CASE STUDY OF THE ENTERPRISE SUPPORT SERVICES FOR AFRICA PROJECT (ESSA)

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FOREWORD & ACKNOWLEDGEMENTS

The authors have been monitoring the performance of the ESSA project, on behalf of the Canadian International Development Agency, since August 1997. The team conducts interviews every six months with clients and consultants of ESSA, ESSA staff, government officials, other business service providers, and private sector organizations. Extensive analyses are also undertaken of the baseline information for ESSA clients and the results achieved after the ESSA interventions. In addition, in-depth case studies have been undertaken on ESSA clients to document the dimensions of the impact to date. The last monitoring took place in October 1998 and forms the basis for this case study.

Over the last year and a half, the team has received excellent cooperation from APDF and ESSA staff including Mark Ampah, Jim Hellerman, and Macodou N'Daw. The authors would also like to acknowledge the on-going guidance and assistance given by CIDA personnel including Bohdana Dutka, John Kozij, Anne Lavender, and Gilles Lessard. Finally, the authors would like to thank all the individuals and groups within Ghana who have assisted them. In particular, a number of ESSA's small and medium enterprise clients have shared extensive information on the operation of their companies which has allowed a detailed review of results at the firm level.

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ABSTRACT

Started in Ghana in February 1996, the Enterprise Support Services for Africa (ESSA) Project brokers relationships between small and medium enterprises and consultants. Focusing on dynamic enterprises, it undertakes detailed needs assessments of the firms and builds consulting modules to address these needs. Private consultants work with the enterprises to jointly develop plans to assist the companies in overcoming obstacles ranging from technical issues to management support. The services are cost shared between the enterprise and ESSA and involve performance based contracts for both the consultants and the enterprises.

While the Project has only been underway for a short period, results from the consulting support have already been reflected in increased sales, expanded export markets, job creation, and improved profitability. This success has been related to three factors: careful selection of companies to ensure that they have the right attitude towards change and the ability to implement the recommended actions; a participatory approach to developing and implementing the consulting assignments; and extensive followup to assist firms in maximizing the benefits from the consulting support. The services are seen to be unique since they are specialized and provide an integrated system of support over a period of time.

The ESSA case highlights some of the differences between business development services aimed at microenterprises and those intended to support small and medium enterprises. Significant differences exist which need to be further investigated. As with other types of enterprise support, however, the most critical issue facing ESSA is financial sustainability. While the Project is ahead of its targets in terms of cost recovery from firms, an effective plan for full financial sustainability has not yet emerged.

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CASE STUDY:
ENTERPRISE SUPPORT SERVICES FOR AFRICA PROJECT

1.0 BACKGROUND AND HISTORY {tc \l1 "1.0 BACKGROUND AND HISTORY }

The International Finance Corporation (IFC) through the African Project Development Facility (APDF) is implementing the pilot phase of the Enterprise Support Services for Africa Project (ESSA) in Ghana. ESSA Ghana is being funded jointly by the Canadian International Development Agency (CIDA) and the IFC and provides support services to small and medium enterprises (SMEs). Started in February 1996, the goal of the pilot was to "determine the sustainability of ESSA as a vehicle for assisting small and medium sized firms". The approach being tested by ESSA Ghana was to establish methods for brokering a relationship between SMEs and consultants that could provide specialized services to the SMEs. The intention was that these initiatives should have two results: enhance the profitability of the SMEs; and reinforce the capacity of local consulting firms to provide on-going services to private firms.

The original concept for ESSA was developed based on the experience throughout Africa with APDF. Programs like APDF were in place to assist SMEs in receiving financing to undertake expansions or enter new markets. Limited assistance was available, however, to help the firms in improving their operations and maximizing their potential after the financing was in place. Even with new infusions of capital, firms were often not achieving their potential in terms of sales, employment, or growth. Two studies were undertaken in Ghana to determine the causes. These analyses identified two problem areas: few firms had adequate management information systems (MIS) in place that allowed them to properly manage their companies; and organizational and operational problems were seen particularly in production and marketing. Many of the firms had grown quickly but could not manage the rapid growth of the company from a few employees into small or medium scale operations. SMEs needed outside assistance to improve their competitiveness. This type of assistance was not being provided by other groups at the time.

Based on these assessments, ESSA Ghana was set up on a pilot basis to test mechanisms for delivering support to SMEs. The pilot was to last three years (1996-1999) during which time it would be decided whether the concept had applicability to other parts of Africa. ESSA was to act primarily as a broker between participating SMEs and consulting companies. The ESSA staff would develop terms of reference for consulting assignments in MIS and operational issues and assist in locating the appropriate consulting resources. Contracts would be entered into with the consultants and ESSA would monitor the work done. The actual delivery of services to the firms was to be undertaken by outside consultants and training institutes. The success of the pilot after only two years triggered the replication process in other areas of Africa starting in April 1998. This paper focuses specifically on ESSA Ghana, which is the model for replication.

2.0 ESSA SERVICES {tc \l1 "2.0 ESSA SERVICES }

The services provided by ESSA evolved during the pilot phase. Four important changes were made to the original concept to more closely fit the needs at the firm level. First, the potential client base was, in fact, broader than originally envisaged. The primary client base has not been firms that have received financing and need support to implement their expansion. In fact, ESSA

services are being tapped both post-financing and pre-financing. Second, the role of ESSA shifted from simply a broker of specialized consulting services to a more complex system of support for SMEs.
During the firm level needs assessments, it became clear that interventions were needed in a number of areas within each firm, not simply one. To reflect these needs, ESSA began to build a series of consulting modules that would be undertaken over a longer period of time.

Third, it had been originally anticipated that the ability of Ghanaian consulting firms to service the needs of clients would be hampered by a lack of technical skills or expertise. In fact, this proved not to be the case. The difficulty was the appropriateness of the consultants' approach in dealing with private sector clients. A shift was required by the consultants towards a more participatory model that supported firms in their implementation of new ideas. Fourth, the initial design saw a strong focus on MIS and improving technical operations such as production procedures. While the initial ESSA clients needed this assistance, they were also in need of more immediate help with basic organizational and management structures. The process of graduating micro or small enterprises to larger firms meant that they had expanded the size of the operation. They had not, however, changed how the company was structured and managed or how decisions were made. The result was an inefficient organizational structure that constrained further development and caused increasing problems within the company.

ESSA developed three interrelated services. The primary service involves ESSA working with SMEs to provide, on a cost shared basis, critical consulting assistance to overcome the firms' immediate problems. ESSA staff undertake a detailed needs assessment with the companies. The staff then develops modules of specialized support which address MIS, technical, and/or management needs. These are implemented over a period of time, often with different consultants. The consulting services provided are highly specialized and have ranged from assistance with reorganizing operations to technical training in high technology communications packages. The result is a high level of involvement by ESSA as an advisor at the firm level throughout the process.

The second service involves ESSA working with Ghanaian consulting firms and individual consultants to not only broker their services to the companies but also ensure that the process meets the needs of the SME client. Most of the SMEs were accustomed to a consulting approach that was relatively hands-off. Consultant were hired, provided with terms of reference, and then worked independently to provide "expert advice" on various issues. ESSA encourages an approach that begins with a thorough assessment of the issues to be addressed and an outline of the work to be adopted. The private sector client are encouraged to be actively involved in the definition of the consultancy as well as throughout the consulting assignment. The consultants respond to the needs of the clients and provide specialized solutions to specific problems.

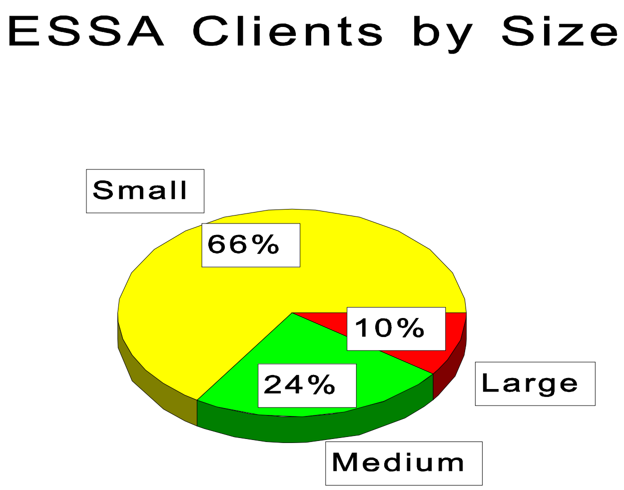
The final service provided by ESSA involves working with a training institution, Ghana Institute of Management and Public Administration (GIMPA), as well as private training providers to develop group courses which the SME clients can access on a fee basis. The courses include topics such as strategic planning, productivity, and marketing and are intended to complement the consulting work at the firm level. Clients are encouraged to send staff to these courses to supplement the firm specific training that is provided under the consulting assignments.

3.0 CLIENT BASE AND OUTREACH {tc \l1 "3.0 CLIENT BASE AND OUTREACH }

The initial criteria for firms to qualify for ESSA support focused clearly on fast growing SMEs:

- SME domiciled in Ghana employing more than six people.
- Annual turnover falls within the range considered SME as established by APDF/IFC (small enterprises - up to US$400,000 in annual turnover and medium enterprises - from US$400,000 to US$1 million).
- Sufficient evidence that the company is financially able to implement the recommendations of the consultants and ESSA.
- Sufficient evidence that the company intends to and is capable of implementing the recommendations.
- Company is willing and able to share the costs of the consultancy.
- Sufficient evidence that the business can improve its operations and benefit from the type of services offered by the Project.
- Management agrees to work with the Project and ESSA consultants to complete the agreed upon activities.

These criteria aimed at identifying firms which not only needed assistance but also had the right attitudes toward change and the ability to implement recommendations. A point system was also developed to prioritize the clients after the initial screening. Points were allocated to the following factors: extent of cost sharing agreed to; net employment generation; women's participation in the company in terms of ownership, management or employment; job creation multiplier effects; potential improvements in productivity, profitability and sales from ESSA intervention; successful completion of a credit program such as APDF; willingness and capacity to implement recommendations; impact on the environment; potential for promotion of regional trade; and degree of support of Government of Ghana policy priorities.



Originally, ESSA was supposed to have dealt with 30 firms by the end of March 1999. ESSA already has a client roster of 42 firms. The majority fall into the small category with sales less than US$400,000. Large companies obtaining ESSA support are included since they have a relatively high number of indirect beneficiaries or spinoff benefits and are seen to be important clients from a developmental perspective. For example, a number of agro-processing companies have few full time staff but a high volume of sales derived from a large number of small, private, often individual growers. All of the large companies are expected to pay a higher proportion of the cost of the consultancy than that which is charged smaller clients.

The sectors represented by the clients are diverse. The firms represent a cross section from agriculture and agro-processing to high technology, with approximately one-third of the firms each in agriculture/agro-processing, manufacturing, and services. The service sector companies are in areas such as savings and loans, telecommunications, or software development.

All of the firms except one are limited liability companies. Sixty percent of firms deal only with the local market. Five percent are exclusively export oriented. The remaining companies deal with both export and local markets. Most of the firms are also relatively young. Forty-five percent were started in 1990 or later. Only 10% of the firms were started prior to 1980.
While a majority of the firms are owned by men, 29% are owned jointly by men and women and another 7% exclusively by women. The representation of women in client firms at decision making levels has been higher than originally expected. Forty-seven percent of the firms have women on their Board of Directors, 25% have women as senior managers (such as General Manager), and 50% have women in some management roles. The firms participating in ESSA represent over 2,000 direct employees. Only 8% of these employees are women, however. This figure is low since many of the women in the largest companies work on a contractual basis and are not included in the employment figures.

4.0 MARKET {tc \l1 "4.0 MARKET }

In the initial stages of development, ESSA Ghana made a conscious decision not to extensively advertise its services but instead to rely on referrals, word of mouth, and proactive searching of specific types of clients. This decision was based on two factors. First, ESSA was supposed to work with only 30 firms over a three year period which meant that the clients had to be carefully selected. Second, ESSA wanted to make extensive assessments of the firms' capacity and readiness to change before approving them. This approach has allowed ESSA to develop a strong base of clients that are committed to changing their organizations. Those firms that contacted ESSA in search of more "donor grants" were quickly identified and rejected. Those that have proceeded conform well to the selection criteria above.

Extensive interviewing within Ghana has indicated that the demand within Ghana is substantial for these types of services. As the economy continues to open up, the number of small and medium firms is increasing with many of them becoming the most dynamic enterprises within Ghana. Industry groups such as the Private Enterprise Foundation, which is the umbrella body for private sector organizations in Ghana, see these firms as being the future for the private sector, replacing the old guard companies that are still tied to government subsidies and controls. The emerging companies are producing more sophisticated products, higher export quality, and increasingly diverse product lines. Their needs for support are also becoming more sophisticated.

ESSA does face some direct competition in terms of the delivery of similar services by other agencies within Ghana to SMEs in two areas: business consultancy; and training. The competition in the consulting area is primarily from Empresario Technologies Ghana (EMPRETEC). When it began in 1990 as a UN project, EMPRETEC initially focused on training and assisting firms in business planning. Since that time, it has developed into

EMPRETEC Ghana Foundation, a private foundation, and has expanded its services to a wider range of consultancy areas, provision of credit, promotion of subcontracting relationships, and technology transfers.

At approximately the same time as the ESSA project was starting, EMPRETEC received funding from the World Bank to facilitate SME access to specialized consulting advice. The EMPRETEC focus was to be on companies with sales less than US$500,000 per year. It is in this area where the direct competition between the two groups could potentially develop.

Discussions were held within Ghana with a wide range of SMEs and consulting companies to establish whether ESSA and EMPRETEC were, in fact, in competition. On a theoretical level, a number of groups thought there was potential competition. On a practical level, however, few thought that the groups were in competition given the diverse methods used for assisting firms. Two primary differences were identified. First, almost all of the consulting companies used by ESSA to date have worked with EMPRETEC. These companies indicated that the approach taken by the two groups was completely different. ESSA's contract makes it clear that the "client" is the SME and their needs are the primary focus. ESSA also demands a participatory approach be developed between the consultant and the client firm and that milestones or outputs be contained in the consulting contract. Both the consultants and the client firms must meet their targets for participation. This was seen by the consultants as being unique--few had performance based contracts previously.

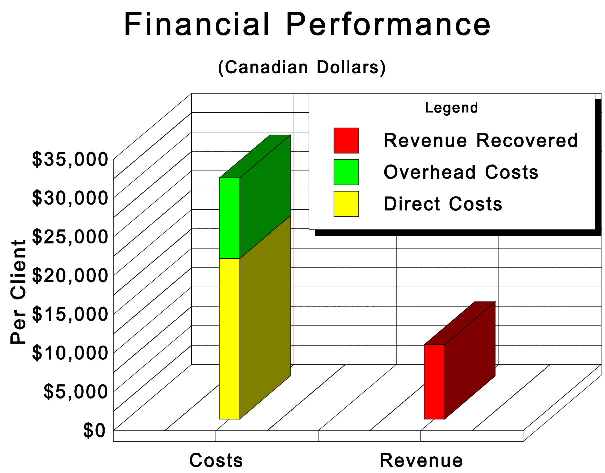
The second difference was expressed by the SMEs interviewed. The consensus was that ESSA services tended to be more specialized, more tailored to a firm's needs, and longer term. The level of service delivery, the integrated packages of assistance, and the flexibility in terms of timeframes were seen as being unique characteristics of ESSA services that were not being offered in Ghana. Only one example of direct competition for a client between ESSA and EMPRETEC has been seen to date. Otherwise, the two groups have maintained separate client lists.

In terms of the group training courses sponsored by ESSA, these have faced competition in the past. Training targeted at firms is currently being provided in Ghana by a wide range of groups including training institutes, private sector companies, and training suppliers. Initially, ESSA worked exclusively with GIMPA to develop and implement courses. ESSA's primary reason for sponsoring the courses was to ensure that the course content was specifically tailored to its SME clients' needs. Most of the SMEs taking the training indicated that they would not have considered using other private sector suppliers--primarily due to the cost and uncertainty regarding the appropriateness to their situation. ESSA has now expanded its training network and is working with a range of private suppliers to develop training courses which are specifically geared to SMEs and are at an affordable price. This will allow a development of the market and more options for SMEs in the longer term.

5.0 FINANCIAL VIABILITY OF SERVICES {tc \l1 "5.0 FINANCIAL VIABILITY OF SERVICES }

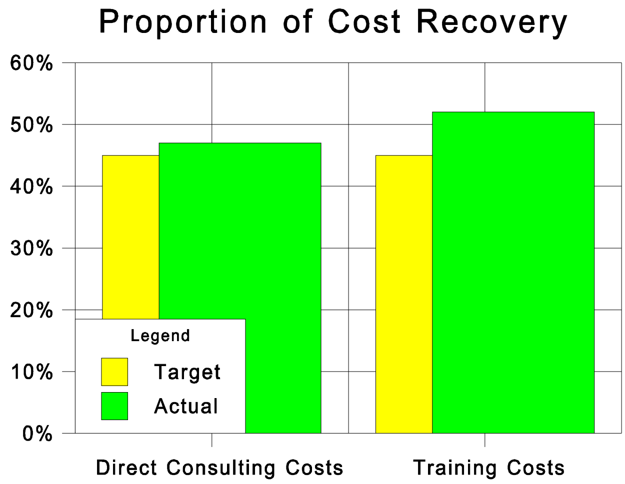
Assessing the financial performance of ESSA is difficult at this point for a number of reasons. First, since ESSA is a pilot project, many of the costs over the first half of the Project have been start-up and design related. This means that the actual client delivery costs need to be separated from startup costs to better assess ongoing financial performance. Second, ESSA has only been servicing clients for two years. Therefore, the experience to date is based on a limited number of contracts with clients. These may or may not be representative in the long term. Third, ESSA staff initially was reluctant to allocate their time and costs to various activities to allow a better comparison of the results achieved with the input costs.
While this practice has been changed recently, information is not available at this point that allows a more accurate allocation of overhead or other costs to various client activities.

Despite these limitations some comments can be made on the current financial performance of ESSA. The delivery costs of ESSA to clients can be broken into two categories. The first category is ESSA's ongoing costs of operation. With the shift in February 1998 to totally Ghanaian management, the overhead costs have stabilized at a level that will likely reflect future patterns. Based on the budget estimates for 1998/99, total overhead costs (for the entire operation) will be approximately Cdn$260,000 per year. Assuming 25 active clients handled per year, the overhead costs per client would be approximately Cdn$10,400 for 1998/99.



The second category of expenses is the direct cost of the consultants and training courses. These are the actual expenses paid to these groups to provide direct services to the SMEs. The average total direct cost per client for consultants to date has been approximately Cdn$20,725.

Since the start of ESSA, a cost sharing scheme has been in place. All clients are required to cost share a portion of the direct costs of the services provided through ESSA. This has amounted to Cdn $9,600 or approximately one-third of the total overhead and direct costs. This proportion has been increasingly steadily over the two years of operation.



In developing ESSA Ghana, the issue of financial sustainability has dealt exclusively with the proportion of the direct costs of the consultancies that can be covered by the client firms--not the overall costs of delivery. In the original Project document, a target of 45% of the costs of direct services paid by the firms was set for 1999. This target has been met. Approximately 47% of the total direct costs of the consultancies are being covered by the client firms.

The proportion of cost sharing has increased more rapidly than anticipated based on ESSA's business like approach to delivering services. ESSA undertakes individual assessments of the company's ability to implement recommendations, ensures that a clearly and explicitly developed proposal and workplan are available before establishing the contracts and cost sharing arrangements, and targets higher levels of cost recovery from larger firms which are more able to pay. While many of the firms complained about the percentage being paid, they all saw the value in the services and were willing to pay for them.
This willingness to pay was based on the fact that the company knew exactly what they were "purchasing" and all parties (ESSA, consultants and the company) had performance benchmarks clearly laid out for their participation.

A preliminary assessment of the cost effectiveness of ESSA can be done in three areas: trends in terms of project performance; assessments against other business development service organizations; and on a cost/benefit basis. Some preliminary views on each of these areas.

The performance trends to date of ESSA, compared to its targets, have been extremely positive. The ability of ESSA to contract more services in Ghana than anticipated, combined with the module approach to delivering services, has allowed a lower than anticipated cost per assignment. This has meant that the direct service costs have been lower per client and the Project is substantially below budget while servicing more clients than projected. In addition, ESSA staff is handling more SME clients than originally anticipated. While the project was to deal with 30 companies over three years, it will likely average 50 companies. In addition, ESSA's involvement has been over a longer period of time meaning a higher client workload on an on-going basis.

It is anticipated that 25 clients will be handled per year with a total of four staff (including administrative). This figure is difficult to compare to other business development services (BDS) since benchmarks are not available in the current literature.[1] Even if they were, many BDS

[1] See, *Business Development Services for SME Development: a Guideline for Donor-Funded Interventions*, Donor Committee on Small Enterprise Development, April 1997.

programs deal with micro and small enterprises where the interventions are much more limited and, therefore, more clients can be handled per worker. At the other end of the spectrum are highly specialized caseloads such as seen at APDF where complete financing packages and support are provided. APDF reports on the basis of completed projects during the year. On this basis, in 1997, APDF averaged slightly over two clients per investment officer. When including the full staff complement, the average was approximately .75 clients per worker.

BDS benchmarks provide another method to assess ESSA. Benchmarks remain extremely limited to date for a wide range of reasons. Three benchmarks were listed in the Donor Committee Report as being indicators where value ranges for current good practices are suggested.[2] Each of the indicators relates to training and consultancy services.

- *Benchmark #1: Percentage of direct cost recovery in training programmes. The overall average is 50%, with growth oriented SMEs covering 100% or over.*
  ESSA has an average cost recovery on training of slightly over 50%. This has been increasingly steadily. It should be possible to reach 100% within the next year.

- Benchmark #2: Startup rate. The proportion of participants on a startup program actually starting businesses afterwards should be 30-60%. This benchmark is not applicable to ESSA since ESSA deals with existing SMEs not individuals wanting to start micro-enterprises.
- A more appropriate benchmark for ESSA would be the rate of implementation of changes recommended for the companies. This has been extremely high to date.

- *Benchmark #3: Survival rate. The proportion of businesses surviving 1 year after a training program should be 80%.* This benchmark is also less applicable to ESSA given their client base. Survival is not the focus but the degree of rapid expansion by companies is one indicator being tracked for ESSA.

This review of BDS benchmarks highlights the importance of beginning to distinguish within the BDS debate different types of clients and service delivery mechanisms. ESSA's approach and client base are less focused on a broad base promotion of entrepreneurship and more on assisting existing SMEs to expand their operations.

To properly assess the relevance of the per client costs would require a cost benefit analysis of the impact or benefit streams that emerge from each of the initiatives. Studies to date have shown that higher costs can often be offset by higher impacts generated. Given ESSA's limited history, it is too early to properly assess the benefits that are being generated. A number of case studies were undertaken in January 1998 that showed some of the potential benefits and took a preliminary look at the cost effectiveness of the services. Two cases are briefly reviewed here.

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2 *Business Development Services for SME Development*, op.cit., p. 21.

The first case involved a small company supplying wide area networks, which allow companies with branch operations to be connected with secure links that simulate private networks (at a much lower cost). The company contacted ESSA for training assistance of their technical staff. With the rapid expansion of their client base and network, the staff was having difficulty in three areas: setting up the increasingly complex company networks; solving problems within the networks; and servicing client requests. The problems were increasing rapidly and jeopardizing relations with current and future clients and severely constraining cashflow. ESSA assisted in sourcing a consultant who was a specialist in the specific telecommunications system. The total cost of the consultancy and ESSA overhead was Cdn$44,000. The impact of the consultancy has been substantial and directly linked to the ESSA intervention. The gross sales of the company doubled on a monthly basis within 6 months. Nine full time staff members have been added including three women (one in a managerial position). This represents a 38% increase in the labour force. With improved efficiency, the costs have decreased by 10%.

The second case involved a small export company which wanted to reorganize its operation and expand its product lines into value added processed goods. The company had grown into a 60 person operation but continued to be run single-handedly by its owner. ESSA assisted in: putting in place a new organizational structure and job descriptions; recruiting personnel; preparing operations, employee and accounting manuals; and preparing a business plan. In addition, ESSA staff worked with the Manager to assist in diversifying the company's products and export market. The total overhead and direct costs of the intervention were Cdn$32,000. This assignment has already resulted in the creation of three jobs in the firm, along with approximately 40 contract jobs (30% women). Sales of existing products increased by 60%. New value added export products were developed and exports have begun of these items. Sixty poor rural women have become suppliers for the value added products, representing a 400% increase in net income to the group.

Both of these cases illustrate substantial benefits generated in a relatively short time, which can be directly linked to the consultancies undertaken with the firms. It will take some time before a complete cost/benefit analysis can be undertaken. However, one recognized benchmark of effectiveness is cost per job created. World Bank figures estimate cost per job created between 1980 and 1990 was US$4,675.[3] For the ESSA telecommunications intervention, the cost per job created was approximately US$3,300. For the exporter, counting both permanent and contract positions, the cost per job created was approximately US$500.

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[3] See *Business Development Services for SME Development*, op.cit., p.22.

6.0 LONGER TERM FUNDING STRATEGIES {tc \l1 "**6.0 LONGER TERM FUNDING STRATEGIES** }

While important gains have been made by ESSA in generating revenue, the overall financial sustainability of ESSA Ghana is far more complex and was never integrated into the original Project design. While clients pay a proportion of the direct consulting fees, they are currently not required to contribute any funds towards the costs of brokering services by ESSA or the support services provided by ESSA staff. The original Project documents did not address the issue of how the overall organization would become self-supporting. In fact, the inference was that it would require on-going support from some outside source to continue its operation. It also never addressed the need to have ESSA continue as an institution.

ESSA Ghana and the overall replication process for ESSA needs to begin a strategic planning process that addresses the options for financial sustainability. A number of different scenarios are presented here which could be further investigated. Each of these options requires different immediate, medium term and long term approaches for ESSA Ghana and the replication process.

- **Full Sustainability**

Given the experience to date, it is possible that the recovery of direct consultancy costs could approach 100%. However, it is unlikely that the overall costs including overhead will be covered by clients in the near term without developing other methods for revenue generation. For example, a finder's fee could be charged to the consulting companies. Arrangements may also be possible with clients that would provide a two-tier system of payments for services. The initial arrangements would focus on funding of direct consulting costs by the firms. ESSA could also enter into an agreement with the companies that, if the company is able to achieve certain agreed upon benchmarks (i.e., increased sales or increased profitability) within a specified period of time, the firms will also reimburse a portion of the overhead costs. This agreement would obviously have to be based on a system of trust between ESSA and the clients but would also tie them both to performance standards. If the targets are reached, both groups benefit from the improved company performance. In addition, the costs of ESSA have decreased substantially with increased workloads and a shift to a fully Ghanaian operation. As ESSA obtains more experience (and keeps better track of time spent with various clients), it may also be possible to streamline its involvement and increase the client caseload.

- **Partial Sustainability**

The SME clients may not be able or willing to pay the complete cost of services, requiring that the operation continue to require subsidies from some source. This will certainly be the case in the short term as ESSA tests other client funded revenue schemes. Currently the focus has been on generating additional donor funds to expand the initiative beyond Ghana to Southern Africa and continue to finance ESSA Ghana. Little emphasis has been placed on finding alternate sources of funding. The current arrangement of having ESSA within the APDF institutional framework allows a sharing of costs but also limits the possibilities of building synergies with other groups. Particularly during the replication of ESSA in other parts of Africa, other routes should be explored which would allow the ESSA operations to be more completely integrated into the local framework (i.e., business associations, other service delivery centres, etc.). These alternative partnerships may allow alternate arrangements whereby outside resources could also be tapped to fund the overhead portion of the operation.

- **Phasing Out of ESSA**

Theoretically, ESSA was designed to work itself out of a job. The intention was to build direct relationships between consultants and SMEs that would no longer require a broker to initiate or monitor. To accomplish this, ESSA provides the consultants with tools on how to deal with private sector clients. They also help firms develop skills in how to manage their consultants. The ability to understand how to control assignments to get useful products was cited repeatedly by firms as a positive factor in future hiring. Firms feel confident that they now know what to demand from consultants and how to manage the process. This arrangement would be market driven and based on participation of private sector groups on both sides of the equation.

The evidence to date shows that gains are being made in individual cases in terms of direct contacts being built. Establishing when a critical mass has been reached which no longer requires an ESSA as a broker, however, is more difficult. Much of this relies on the ability of consulting companies to change their approach to supplying services. Some have been eager to change; others have not. A possibility may exist to build pockets of expertise and a track record within those companies more likely to see SMEs as an important market. ESSA is planning to give training programs to consultants to highlight the differences in servicing this market. The possible role that could be played by groups such as the Consultant Association could be explored.

- **Transferring the function to another institution**

The final option that needs to be reviewed is to totally merge the ESSA function into an existing organization which has revenue sources and a complementary mandate. This organization could range from a business association to another business services provider. The intention would be to have the ESSA role become another line of business within an existing institution.

7.0 INSTITUTIONAL ISSUES AND ANALYSIS {tc \l1 "7.0 INSTITUTIONAL ISSUES AND ANALYSIS }

ESSA is under the APDF program of the IFC. Initially, IFC and donors did not want to increase the proliferation of separate facilities and placed ESSA under the APDF umbrella. This allowed initial synergies to develop between APDF and ESSA and clear accountability of APDF/IFC for results during the pilot. It was also felt at the time that a large portion of the client base would come from APDF. This has not been the case, however, with ESSA clients coming from a wide range of sources. This opens the possibility of building linkages with other groups in different parts of Africa. Coordinating activities with APDF does not necessarily mean having it as part of APDF in the longer term. While the proliferation of facilities is not a desirable route, the automatic combining of facilities may also not be the best decision. As discussed above, it may be better to develop more explicit linkages with different groups in different locations that will support ESSA's long term sustainability.

The ESSA team worked very effectively in developing strong relationships with their clients. One of the keys was the manner in which the Project was delivered. Initially, the Project Manager (ex-patriate) focused on putting in place the key elements and infrastructure of the Project, while the Deputy Project Manager (Ghanaian) and other staff worked with and delivered services to clients and consultants. The Deputy Project Manager then took over complete management of the project within two years of starting. This approach worked extremely well on a number of levels: allowing staff members to build rapport with clients from the initial needs assessment stage; decreasing the need for a transition period with clients when the Project Manager was being phased out; and minimizing the overhead and delivery costs for the operation. Currently four people staff the ESSA office. The ability to do something similar in other parts of Africa will rely on being able to find staff of the calibre that were hired for ESSA in Ghana.

The replication process has now begun in Southern Africa. Some of the lessons learned during the pilot phase are being included in the design for the replication.

- Consultant Pool - As mentioned previously, more expertise was available within Ghana than originally anticipated. This has allowed more assignments to be done with local consultants and decreased the costs per assignment. Other countries in Africa will likely have more limited or uni-dimensional consulting communities. Building regional pools makes sense in this context but will likely increase the amount of coordination and costs per assignment.

- Clients - While the client base of ESSA varies in terms of the potential impact of the interventions, a large portion of the clients appears to be companies for which the ESSA support can produce a wide variety of benefits and spinoffs. As noted earlier, the client base has many young, dynamic companies. The clients are serious about changing their operations and are willing to pay for advice to do this. Many are at a critical point in their development where they realize that they either have to change or face losing their current competitive edge. The pool of SMEs in Ghana is likely greater than will be found in many other countries in Africa where fewer young, dynamic enterprises are found. Being able to select appropriate clients that can have the same kind of benefits may prove more difficult in certain environments.

To facilitate the replication process, the experience in Ghana needs to be reviewed carefully over the next year to better define which types of companies are good candidates for ESSA interventions and which are the ones with more limited impact. These factors then need to be incorporated into the selection criteria by region. In addition, some regions may not even be conducive to the type of interventions that have been successful to date for ESSA. Its strength is not in delivering skill sets but in the approach that is taken to clients, assessing client needs and developing specialized packages of services. Companies that are simply at the business plan stage of developing their businesses may be better serviced by other programs such as Enterprise Africa or local business development services. The replication, therefore, must take into account the local programs in place and assess whether ESSA provides any additionality. It should not be assumed that ESSA will contribute or work everywhere.

8.0 RESULTS AND IMPACT {tc \l1 "8.0 RESULTS AND IMPACT }

ESSA Ghana targeted two primary objectives for the pilot phase. These are:

- ***Enhancing the profitability of the small and medium firms assisted by the project; and***
- ***Reinforcing the capacity of local consulting firms to provide services to private firms.***

ESSA has developed an extensive electronic database of information on its clients. Baseline data are collected during the needs assessment phase and updates of progress are made every six months. The external Monitor also verifies results to date and assists in analyzing the causal lines between the ESSA interventions and the results being seen at the firm level. In terms of enhancing the performance of the SMEs, the results to date are preliminary. Eleven client firms have fully completed consulting contracts to date. Even with this small base of firms to analyze, indicators of impact at the client level are already being seen. Followups are undertaken with firms every six months to assess the results achieved. Some of the preliminary results are as follows:

Summary of Selected Firm Level Results to Date

Expected Result	Performance Indicators	Results as of September 30 1998
Expanded international or export markets	increase in export products and markets % increase in export sales as % of total sales	Of 2 export companies with completed consulting contracts both (100%) have increased sales: 1 service company has increased export share of sales by 50% 1 agro-processing export company has diversified their products to higher value added and increased sales by 60%
Increase in sales/revenue of client firms and suppliers	% increase in sales/revenue	5 of 11 (45%) firms documented to date with increased sales attributed to ESSA intervention
5% increase in profitability of firms over baseline	% increase in profitability	4 of 11 (36%) firms have seen increase in profitability in the range of 10-15%
Increase in numbers of employees of client firms and targeted suppliers, and employee wages and earnings increase	# of new jobs created in client firms and suppliers by gender and skill level/category Higher wages paid (outside of inflation rates)	55 in-house jobs created to date in two firms Three firm have increased salaries based on the new skills level of staff
Increase in productivity	Change in unit costs or changes in production and/or volume	5 of 11 firms (45%) have been able to decrease unit costs by 10%
Improvement in technical skills of client firms	# of staff trained in technical skills by ESSA consultancies Training & professional development opportunities for management and staff pursued outside of ESSA training	318 people received on-the-job training in technical areas at firm level 4 firms providing additional complementary training for staff outside of the ESSA consultancy (total 12 people of which 6 are women)

In terms of the consulting companies, the consultants represent an extremely diverse group of individuals and firms. The ability to draw general conclusions regarding impact within the consulting firms will be difficult even at Project end. From the interviews undertaken, the current consultants generally fall into two categories. These are presented here in a stylized form to give an indication of the type of spinoffs or changes that are likely by Project end.

The first group of consultants tend to be larger, more established consulting firms with extensive experience. These groups have taken on many of the more complex assignments to date and have the in-house expertise to provide both the organizational and technical skills needed. The primary issues with working with these groups from ESSA's point of view are ensuring that a participatory approach is taken with clients. From the point of view of the consultants interviewed, the primary benefit of working with ESSA is the access to SMEs as clients. The work with ESSA will have some impact on these firms in terms of quality of services (i.e., understanding and meeting client needs) and possibly the breadth of services provided. Beyond this, however, there will likely be limited impact within the consulting firm. It was unclear in discussions with some of the groups whether they realized that the approach ESSA was advocating towards private sector clients was one that they needed to adopt on a more general level with private clients. The inability to differentiate services between private sector clients and other clients such as donor organizations will limit the inroads that the companies are able to make with SMEs in the future.

The second group represents smaller consultants, usually in specialized services like MIS, which have developed specific expertise and grown quickly in recent years. They are in the process of developing both client bases and new products to deliver to clients. The potential impact of ESSA with this group appears to be more extensive.

There is evidence of the smaller companies having improvements in terms of skills development and strengthening market niches to the private sector. They have also begun to develop new products that are specifically marketable to the private sector and see this group as being critical to their expansion.

9.0 CONCLUSIONS {tc \l1 "9.0 CONCLUSIONS }

A recent study highlighted characteristics of high performing business development services.[4] The key tests for BDS performance focused on five factors.

1. *BDS programs need to be responsive to enterprise needs.* BDS service packages need to be structured to meet needs of clients rather than focusing on the needs of the implementing organizations or providing services that are easy.

   On this indicator, ESSA scores extremely high. By brokering services, undertaking extensive needs assessments, and building a rapport with client firms, ESSA is able to provide specialized and highly focused services based on client needs. This was repeatedly mentioned by clients as being the key element to ESSA's success.

2. *BDS programs or service packages need to be market oriented.* BDS assistance should focus on real market opportunities for client firms not spend time and effort training small businesses to make products where there is little or no demand.

   ESSA scores high again in this area in a number of ways. Since the ESSA client base is already established companies, the ESSA assignments often assist the companies in better defining and approaching their market--developing methods to service the market demand. In a number of cases, ESSA has been able to assist the companies in expanding their market opportunities into higher value added products or new product lines which have proven to be extremely profitable. Given the non-generic nature of the consulting, the assistance in terms of helping firms build markets can be (and has been) highly specialized and based on real opportunities.

3. *BDS programs should have a realistic plan for dealing with business aspects of service delivery to ensure operations are sustainable.* The BDS should demonstrate a realistic strategy for becoming sustainable. Overall sustainability remains an issue that has not been effectively addressed by ESSA to date.
   A strategy needs to be developed which addressed the issue of building longer term sustainability. Some options for this are covered in Section 6.0.

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[4] *Microenterprise Business Development Services: Defining Institutional Options and Indicators of Performance*, Clifton Barton, September 1997, Microenterprise Best Practices Project, USAID.

4. *BDS programs should have realistic strategies for developing the scale and coverage of their operations.* Most BDS programs need to achieve an economy of scale if they hope to achieve financial viability.

This indicator as it applies to ESSA is more complex and highlights some of the differences between a BDS that targets micro enterprises and one that targets small and medium. A limited amount of emphasis has been placed to date in the literature on the SME delivery agents. While many of the issues are common, differences also exist. The ESSA case highlights some of these differences that should be further investigated.

For micro BDS delivery agents, two factors were identified in the best practices study as being critical: a need to find ways to serve a large number of clients with a relatively low cost service; and the large number of microenterprises, often within specific subs-sectors, which can be assisted. Both of these factors push the BDS programs towards increasing the scale and coverage of the operation.

The ESSA experience shows that a strategy that focuses on large numbers of clients at low cost will not produce the greatest impact with SMEs. Their needs are usually more sophisticated and complex and require a less generic intervention than might be possible with micro enterprises. Restructuring a 50 employee company takes more resources and diversified expertise than providing a microentrepreneur with support in areas such as bookkeeping. The costs are inevitably higher. The benefits can also be higher, however, to offset this. Little work has been done to date which actually examines the tradeoffs. The ESSA database should allow some information that will help to clarify this issue over the next year.

5. *Effective BDS programs produce positive externalities in addition to serving particular sets of clients.* The BDS programs should generate external benefits or public goods that are equal to or greater than the public subsidies that may be required to get the program up and keep them running. These can take the form of: stimulating demand for business support services; strengthening business linkages; and serving as catalysts to stimulate increased rates of learning and diffusion of innovation.

The intention of ESSA in the long term is to build direct linkages between consultants and SMEs where a brokering service is no longer necessary. There is evidence to date that this is beginning to take place. With an expanded network of consultants experienced in dealing with SMEs, the demand for the services should continue to increase without ESSA's intervention.

In terms of strengthening business linkages, ESSA has made limited progress to date. While ESSA staff made initial overtures to coordinate with other private sector support agencies, currently, ESSA has limited contact or coordination with these programs (partly due to the non-receptiveness of other service providers).

While ESSA serves a specific niche within Ghana currently, it should become more proactive in terms of ensuring that its services are coordinated with other agencies and its role remains unique and useful. This does not mean taking on a role of overall coordination--something that the Private Enterprise Foundation is better suited to do. It does mean, for example, ensuring that clients are not "shopping" different programs to try to get the best deal. This also highlights the need again of coordinating activities with other donor agencies. The ESSA replication process has begun to be planned in Southern Africa. At the same time, UNDP has funded an Africa wide program called Enterprise Africa. While it is unclear whether there will be overlap or complementarity between the two, neither group appears to be taking into account the other's activities during their planning.

Finally, in terms of acting as a catalyst for change, ESSA clearly has succeeded on this level over its first two years. Many of the clients interviewed have made fundamental changes within their companies that will impact both their operations and their standing within their sub-sectors. The evidence of the successes is also attracting other clients. Over 50% of all firms assisted to date have been through word of mouth. ESSA specifically targets firms that are dynamic, ready to change, and have potential to make gains in the short term. These firms are not only serious about building their businesses, they also act as the new wave of entrepreneurs within Ghana. Their successes will provide support to other SMEs that are attempting to fight many of the inherent biases within the economy. Older style companies, which are not interested in shifting from a reliance on government subsidies or benefits, are unwilling to change their practices or the lingering policies. The SMEs are promoting a truly private sector driven economy.