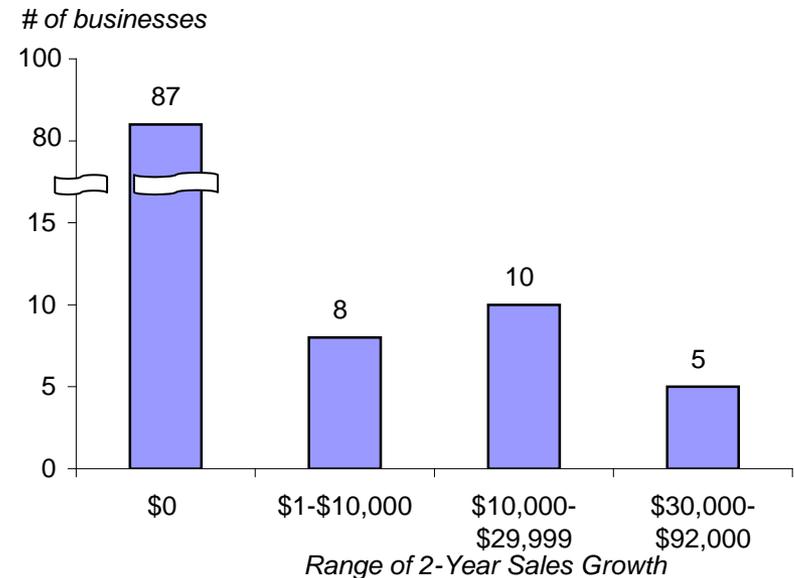
Distribution of Impact was Found to be Extreme

- In both new businesses and existing businesses, the distribution of sales growth is very uneven
- **As in venture capital, our impact relies on a few very successful businesses**

Sales Growth Breakout - Existing Business

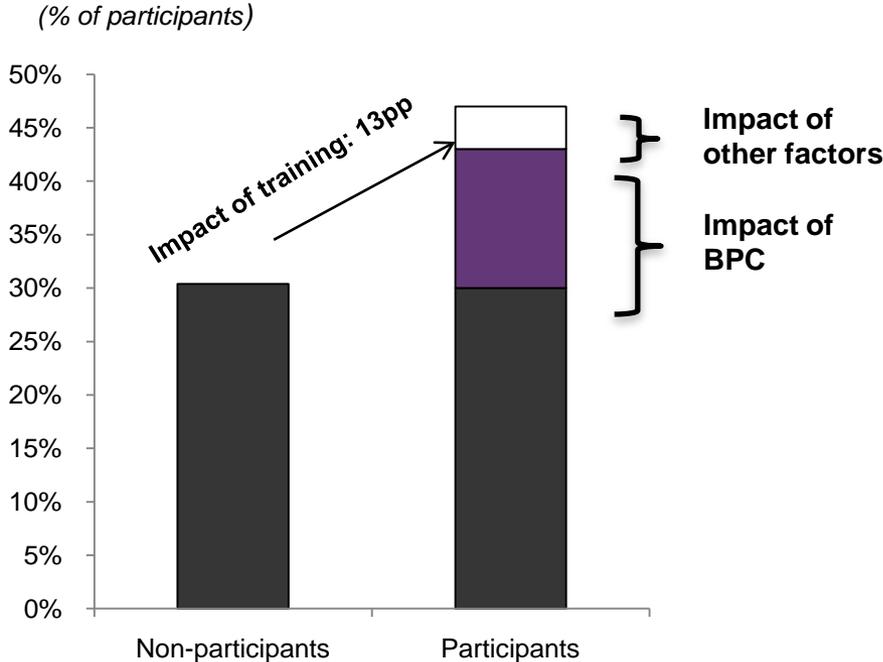


Sales Growth Breakout - New Businesses

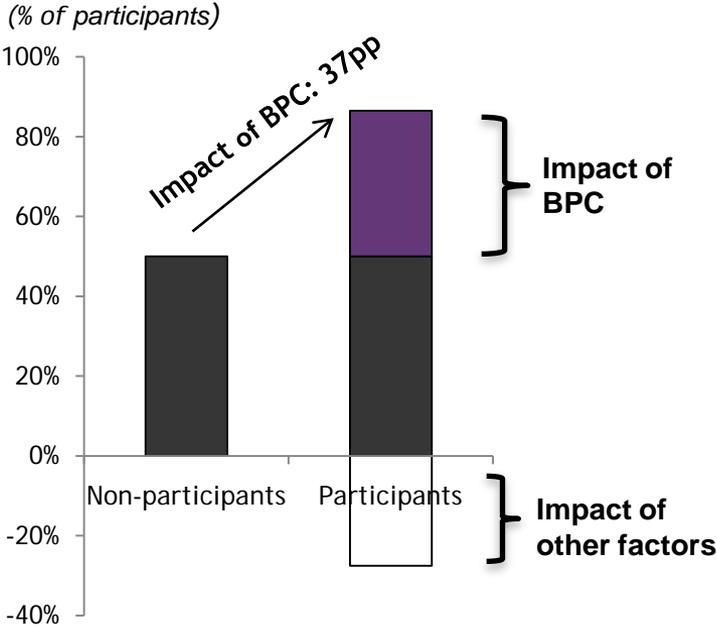


The BPCs also had a Strong Impact on Success and Survival Rate

Self-Described Success Rate (1)



2 Year Survival Rate (2)



(1) Answer to the question "were you successful in founding or expanding your business?"

(2) Only includes new businesses.

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Following the evaluation insights, we modified our approach

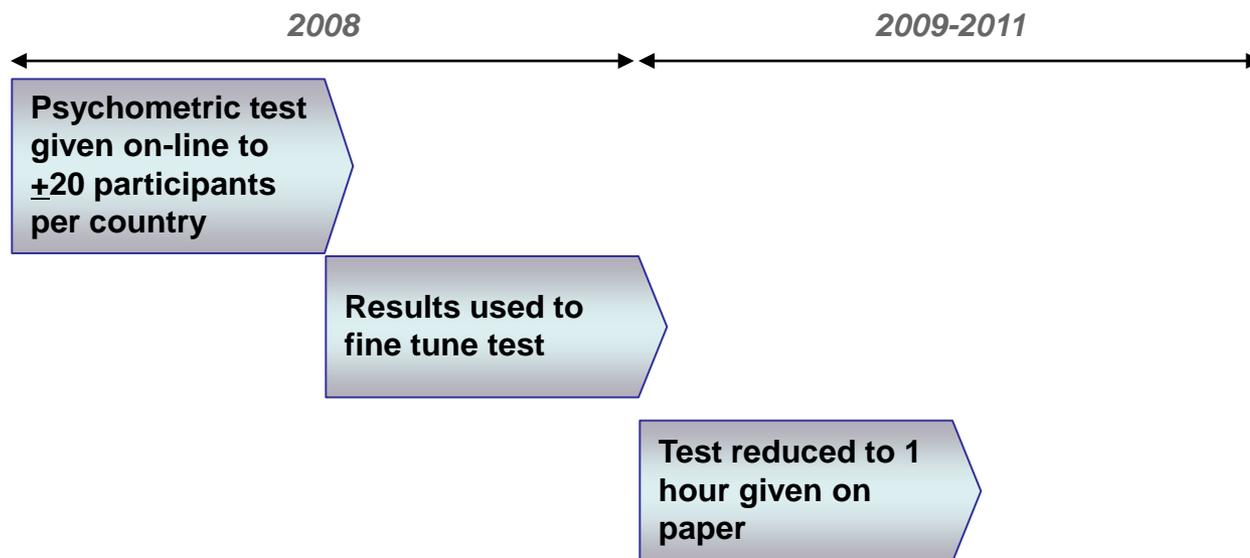
<u>Take away from C.A. Study</u>	<u>Improvement from 2008 and on</u>	<u>Impact observed</u>	<u>Comment</u>
<ul style="list-style-type: none">▪ Primary selection non predictive	<ul style="list-style-type: none">▪ Incorporated psychometric testing in collaboration with Harvard University		<ul style="list-style-type: none">▪ Increased commitment from participants
<ul style="list-style-type: none">▪ Winner selection too simple	<ul style="list-style-type: none">▪ Introduced psychological interviews and panel presentations		<ul style="list-style-type: none">▪ Allowed assertive segmentation of the groups
<ul style="list-style-type: none">▪ Training follow up lacking	<ul style="list-style-type: none">▪ Introduced 1 year 'aftercare'		<ul style="list-style-type: none">▪ Provided means to continuously follow-up
<ul style="list-style-type: none">▪ Additional marketing and financing training required	<ul style="list-style-type: none">▪ Developed pilot to focus on training for extra 6-12 months in market linkages and access to capital		<ul style="list-style-type: none">▪ Created practical approach and short term results



To improve the primary selection we collaborated with Harvard University's CID in 2008

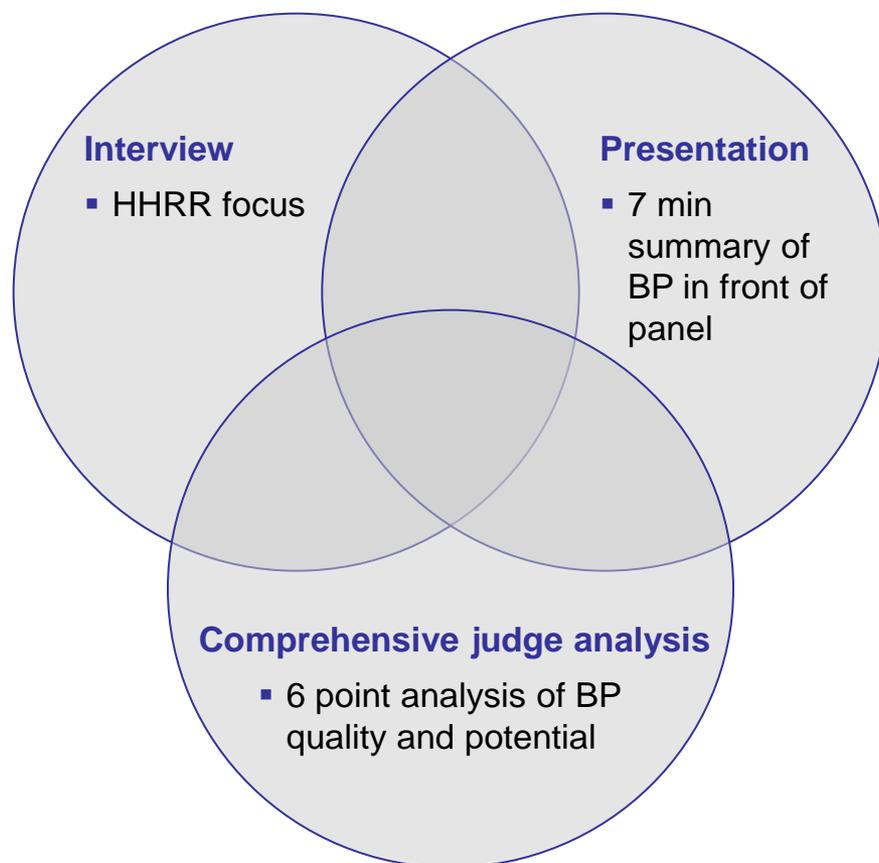
2008-2009

- Test winners of Colombia, Peru, Chile, and Tanzania competitions were given 90 minute test to view personality and intelligence
- Pilot tested from first selection participants in Ecuador competition to provide data for first selection

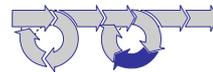




Winner selection was made more robust through making it more about the entrepreneur



Concept pioneered in Ecuador in 2010 and followed in Bolivia



Aftercare became a core activity after 2008

Aftercare Objective : Provide specific support to finalists for them to continue to use their business plans as a practical tool to guide them through implementation and growth

Aftercare Criteria

- Prioritize activities of the Business Plan
- Provide support in key areas aiming at medium term development
- Serve as monitoring tool in the use of resources as well as performance

Business Plan Assessment

- Review the BP and make it achievable
- Quantify real economic needs

Specialty Training

- Undertake in depth financial training
- Communication and network access practice

Alliance Development

- Create environment for entrepreneurs to develop strategic partnerships with suppliers, clients, and capital providers

Marketing Plan

- Build a commercial, milestone based plan in order to encourage sales generation

Investment Plan

- Build a realistic approach for the use of resources
- Identify real capital needs

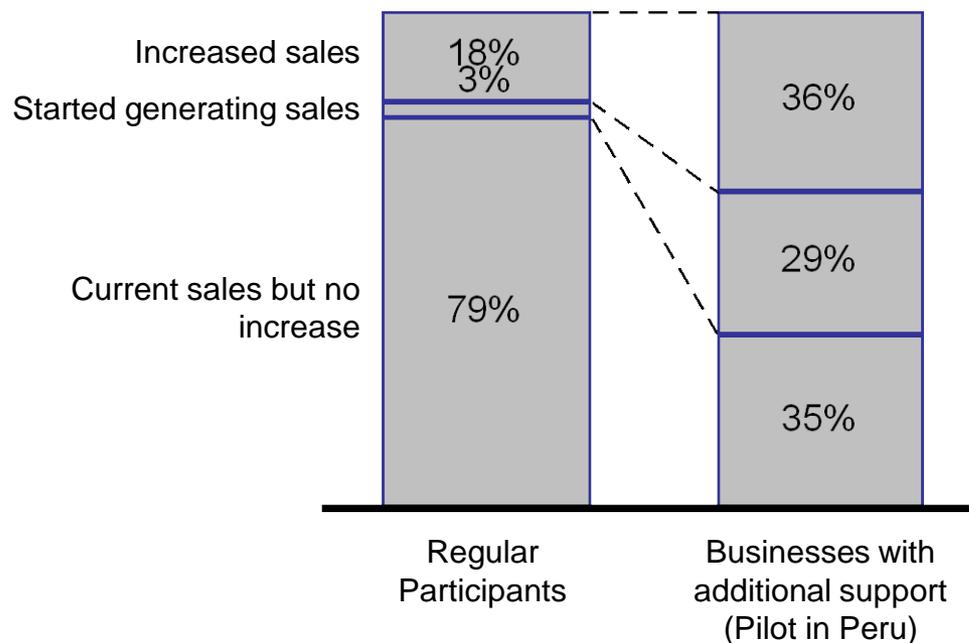


Complemented with market and capital access support after 2010

Market linkages and capital follow up

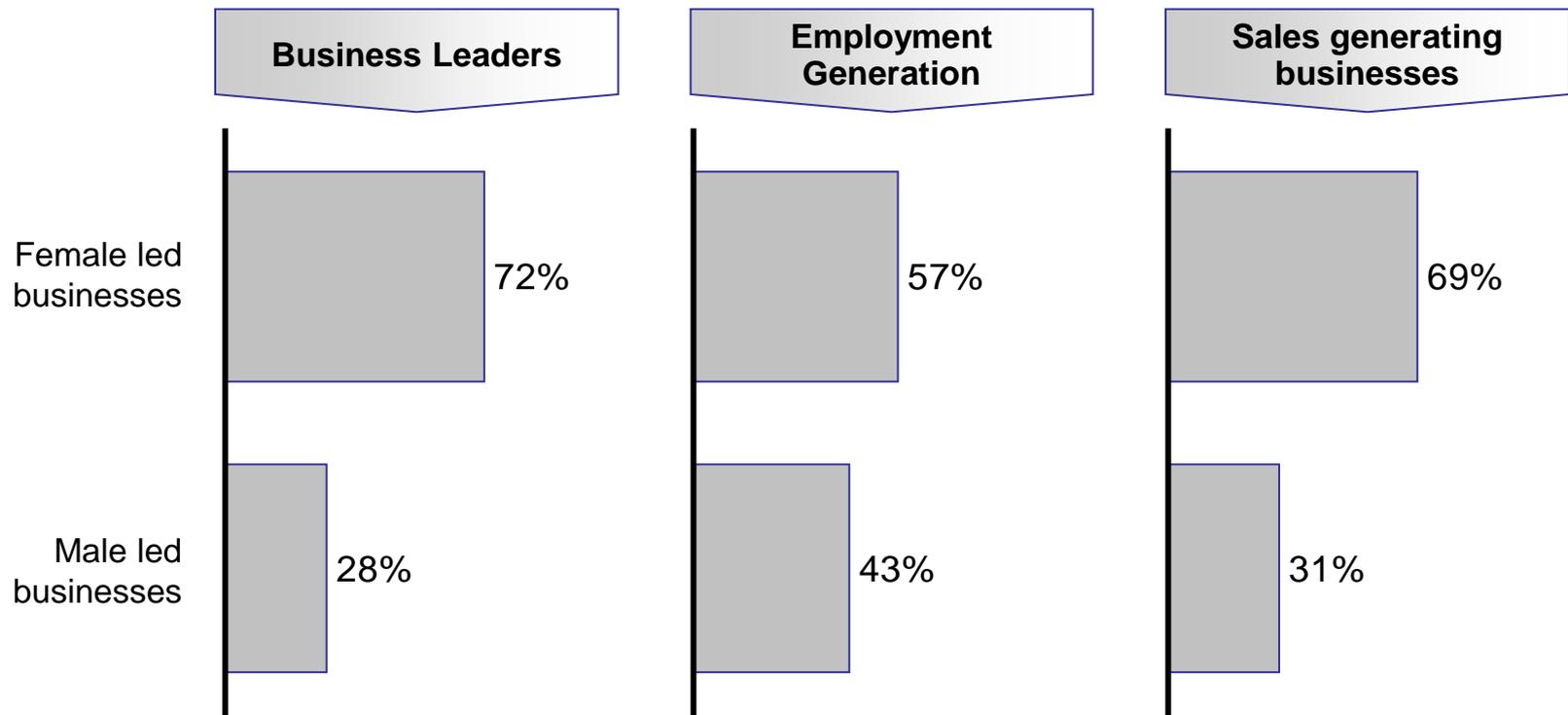
- Build market relations ending in real contracts
- Begin efforts for export
- Obtain capital and recurrent relationships

Evolution of participants during first year





Gender equity and outcomes are tracked closely





The next step in entrepreneurship is to go beyond the SME Promotion

Traditional BPC (Central America)

- Learn to create business plan and obtain seed capital

SME Promotion (South America)

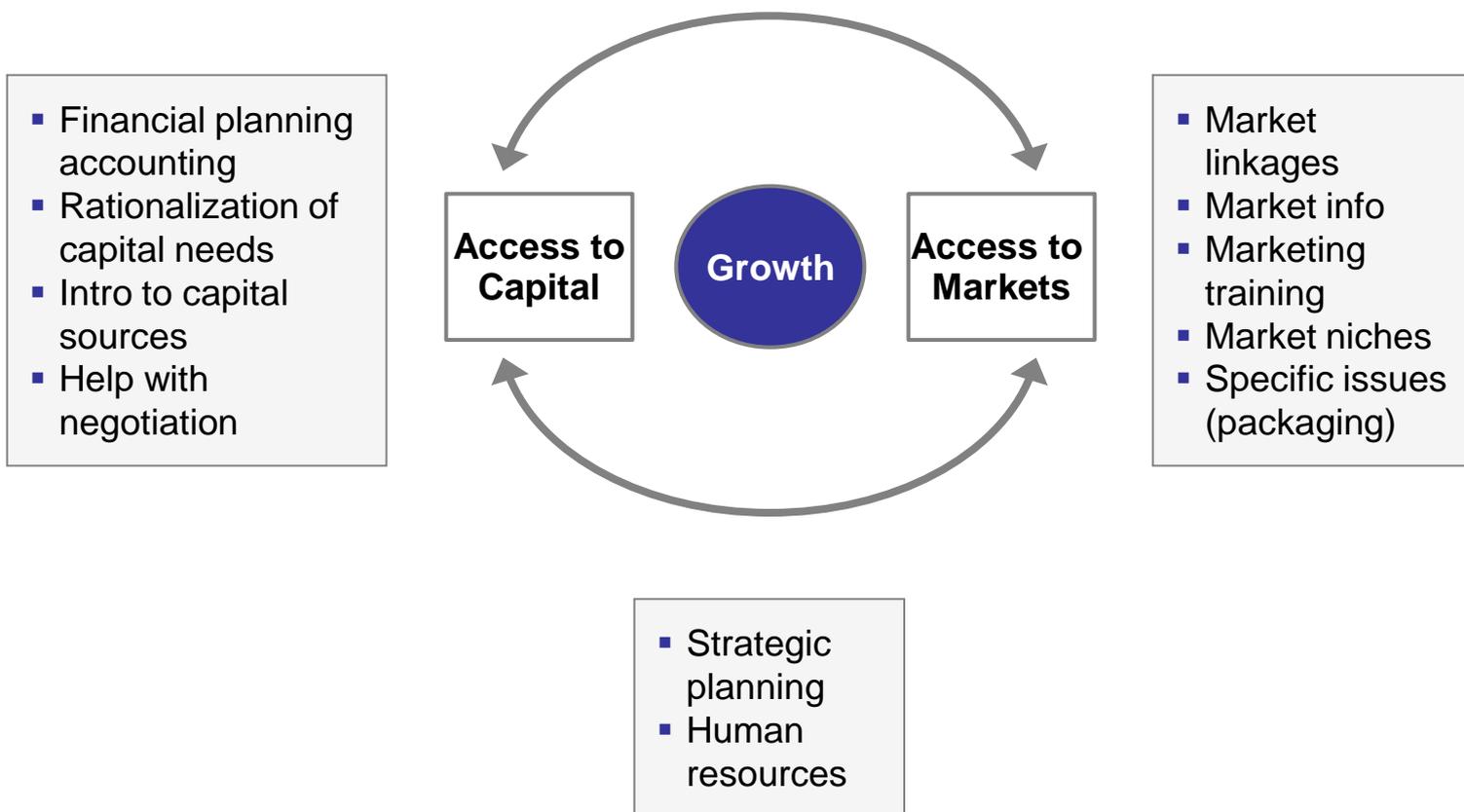
- Learn to create business plan and obtain seed capital
- Improved selection
- Aftercare
- Training and toolkits on accessing markets and capital

Beyond SME Promotion

- Learn to create business plan and obtain seed capital
- Improved selection
- Training and toolkits on accessing markets and capital
- Push the businesses with the greatest potential to generate growth and job creation
- Targeted consulting interventions to achieve sustained growth



The new model will provide access to capital and markets to promote rapid growth: Business Accelerator



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Appendix



Key Performance Indicators

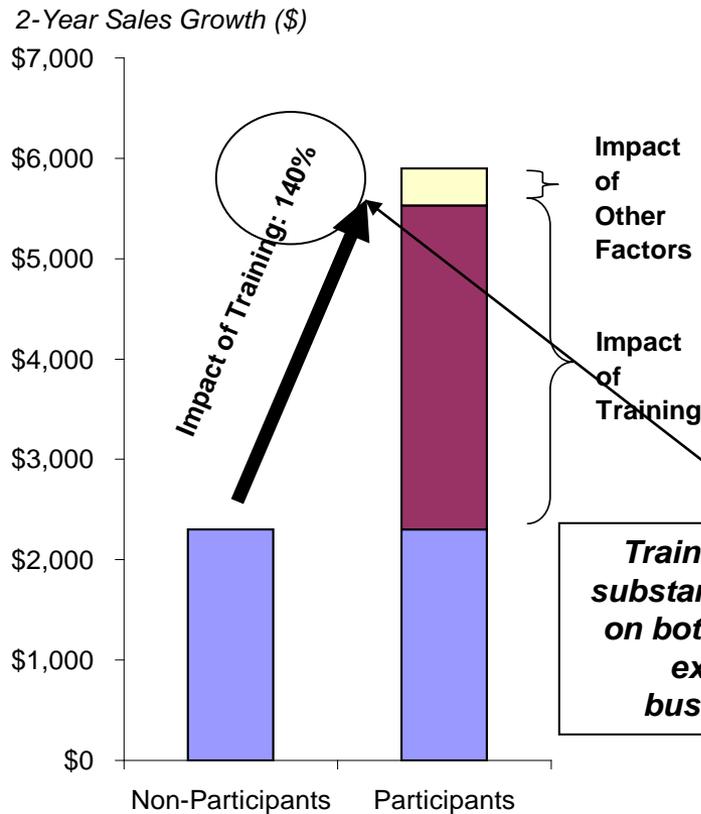
- Initial Success – the percent of businesses that responded “yes” to the question “did you succeed in founding or expanding your business?”
- Formalization – the percent of businesses that were formally constituted before government authorities or that paid taxes
- Survival Rate – the percent of businesses that survived one or two years
- Sales Growth → the dollar value of the growth in annual sales from before the competition to either one or two years afterwards
- Capital Raised – total capital raised from founders, partners, banks, microfinance organizations, and other sources
- Employee Growth – the change in the number of either full-time or total employees in the one or two years following the competition

Throughout the presentation, we will focus most heavily on two-year dollar sales growth, as a holistic measure of business growth and TechnoServe impact

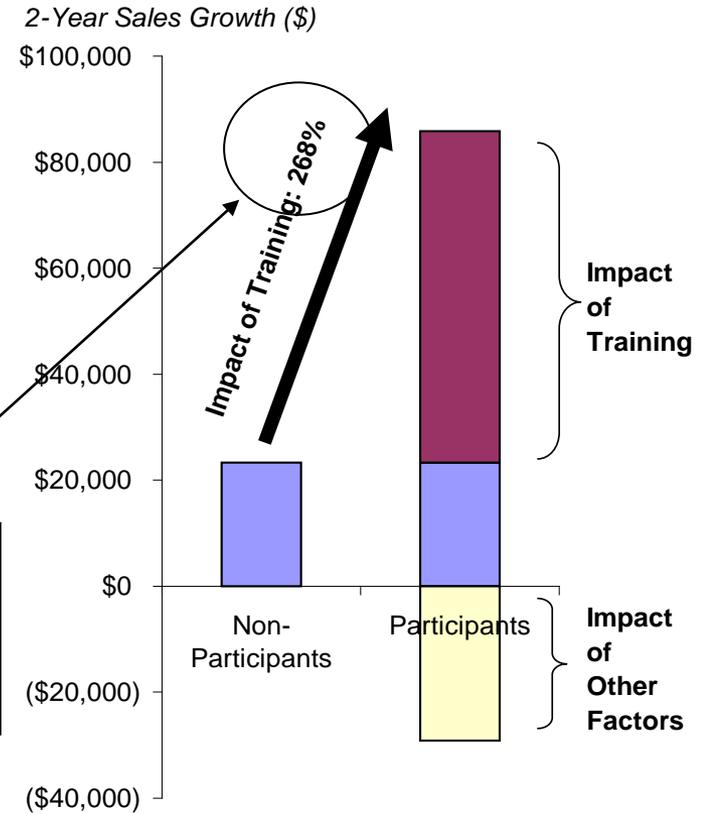


Impact: New and Existing Businesses

New Business: Training Impact (a)



Existing Business: Training Impact (a)

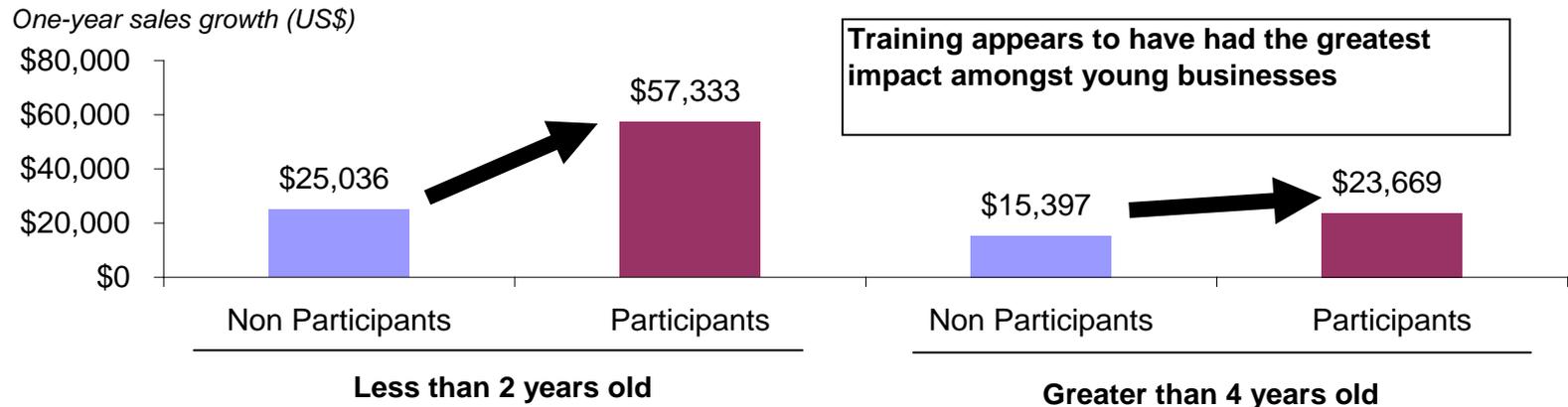


(a) Based on multiple regression analysis, controlling for age, gender, year, country and selection bias.



Impact by Age of Existing Businesses

Comparison of Impact Amongst Existing Businesses of Different Ages (a)



Analytical Notes

- The difference in sales growth is statistically significant
- The pattern holds across other KPI's, although not always statistically significant

Key Takeaways

- It appears that among existing businesses, the youngest ones have the greatest potential for impact

(a) The younger participants are heavily influenced by one entrepreneur with two-year sales growth of \$760,000. The difference holds, but is smaller, when he is excluded.

Overview on Various KPI's

- Participation and Phase II completion have an enormous impact on sales, capital mobilized, and initial success
- The impact of Phase I is ambiguous across variables. The program impact on employment growth is ambiguous as well.

Various KPI's: Participant and Non-Participant Averages and Predicted Impact ^(a)

	Participant Average	Non-Participant Average	Predicted Impact of ^(b)		
			Participation	Phase I	Phase II
1-Year Sales Growth	\$12,476	\$3,738	110% ***	38%	333% ***
2-Year Sales Growth	\$17,053	\$5,925	146% ***	55%	253% ***
1-Year Full Time Employee Growth	1.33	0.48	39%	26%	2%
2-Year Full Time Employee Growth	1.23	0.77	18%	(12%)	58% *
Total Capital Mobilized	\$16,803	\$8,173	172% ***	91% *	224% ***
Initial Success Rate (Self-Described) ^(c)	46.6%	30.4%	42% ***	4%	81% ***
2-Year Survival Rate (Only New Bus.)	72.5%	50.0%	73% **	73%	22%
Rate of Formalization (Only New Bus.) ^(d)	84.5%	76.2%	22%	27%	(11%)

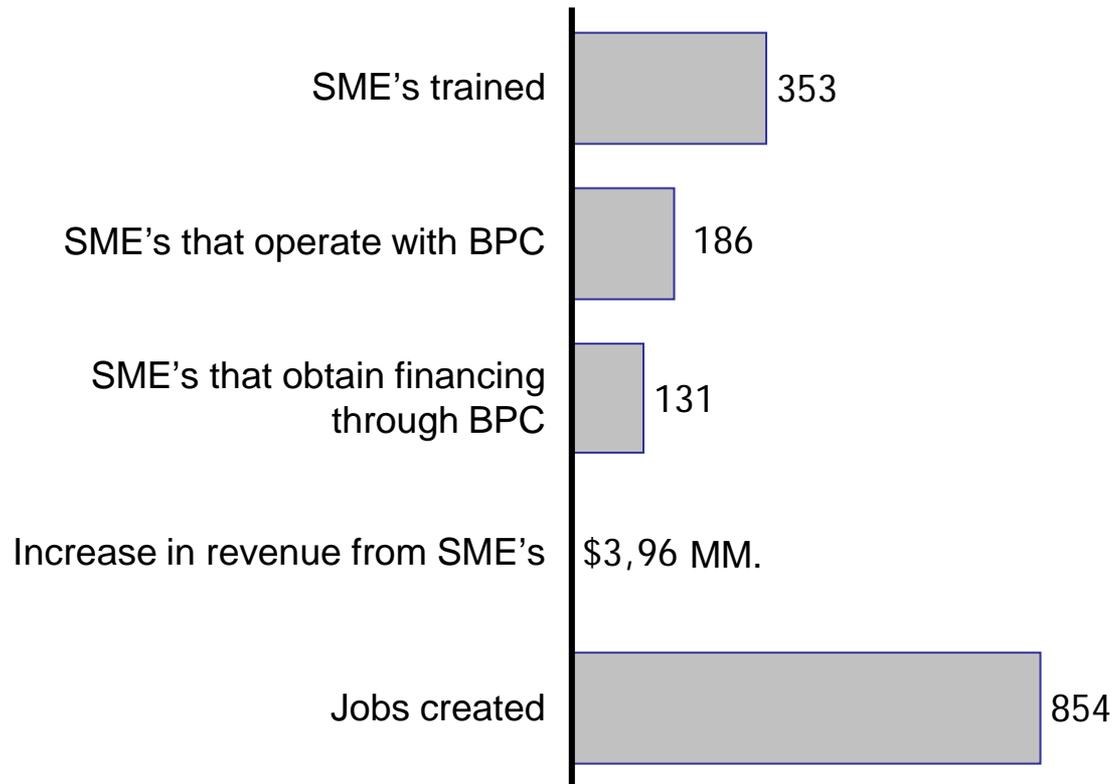
(a) Based on multiple regression analysis that controls for age, gender, country, year, and selection bias.

(b) *** 99% confidence; **95% confidence; *90% confidence. Phase II includes impact of prize.

(c) Refers to the question: "Did you succeed in establishing or expanding a new business?"

(d) Percent of new businesses founded that were formally constituted before the authorities.

South America SME Promotion Main Figures



TechnoServe's main lines to promote entrepreneurship

EXAMPLES

1

Supply Chain Development Programs

- Focused in training and forming suppliers to strategically support the a specific value chain
- Usually a large number of commodity type producers is involved



2

Local Economic Development

- Aiming at promoting productive business ventures to improve livelihoods of a specific area
- A small number of existing agri producers or suppliers of any sort in small number are promoted to become rainmakers



3

Entrepreneurship

- Convening efforts to attract entrepreneurs with ideas or existing businesses
- Through competitions a large number of entrepreneurs is convened, trained and reduced in order to provide support



TechnoServe model is based on three critical aspects

TNS's Economic Inclusion Model

Wellbeing	Economic	Generate businesses that can increase residual income	Establish access to new products or services	Influence the community
	Capability	Create business training and know how	Improve quality of life through self assurance	Convey knowledge to the community
	Relational	Obtain respect from others	Develop close ties with business environment	Promote community integration and growth (gender)
		Business Opportunities	Products or Services	Local Community

Focus



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Effectively Catalyzing SME Growth

Through Business Plan Competitions:

Innovative Examples from Latin America

After Hours Seminar #49

Presenter(s): **Andrés Rico Toro**

TechnoServe

Peter Ippolito

TechnoServe

Carissa Page (Moderator)

USAID Microenterprise Development
office

Date: March 9, 2011 - 4:00pm - 5:30pm



Location

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