



**Common Ground, Common Case:
Capacity-Building in the SGB Sector**

Project Findings and Recommendations

January 31, 2011

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Summary of Findings, January 2011

Project Background

The “Common Ground, Common Case Project” (CGCC Project) was born out of discussions at the 2009 ANDE Annual Conference between several ANDE members working with Small, Growing Businesses (SGBs) on strategies for and challenges of providing technical assistance (TA) services in the field. The project was spearheaded by SNV Netherlands Development Organisation and funded through the ANDE Capacity Development Fund by the Bill & Melinda Gates Foundation, Shell Foundation, and Lemelson Foundation. Along with SNV, the CGCC Working Group includes: E + Co., Grassroots Business Fund, Root Capital, Root Change, SEAF, and Technoserve.

From a desire to better articulate the importance of technical assistance, the CGCC Working Group engaged Velocitas Partners to gather unbiased and objective information on current practices and propose recommendations for addressing common issues faced by the group. The project was implemented in two phases and ran from May 2010 to January 2011. In the first phase, Velocitas conducted 31 interviews with 27 ANDE member organizations to understand current practices and challenges around TA provision. In the second phase, the CGCC project conducted an online survey of 31 organizations (94% ANDE members), to get a more robust data set and collect additional self-reported data on the topics mentioned above. In the second phase, Velocitas also conducted 12 in-depth interviews with 11 funders of ANDE member TA projects. Throughout the study, the data was allowed to guide the conclusions, rather than the imposition of any preconceived frameworks, so as not to contaminate the information gathered on this complex topic.

While not a comprehensive survey of the TA landscape, the results of the CGCC Project provide a relevant picture of shared areas of interest among the ANDE membership and the perceptions of large funders of members’ TA activities. The project explored:

- 1) Current language used to describe TA activities,
- 2) Services offered by ANDE members in various sectors and geographies,
- 3) Current and expected future sources of funding for TA, and
- 4) Methodologies for measuring TA impact, and common challenges and opportunities in each of these areas.

Key Project Findings

Summarized below are the key findings relating four areas: terminology used to describe TA activities, TA service offerings, funding for TA activities, and impact measurement of TA initiatives. A great deal of additional data was collected in the course of the CGCC project and is available in the more detailed project documents, whereas this document focuses on the recurring themes that emerged among the interviewees and survey participants. All percentage figures represent the percentage of respondents of the online survey that self-identifying into the various categories, unless stated otherwise.

Overall Observations on TA Landscape

The CGCC Working Group recognizes that a great deal of work is being done to foster the development of SGBs, including efforts to train future entrepreneurs and foster a culture and eco-system for entrepreneurship through the nurturing of local service providers and building of information networks. However, based on the Working Group's guidance, this study has been limited to services that directly impact existing SGBs. The Working Group hopes that the broader universe of services that are essential to the success of SGBs in the developing world will be the subject of future research.

Even with this specification, the project revealed that the ANDE membership still reflects a broad range of approaches and interests.¹ In fact, the most consistent observation throughout the course of this project was the diversity among players, making it even more valuable for members to find areas of common interest.

Observations on TA Terminology

There is very little consistency in the current language used to describe TA services either among TA providers or funders. "Capacity development" is the most commonly used term in both groups with "business development services" being a second and sizable contender. Ironically, "technical assistance" is not commonly used by either group.² At the same time, the project found that none of the commonly used terms had consistent use or connotation among

¹ Online survey participants self-identified the following as the primary activity of their organizations: TA provision (26%), "impact first" capital provision to SGBs (19%), value chain development (10%), and ecosystem development (10%), "financial first" capital provision to SGBs (6%), and incubation of SGBs (6%), although most participated in more than one of these activities.

² Of the 31 organizations participating in the online survey, 37% use the term "capacity building" while 30% use "business development services" to describe their work, and only 10% report using "technical assistance".

the study participants. Funders noted the broadness of terms like “capacity development” and confusion in the use of other terms as a confounding factor in comparing the work of TA providers.

Observations on TA Service Offerings

It became clear during the project that while TA providers work at a variety of different levels in the field, most acknowledge that their work tends to focus on one level more than others. The vast majority of services provided among the group are delivered either to individual SGBs or small groups of SGBs, with 72% of online survey participants citing each of these as the most common levels of work. However, most TA providers also work to some degree at the “sectoral” or “eco-system” levels.³ At the same time, anecdotes from both TA providers and funders suggest that there is a preference for funding initiatives geared towards larger groups of SGBs or at a more macro level, as they touch a greater number of beneficiaries (a measure which is of great interest to most funders).

Interestingly, there was a great deal of consistency among TA providers around services offered and methods of delivery.

- The most common services provided to SGBs among the group are access to finance (71%), business planning and financial management and accounting (68%, each), and management capacity building (61%)
- The vast majority of TA services are provided through training sessions (71%), workshops (68%) and one-on-one SGB interventions (61%)

Using the primary activities previously defined in this report, the project also found that

- 50% of groups primarily doing TA provision also provide some “impact first” financial support to SGBs and 50% are involved in value chain development; 25% of TA providers also incubate some SGBs
- Not surprisingly, all “impact first” investors provide TA support and 1/3rd also provide some “financial first” capital

Although there was a great deal of overlap in TA services offered and methods of delivery, both TA providers and funders cited the virtues of specialization within sectors and geographies for more effective TA provision. Funders consistently commented that increased specialization would help to distinguish TA providers from each other, which would in turn help funders in their decision-making.

³ Examples of “sectoral” services include: value-chain optimization, sector-focused workshops, and incubation. “Eco-system” level activities include: policy and regulation, network building and collaboration, building capacity of local service providers, and entrepreneurial training.

Observations on Funding Sources

Sources of funding for participating organizations varied, with 41% reporting foundations and family offices, 38% reporting multi or bi-lateral institutions, 22% reporting corporations, and 19% reporting high net worth individuals as the largest funders of their organizations.

Typically, TA services to SGBs have been funded by these various funders through grant capital.⁴

- 44% of groups report that their largest component of TA funding are project-based grants with specific objectives, while 34% report that their largest source of revenues is organizational grant funding, giving them more discretion in the use of funds
- 27% of online survey respondents currently require TA recipients to pay some fees for TA, while 50% do not require any payment from SGB beneficiaries

Study participants consistently reported a shortage of TA-specific funding, particularly for pre-investment TA activities. Typically, organizations were either primarily TA providers (80-100% of their funding being for TA), or had, on average, a maximum of 30% TA funding relative to other project funding.

- 17% of respondents fund all of their TA with TA-specific funding; 40% fund at least 50% of their TA with TA-specific funding; 40% receive no TA-specific funding
- Relative to other available project funding, 18% of respondents equally estimate TA funding of 0-5%, 15-30% and 80-100% of relative to project funding

TA providers across the board are thinking about how to diversify their funding sources and expect an increase in the use of fund management fees, success based project fees, and fees to SGB clients over the next five years.

The funders consistently expressed concerns about the long-term financial sustainability of the TA providers themselves, as they rely primarily on project-based funding, and about their own ability to fund projects through the time period required for real impact. Funders are uniformly concerned about leveraging their capital and not bringing capital to areas that could or should be funded by other players (commercial funders, local government, or the SGBs).

⁴ 71% of online survey participants report using primarily grants to fund their TA activities, with fewer groups reporting investment capital (29%), or fee or contract-based revenue (13%), as their primary source of funding.

Observations on TA Impact Measurement

At the present time, there is no consistent methodology for the measurement of TA impact in any form. Of the organizations participating in the online survey, 45% reported consistently measuring the impact of their TA activities in some way, while 39% reported that they occasionally measure this impact. Anecdotally, incubators of SGBs and groups working with corporate funders are the most consistent in measuring their impact.

Because of the difficulty of attributing impact to specific TA interventions, both funders and TA providers tend to measure outputs rather than outcomes of projects.⁵ The most common measure of impact was direct outputs (61% of respondents), usually defined jointly by the TA provider and funder. Examples of direct outputs would include: the number of SGB's participating in a training session, increase in product output of an SGB, or the number of beneficiaries of a project. The second most common measure was capital flows to SGB's (29%). In addition, many TA providers reported that corporate funders often request an ROI (Return on Investment) type of measure to determine the effectiveness of their TA spending, particularly in value chain projects.

Both TA providers and funders expressed the concern that services provided without a link to a measure of impact, such as financial return, run the risk of being wasteful and misguided. There is a desire among both groups though to better understand and more consistently track the impact of their TA investments. There is also a desire to standardize impact measurement to lessen the burden on TA providers to collect impact data as well as to enable funders to better compare TA providers and programs. Finally, there was consensus that any new methodology should be in line with IRIS and other standards being developed at this time.

In addition, Keystone Accountability recently implemented the first benchmark survey of investee views of impact investor performance. The results will provide insight into how investees rate their investors in key performance areas including not only non-financial support but also the application and due diligence process, the financial investment, the relationship and interactions between investee and investor, as well as impact measurement and reporting requirements. In collaboration with Keystone, we have incorporated several questions regarding capacity building into the "non-financial support" section of their survey. An anonymized public report will be published by mid-2011, and we believe that it will provide valuable insights on the impact of capacity building as perceived by SGB beneficiaries.

⁵ The Balanced Score Card Institute defines an "output" as an immediate product of internal activity (i.e. a product or service delivered), whereas an "outcome" is defined as an intended result or consequence of carrying out a program or activity. As an example, an output could be the number of doses of a drug provided, whereas an outcome would be the resulting lower incidence of disease.

Recommendations for ANDE and ANDE Membership

The following recommendations were formulated by Velocitas Partners and have been endorsed by the members CGCC Working Group for presentation to ANDE. As such, the “we” refers to both Velocitas Partners and the CGCC Working Group, unless otherwise specifically noted.

Terminology

Since the advent of modern development aid in the Post- World War II era, the technical assistance space has been through a constant evolution of terminology. We believe that the only way to ensure the adoption of new terminology is to encourage its consistent use. Given the lack of clarity and inconsistent use of terms relating to technical assistance, we recommend that:

- 1) ANDE develop and define terminology to be used by its membership as related to the services that are broadly referred to as “technical assistance” or “capacity building”. We would advise:
 - a. An overarching term to encompass all activities related to SGB development that suggests empowerment and transfer of skills. The CGCC Working Group specifically recommends the term “*SGB Capacity Development*”, which would be used hereafter to describe the broad spectrum of services offered by ANDE members.
 - b. That the currently named TA Working Group be renamed the SGB Capacity Development Working Group (the “*SGBCD Working Group*”).
 - c. Additional terminology that distinguishes between SGB level, sector level and eco-system level work. This may simply distinguish between “*Direct SGB Capacity Development*” and “*Indirect SGB Capacity Development*” (The SGBCD Working Group may also choose to define these terms further to clarify the delineations.)
 - d. Within the Direct SGB Capacity Development category, we further recommend language that distinguishes between various types of interventions in the following broad categories: Internal Operations, Strategy, Human Capacity Development, Legal and Regulatory, External Market Factors, and Technical Interventions (related to truly technical capacity building).

We note that in this process it is important that SGBCD Working Group members feel that all of the relevant services are covered. Uncovered services will lead to the creation of new terms and will not help to resolve the confusion of terms.

- 2) Once the terminology has been defined, each of the working group members commit to using this terminology in its own discussions, first internally and then externally. We

recognize that this adoption will take some time and will be an evolving process. To that end, we believe it is the responsibility of the Working Group to provide its members with the necessary documentation and talking points to make the case internally at each of their organizations.

- 3) ANDE promote the adoption of these definitions through its membership by officially adopting these definitions and using them in their annual survey and reporting of member activities.

SGB Capacity Development Services

Despite the differences among service providers, our study interestingly uncovered significant overlap in services offered by ANDE members and shared challenges. Given this fact, and the recommendations by both service providers and funders that increasing specialization may lead to more efficiency, we suggest the following:

- 1) ANDE incorporate into its annual survey of its members the collection of data around SGB Capacity Development services offered, methods of delivery and specialization, and greatest challenges. We believe that over time this will uncover interesting trends on both the needs of SGBs as well as the interests of funders.
- 2) ANDE continue to build-out its service provider database, which will help to facilitate coordination among providers as well as help to distinguish the core competencies among providers.
- 3) ANDE and the SGBCD Working Group promote the collection of case studies in a consistent format around the specific challenges of capacity development, so that the membership may learn from the best practices of other groups.

Funding for SGB Capacity Development

Throughout the project, ANDE members told us that securing funding for their interventions was a major challenge, particularly for pre-investment capacity building. We suggest that the SGBCD Working Group and ANDE take up the following projects in order to address this issue:

- 1) There is not a great deal of data among members about the costs of their own capacity development projects and, as a result, it is difficult both to allocate resources internally and to communicate the true costs of SGB development to funders. We suggest that the SGBCD Working Group take the lead in developing a standard format for tracking and measuring all-in capacity development costs for projects among members. SGBCD Working Group members should commit to utilizing this methodology and tracking these costs going forward, further refining the methodology as necessary.

- 2) A selection of current projects can be taken up to implement this methodology and the results can be reported anonymously to ANDE or a third party to compile a “cost benchmark” of sorts – by type of intervention, sector, or geography, depending on relevance. ANDE may then disseminate this methodology more broadly among members for use and increase the data available in the anonymous benchmark. While the data will not reflect all of the capacity development given to an SGB, it would give members a sense of their costs relative to other ANDE members.
- 3) Many of the funders interviewed expressed a desire to participate in a discussion on these issues with other funders. We believe that funders would welcome a discussion moderated and hosted by ANDE and the creation of a Funder Working Group.

SGB Capacity Development Impact Measurement

Given the challenges expressed around funding for capacity development services, we think that it is even more critical that service providers be able to demonstrate the impact of their activities to funders. We recognize that measuring this impact is a difficult and expensive task so suggest a multi-pronged approach to this issue.

- 1) Recognizing the development of standards like IRIS and ANDE’s active engagement in that discussion, we recommend a continuation of those efforts and the natural expansion that is happening into measuring of issues related to SGB Capacity Development.
- 2) Given the problem of attribution of SGB level services to their impact, we believe that it is warranted to undertake a comprehensive study that takes into account all capacity development provided to selected SGB’s, their cost and impact. Over time, this type of exercise will help to answer the questions of relative impact of different types of interventions, and about the effectiveness of interventions in different industries and at different levels.

CGCC Project Conclusions

While the need for capacity development for SGB's in the field is widely acknowledged, there remain serious questions regarding the most effective means of provision, the parties best suited to provide these services and the most appropriate sources of funding for them. The issue is an extremely complex one. Velocitas Partners and the members of the CGCC Working Group expect that significant further study will be required to answer many of these questions and that adoption of new language and norms will be an evolutionary process. We hope that this study provides a starting point from which more well-informed and pointed discussions can be had on this topic, and that the discussion itself will help to highlight the need for change and encourage the emergence of further areas of shared interest and future study.

For More Information

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