



Angola Enterprise Program

A public private partnership between UNDP, Chevron and the Government of Angola

Business Development Services Market Assessment

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The consultants would like to thank all persons met for their patience and kind assistance during the development process and would appreciate it very much if those who read this, could extend our warmest greetings and thanks to those we have met but who do not read this report.

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based upon the various comments received from the AEP and the stakeholders to date

The views expressed are those of the consultants and do not necessarily represent any official view of UNDP, CHEVRON or the Government of Angola

Executive Summary

In June 2004, the United Nations Development Programme (UNDP) and Chevron launched the Angola Enterprise Programme (AEP) to promote enterprise development in Angola. This programme review recommended that the programme should focus on Micro Finance and Business Development Services (BDS) and that a BDS Market Assessment be undertaken to assist the AEP to decide on the most appropriate interventions for this BDS component. This report is the result thereof.

The objectives of the BDSMA are to analyse the BDS demand and supply side, identify the constraints that hinder these market mechanisms, and to identify facilitative interventions that address these constraints in order to create sustainable services, whereby focus has been on institutional capacity building. The findings have been presented at a stakeholder's workshop and the opinions and recommendations of the participants have been taken into consideration. This report provides insight into the BDS market and a number of options that could improve the BDS market. The report thereafter further elaborates the suggested intervention and a call for proposals is annexed.

The objective of the BDS component is to provide *appropriate facilitative interventions that will improve the sustainable provision of business development services to enterprises, thereby contributing to improved performance of the enterprises, which generates employment and improves income*".

Angola has been suffering from a decades long civil war which has resulted in massive dislocations, death and destruction but it is also a major oil producer and the oil export industry dominates the entire Angolan economy. Other sectors, such as agriculture and light manufacturing, have not yet been developed. The high dependence on the oil industry and retraction industry in general needs to be reverted and various studies advocate for diversification of the economy and the accompanying necessary reforms. There are indications that the government will consolidate and extend policies to create an enabling environment for business creation and growth at all levels and regions. Whether in the short term or in the longer term, most of these reforms must lead to positive changes for the enterprises and it is advocated that in order for the enterprises to be prepared and take advantage of these changes, it is important to support the growth of the providers already now.

Enterprises face various constraints, among which lack of capital, and lack of access to capital, outdated technologies, obsolete infrastructures and an unfavourable macro environment. A rather specific characteristic of many (starting) entrepreneurs is that they are rather formalistic with often unrealistic expectations or plans. Many indicate that growth of their undertaking is only possible with additional financial injections and ignore the fact that natural growth can also be obtained with improved business operations. In general, there seems to be a rather limited market and many entrepreneurs find it difficult to compete. Several entrepreneurs indicated that they had difficulty analysing their operations in terms of financial results and expressed a need to understand their business better.

There are various entities that provide services to the enterprises. NGOs have been on the forefront providing free services to their target groups, especially those operating in rural areas focusing on agricultural production by small holders. Business Associations vary in terms of maturity and dynamism, some offering certain services to their members, including training (at a price). The third type of providers are the registered consultancy companies. They usually focus on certain fields of expertise or sectors. These, mostly expert, services are offered to any client who is able to pay and most of these clients are thus the more mature enterprises. There are also the individual experts that offer services, often as a side business, as well as INAPEM, a public provider delivering (mainly free) training courses.

The main constraint that the providers face is the fact that the market for BDS is still very 'green'. Operating in this very underdeveloped market implies that providers not only have to prove their own value, but also have to make the clients aware of the advantages of such services. Another major constraint the providers face is that most of their clients are operating at levels with little reserves, and clients weigh the return on investment between the services of the provider and other investments. This implies that providers must focus much more on the direct benefits of their services for that client, convincing clients that their investment pays off.

There is hardly any statistical information about the size and performance of the enterprises but there are various indications that there are huge numbers of micro enterprises with relatively fewer numbers of medium enterprises, and a portion of that would be the 'business owners' that may be targeted by these providers. There are sufficient indications that small enterprises are seeking services and that they are willing to pay for these services, if these services will assist them in achieving better business results. Many enterprises do not know where to find these services, even though there are a number of existing providers that deliver a limited number of services to the enterprises.

With a concentration of NGOs in the rural areas focussing on agriculture, most of the other providers are in more urban areas. Although an exact number cannot be given, it can be safely assumed that there are a number of providers that have their own market, and that any facilitation intervention should treat lightly in these markets. It is therefore recommended that a facilitator will assist the providers with:

- further developing their existing services
 - improving their core services in terms of delivery modes
 - reaching out to other market segments with these core services
- developing new services such as training and coaching
 - broadening their range of services
 - selling these new services to their existing and new client groups
- marketing their (new) services to (new) market segments
 - technical advise in defining (marketing) strategies
 - financial assistance to test and initiate the marketing strategies

The facilitator will establish offices in Luanda and will announce the facilitation service, using various publicity and marketing tools. It is assumed that 5 providers will be selected per round. The combination of coaching (in order to analyse the market and further develop their core activity) and capacitating (the training and coaching tools) will ensure a hands on approach with direct results. This rather intensive initial period with almost daily contacts will last some three months, where after the coaching will continue for as long as needed, but at a lower level. The proposed implementation plan implies that the facilitators will be able to take 5 providers on board every three months. The facilitator will be an autonomous entity, consisting of two experts in BDS facilitation: one international expert (to bring in experiences from other countries) and one local expert (to bring in expertise from the Angolan industry).

Impact will be primarily measured at providers' level, based upon the simplified assumption that if providers are able to sell their services to the enterprises, these enterprises will grow and as such will lead to increased employment and income. The monitoring will thus be as cost efficient as possible by measuring only a few yet decisive (proxy-) indicators. An post-ante impact analysis will measure impact at providers and enterprise level, 12 months after ending of the (initial) 24 month programme.

Abbreviations

AEP	Angola Enterprise Programme
AMEH	Associação das Mulheres Empresárias e de Negócio da Huíla
ATREINE	Associação Treinadores Empresárias
BDS	Business Development Services
BDSMA	BDS Market Assessment
BoP	Bottom of the Pyramid
EE	Enabling Environment
GDP	Gross Domestic Product
IGA	Income Generating Activity
ILO	International Labour Organisation
INAPEM	Instituto Nacional de Apoio ao Pequeno Empresariado
INEFOP	Instituto Nacional de Educação e Formação Profissional
IR	Inception Report
MF	Micro Finance
MFI	Micro Finance Institution
MTR	Mid Term Review
NGO	Non Government Organisation
PSD	Private Sector Development
RASME	Rede Angolana do Sector Micro Empresarial
SIYB	Start and Improve Your Business
UCAN	Catholic University of Angola
UNDP	United Nations Development Programme
VT	Vocational Training

Glossary:

To avoid the use of many abbreviations in the report, the following terms are used throughout the report:

Services:	Business Development Services, both operational and strategic services
Provider:	any entity providing Business Development Services to enterprises.
Enterprise:	any entity, formal or informal, that operates as a business.
Facilitator:	the proposed entity that will assist the providers to develop their capacity

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9	Stakeholders' workshop
10	Call for proposal (to implement)
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1 Introduction

1.1 AEP Background

In June 2004, the United Nations Development Programme (UNDP) and Chevron launched the Angola Enterprise Programme (AEP) to promote enterprise development in Angola by supporting a process to build consensus around a common vision and a national strategy for enterprise development.

This public private partnership envisaged four key areas: the Enabling Environment (EE), Micro-Finance (MF), Vocational Training (VT) and Business Development Services (BDS). The three-year four million dollar programme was reviewed in March 2006 and the Mid Term Review (MTR) recommended that the programme should focus on MF and BDS in order to yield significant impact given the available resources.

The MTR recommended that a BDS Market Assessment (BDSMA) be undertaken that should assist the AEP to decide on the most appropriate interventions for this BDS component. A call for proposals (see annex 1 and 2) was launched in May and the actual BDSMA was undertaken in July 2006 by HPC¹, resulting in this (draft) report.

1.2 BDSMA Methodology

The consultants reviewed the available project documentation and various (global) research methodologies (list of documents provided in annex 5), where after they submitted their Inception Report (IR) in which they proposed the methodology and addressed some important issues (see annex 3).

Initially interviews were held with major stakeholders and informants in Luanda, where after they visited the provinces of Huila, Benguela and Cabinda. In each province interviews were held with stakeholders (Government Departments, Donors, NGOs, Business Associations, BDS providers) as well as (focus group) discussions with entrepreneurs and providers. An Itinerary is provided in annex 4.

The objectives of the BDSMA are to analyse the BDS demand and supply side, identify the constraints that hinder these market mechanisms, and to identify facilitative interventions that address these constraints in order to create sustainable services, with a focus on institutional capacity building. The findings have been presented at a stakeholder's workshop and the opinions and recommendations of the participants have been taken into consideration.

The resulting report provides insight into the BDS market and a number of options that could improve the BDS market. The report thereafter further elaborates the suggested intervention, based upon the ToR and discussions with the AEP during the assignment and given the limited time and resources.

1.3 The report structure

In chapter 2 the justification and design logic for this component is provided, followed by a short contextual analysis in chapter 3. In chapters 4, 5 and 6, a description of the enterprises

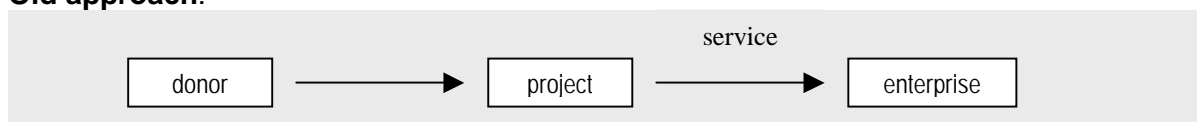
¹ HPC: Hans Posthumus and Mahesh Gohil

and the providers is given including their constraints and the gap in the market. In chapter 7 an overview is provided of the various options, and in chapter 8 the recommended option is further elaborated upon. In chapter 9 the implementation plan is described, while the last two chapters describe the expected results and the monitoring of activities.

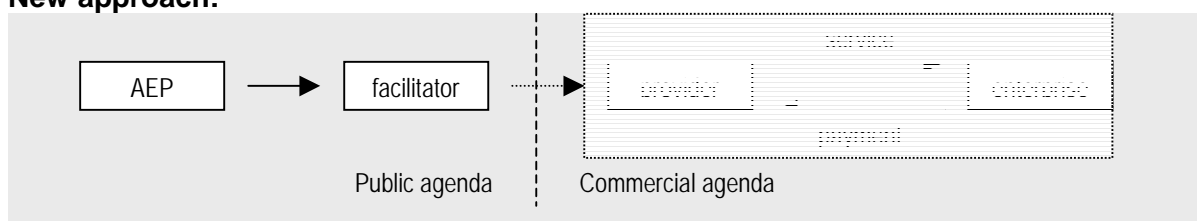
2 Component justification

The objective of the BDS component is to provide *appropriate facilitative interventions that will improve the sustainable provision of business development services to enterprises, thereby contributing to improved performance of the enterprises, which generates employment and improves income*". Literature and practice show that the provision of BDS is influenced by both supply and demand constraints, and more often than not, the imbalance between the two. The so-called paradigm shift is visualised below:

Old approach:



New approach:



On the right side there would be the clients (enterprises) that receive services from the service providers according to the market principles: providers sell and enterprises buy, and therefore it becomes a sustainable business. Providers are operating as, and de facto mostly are, private companies. Unfortunately, in many markets there are imperfections and that is where and when donor support is justified (the public agenda on the left side).

A project organisation (the facilitator) will identify constraints in the BDS market and assist providers (and others) to address them. The aim is thus to identify first those constraints of enterprises that could be resolved through the provision of BDS. Thereafter, one would look at the provision of these services and identify the reasons why BDS are not provided to these enterprises. Addressing these hindrances is a typical role for facilitators.

As a facilitator one has to avoid distorting the commercial relationship between provider and client, which would be the case when facilitators provide services themselves or subsidize the services provided by providers. This thus limits the activities of the facilitator (with respect to direct support to providers) to the pre- and after- service trajectory. In a weak BDS market like Angola, this is a considerable challenge.

Although reference is made to the IR that details the advantages of a sectoral approach, the suggested approach is rather generic for the following reasons.

Firstly, by addressing generic constraints one can assist various providers that are active or are specialised in various sub sectors. Secondly, the rather limited sub sectors (in number and in size) limit the outreach of a sector specific BDS (facilitative) intervention. Thirdly, the number of service providers is limited and appear to be facing similar constraints that would enable interventions that address these rather generic constraints. The fourth reason is that limited information is available that would enable an economic mapping and sub sector selection in order to define the appropriate provider and facilitator services at this stage².

² An analysis of the Agricultural sector including various sub sectors is scheduled to take place mid 2006, commissioned by the World Bank

Moreover, the ToR stressed the importance of building the capacity of the providers in line with the AEP's vision of creating local capacity.

This BDS market assessment has thus taken a generic approach and although it lists a number of possible interventions, it elaborates further on the recommended proposal for building the capacity of the providers and a "call for proposals" is included in annex 10. The improved capacity should thus improve the service delivery of the providers which should result in an improved performance of the enterprises, thus creating employment and income.

3 The Context

3.1 The economic reality

Angola has been suffering from a decades long civil war which has resulted in massive dislocations, death and destruction. It ranks 166th on the Human Development Index list with life expectancy at birth at some 38/42 years and under-5 mortality at 260/1000³.

Angola is also a major oil producer and the oil export industry dominates the entire Angolan economy. Oil exports represent some 96% of the export and has accounted for at least half the GDP⁴. Infrastructure is poor and so is its manufacturing base. This, combined with the pegging of the local currency to the dollar, has resulted in massive importation of nearly all consumer products.

Other sectors, such as agriculture and light manufacturing, have been hardly developed. Farming, livestock and artisanal fishing employ two-thirds of the country's workforce, yet agriculture accounts for a mere 8% of the GDP. Manufacturing contributes only 4% to the GDP, compared to 25% in 1975⁵. The high dependence on the oil industry needs to be reverted and various studies advocate for diversification of the economy and the accompanying necessary reforms.

3.2 Challenges

It is recommended⁶ that (1) the transport infrastructure is being repaired, that (2) the government has to consolidate and extend policies to create an enabling environment for business creation and growth at all levels and regions, and that (3) the government strengthens its capacity for defining and implementing policies to exploit the country's natural potential for trade driven growth.

The challenge that Angola faces is to develop the private sector that at present comprises of a modern sophisticated oil sector that coexists with an informal sector of home grown firms, both operating in distinctly different ways. Trade is the prevailing economic activity, while light manufacturing and agriculture are far less developed than they were before the war.

Agriculture is an important sector since more than half the population engages in it, among them the poorest of the poor. However, without rehabilitation of the roads, connecting rural producers to urban markets, there is little scope for development. The support systems (input supply, research, extension services) are almost non-existent and yields for most staple crops are extremely low compared to similar and surrounding countries. The potential small holder section requires more attention in terms of providing services and lifting barriers (e.g. stimulating the formation of producer groups and reducing tariffs on agricultural production and trade).

It is likely that simultaneously attention must be paid to stimulating the growth of the food processing industry, which is also very limited at present. Improving the agricultural production chains is important since it will result in higher turnovers with added values. Such

³ UNCTAD, Statistical profiles of the Least Developed Countries, 2005

⁴ Diagnostic Trade Intergration Study, Nathan, March 2005

⁵ UNDP Economic Report on Angola 2002-2004

⁶ Diagnostic Trade Intergration Study, Nathan, March 2005

chain development will stimulate agricultural production due to the more accessible and reliable markets and will result in the growth of a servicing industry.

The light manufacturing industry is another potential sector. At present, there is hardly any production whatsoever and any growth will result in import substitution. However, emphasis must be on improving quality standards, promote manpower development at all levels and, most important, enable the developing industry to develop with supportive tariff reforms.

The major economic sector besides the extractive industry is at present is thus commerce, from informal street vendors to major importers and is characterised by short term (and often considerable) gains, making investments in manufacturing and agriculture less attractive.

There is however a considerable and growing servicing industry for the extracting industry. Outsourcing becomes the norm and as such the oil companies are a major source of demand, varying from manpower supply contracts to consumer goods and everything in between.

3.3 Positive signs

Bureaucratic barriers are being addressed, yet they require further reforms in order to enable business growth in these sectors. Access to finance is still difficult, yet there are initiatives that hint at improved access to finance, also for the smaller enterprises. Commercial banks are developing various financial products (e.g. leasing and factoring) while other banks are introducing micro finance products (e.g. Novo Banco and Banco Sol). Various road rehabilitations are planned and it is assumed that transport will enable producers to link to physical markets. It is also assumed that the actual transport costs will decrease although one might also expect that transport cost increase when subsidies on fuel will be lifted.

It is assumed that these positive developments will continue and are also perceived as positive trends.

Whether in the short term or in the longer term, most of these reforms must lead to positive changes for the SMEs. Any intervention, including the proposed BDS component, will thus be dependent to these macro economic changes. It is however advocated that in order for the SMEs to be prepared and take advantage of these changes, it is important to support the growth of the providers already now.

4 The Enterprises

4.1 Classification

Enterprises are often classified using the number of employees, their investment capital and their annual turnover. Also in Angola there is a tendency to distinguish between micro, small and medium enterprises, yet this is often limited to the number of employees⁷. One may doubt if the size is more important than the (sub) sector they are operating in, but the little statistical information that is available uses these classifications⁸. A more practical yet more subjective classification would be to look at their 'business orientation' that leads to three categories:

- *Survivors* that are forced to operate as micro enterprises. They are self-employed, have no permanent staff, limited turnover and hardly any means to invest in their business. They are self-employed but are not necessarily entrepreneurs. Most of them operate in the informal sector and are among the poorest.
- Micro and small *business owners*. They are more entrepreneurial, been in the business for some time, have made small investments and employ a small number of people paid from a meagre yet relatively stable turnover. They can be both formal and informal, and owners are not among the poorest.
- Medium and large *enterprises*. These are established companies, with a higher investment capital that are managed by professionals and employing a considerable number of people. Owners move among the higher circles of society.

The (micro and small) business owners are often the target in BDS facilitation programmes. Their business orientation welcomes BDS facilitation activities and these business owners are most likely able to procure BDS from commercial providers in the long run. Support can be justified as investments in small enterprises generate most employment per invested dollar. It is this segment that the BDSMA has focussed on, partly because of the foresaid reasons, partly because it creates synergy with the MF component of the AEP.

4.2 A characterisation

There is a huge diversity of enterprises, each influenced by numerous factors, their maturity (in terms of growth, the sector they operate in as well as other contextual factors such as geographical area), yet an attempt to characterise them is made hereafter.

The fact that Angola has been governed as a planned economy for decades has not contributed to traditional entrepreneurship, although it must be realised that even during these periods 'informal practices' required some form of entrepreneurial attitudes. Nevertheless, most entrepreneurs do not have natural models or examples of how enterprises can be operated and often lack 'innovative thinking' that distinguishes them from their competitors. Many of the present entrepreneurs are not entrepreneurs by choice but by circumstances. They were unemployed and with few alternatives, they set up their own income generating activities (IGA) which in some cases have grown to small enterprises.

Few of the enterprises operate in the manufacturing sector and if they do, they operate with out dated equipment using technology from the previous era. The competitive advantage has been the use of (cheap) labour, yet it is doubtful that this will remain an advantage in the

⁷ Micro 1-5, Small 5-15 and Medium 15-50 (employees per enterprise)

⁸ UCAN, The status of SMEs in Benguela, Huambo and Luanda provinces, Diagnostic study, draft version 2006

near future. The application of modern technology is in general also absent in the trade and services sectors, resulting in labour intensive and often less efficient operations.

As a result of the unstable situation in the past decades, and also given the high costs of reconstruction, many enterprises operate from very basic and often obsolete infrastructures. Their capital base is often very low although there of course some exceptions. Supporting infrastructures, with maybe the exception of the cellular phones, are underdeveloped and relatively expensive. The same study revealed that 50 to 70% of the enterprises do not have access to water and electricity services.

Most enterprises have limited access to capital and operate with little working capital. Access to finance is still very restricted and obtaining investment capital is cumbersome, as commercial loans are more often than not to be repaid in relatively short periods. Interest rates do not stimulate investments in manufacturing and MF is mainly intended for trading activities with high gains and for short periods. The study revealed that only 1/5th of the enterprises ever benefited from a loan (with medium enterprises benefiting relatively more), with complicated procedures and high costs being the main reasons for not taking a loan.

Many of the entrepreneurs and their staff have completed primary education but most have gained their 'business skills' in real life. Vocational training centres, both private and public, appear to focus on technical skills and little attention is given to business or entrepreneurial skills. It was said that only 12% of the entrepreneurs had ever participated in a professional training, while when asked what they would need most, training ranked second (28%) after access to finance (43%). Given the extreme limited exposure to successful and non-traditional business operations, many skills and businesses are copycatted from others.

A rather specific characteristic of many (starting) entrepreneurs is that they are rather formalistic with often unrealistic expectations or plans. Feasibility plans are written that require considerable borrowing yet their own equity is limited. Start-ups often assume that all assets need to be in place with little room for improvising and step by step growth. Many indicate that growth of their undertaking is only possible with additional financial injections, and ignore the fact that natural growth can also be obtained with improved business operations (cost reduction, productivity improvements, differentiating margins, increasing turnover, etc.).

4.3 Their constraints and needs

When asked⁹ what their main problems were, 16% of the respondents referred to the lack of basic materials, 17% of the entrepreneurs referred to lack of credit and 21% of them to the lack of clients.

Access to finance for working and investment capital are obvious, and one of the major causes hindering growth of the enterprises. Although there are some indications that access to finance is improving, many entrepreneurs find it difficult to access it. Few banks are willing to take a risk by looking at the opportunities in the client's future, but they take a retrospective approach by looking at the client's record and guarantees. Only recently banks started to demand feasibility studies that serve as loan applications but not necessary as business plans. Most of the entrepreneurs are not able to develop such plans and hire the services of providers. It is noted that the resulting plan is not a joint product but often a financial plan developed by the expert with little involvement of the client. In fact, few entrepreneurs work on a business plan at all, be it on paper or in their minds.

⁹ UCAN, The status of SMEs in Benguela, Huambo and Luanda provinces, Diagnostic study, draft version 2006

Some entrepreneurs find it difficult to register their business, others are not concerned with formalisation at all. Registration is said to be an expensive and cumbersome procedure, although in various provinces these difficulties were said to be more easy to overcome. In some instances, business associations assist (and in fact demand) that their members register their business.

Other entrepreneurs had difficulties in procuring goods, mainly related to their weak position as a small buyer towards a large seller, but also due to the fact that few have a range of reliable suppliers. Some also expressed concern that wholesalers and retailers were entering their area by also offering goods in smaller units, which was typically a role for micro entrepreneurs. They need to develop alternative procurement and marketing strategies that gives them (another) competitive advantage.

Unreliability of basic services such as electricity and water supply was also frequently mentioned since it seriously affected their productivity. More often than not, it implies that production is halted, or they have to revert to alternative supplies (generator) with all the added costs, again affecting profitability. Access to affordable and reliable services is high on their list, which might be put on the public agenda if the entrepreneurs would be organised to lobby or influence. In the short term, they might consider sharing the costs when they procure water and electricity (sources) jointly, or when a leasing company would lease this expensive equipment to them.

In general, there seems to be a rather limited market and many entrepreneurs find it difficult to compete. Many entrepreneurs expressed a need 'to sell more' but they had little ideas on how that could be tackled, except with financial injections and advertising. When asked how these injections would then be used to increase turnover, most of them remained puzzled. Several entrepreneurs indicated that they had difficulty analysing their operations in terms of financial results. They expressed a need to learn how to record their business transactions in order to understand their business better.

Most entrepreneurs had difficulty explaining their needs and that might be the most crucial issue: how to identify and specify their needs. Most reverted to mentioning topics such as 'how to manage better', 'how to calculate costs and prices' and 'how to adhere to government requirements (tax declaration)'. In most cases, the entrepreneurs suggested that these topics would be best addressed by training courses. Most entrepreneurs had heard or even frequented such one-week-courses, and as such they quite naturally referred to these courses. Even though many of these courses had been free of charge, they expressed a willingness to pay for it.

There was a general reluctance towards using the services of consultants, since the most entrepreneurs considered them to be providing inadequate services at rather high costs. However, that reputation seems to be based upon second hand information, since few had actually hired the consultants for specific jobs. On the other hand, business owners often operate in isolation and there were indications that some entrepreneurs actively sought advice. These advisors were usually people they respected and within their own 'circles', while these services were not directly paid for.

5 The Providers

5.1 A classification

There are various entities that provide services to the enterprises. They vary from employed economists that write feasibility studies for enterprises in the evening hours to accounting companies that do the entire financial administration for their clients. It also includes business associations that provide courses to their members in various subjects, as well as donor supported programmes implemented by NGOs that assist in input supply as well as in accessing the market.

Hereafter some general characteristics are provided for the different categories of providers that were encountered. These categories exclude alternative providers such as in the case of embedded services due to the generic approach taken.

Not surprisingly for a country that has been receiving emergency aid for decades, many NGOs have been providing free services to their target groups, often described in the 'development jargon' (small holders, marginalised, youth, women, etc). Most if not all services are provided by the NGO staff itself whereby a lot of effort has been made to train the staff on the actual delivery of the service. In some cases, the creation of a business provider is seen as an exit strategy but how feasible that is remains to be seen. Many of these NGOs operate in rural areas focusing on agricultural production by small holders.

It can be argued that these NGOs should avoid delivering these services free of charge, thereby distorting the commercial BDS market. However, many NGOs are operating in an area where providers are simply absent, or extremely weak, thus requiring heavy investments (time and resources) in order to build that capacity. At the same time, many NGOs are focusing on clients that might not be able to pay for these services. One simply has to accept that donors and NGOs will continue providing these free services to certain groups for some time. Commercial providers should thus be looking at these NGOs as potential clients (who pay for the ultimate beneficiaries).

Another type of potential service provider are the business associations. They vary in geographical coverage, size, sector, type of activity, maturity and dynamism. Some of them appear rather dormant, others very much active. Some of the more interesting activities are the organisation of trade fairs, creation of sectoral groups, and the dialogue with the public sector as well as the provision of referral and training services. The associations are often trapped in the cycle of not being able to offer services to their members due to cash problems and members not willing to pay their membership contribution for lack of advantages. Some interesting models are being tested whereby entrepreneurs are trained as trainers to deliver training to their members (for a fee), as well as setting up an 'advisory bureau' that assists in the development of business planning or loan applications, operated by students. In many cases, the associations are financially assisted by donors or NGOs.

The third type of providers are the registered consultancy companies. They usually focus on certain fields of expertise such as accounting, geographical areas or sectors. These services are offered to any client who is willing and able to pay and most of these clients are thus the more mature enterprises. It is typical for the providers to take an expert approach, delivering a product (such as a feasibility study) and few are involved in building capacity of the client through coaching (such as how to make informed decisions).

The fourth type of providers are the individual experts and advisors. They apparently are able to deliver services that are in demand. Often they have a paid job and offer the services as a side business, depending on the specific requests. In many cases, they have built a reputation and network of clients.

The public sector is also providing BDS services to enterprises, of which INAPEM is the most visible provider. They have been offering training to start-ups and entrepreneurs following the ILO SIYB methodology. Many of their trainings were free of charge, although now some (symbolic) fee is being asked. The offices have also been involved in programmes that provided (direct or indirect) access to capital. INEFOP provides vocational training and so far has not ventured into entrepreneurship or management training.

5.2 Their constraints and needs

The main constraint that the providers face is the fact that the market for BDS is still very 'green'. Operating in this very underdeveloped market implies that providers not only have to prove their own value, but also have to make the clients (the market in general) aware of the advantages of such services. With only some emerging providers and few customers aware of these services, that is far from easy. However, there are signs that the market for BDS will grow since the oil industry will continue to outsource more and more, and this practice also stimulates the hiring the services of BDS providers. Nevertheless, it implies that market sensitisation is important.

The other major constraint the providers face is that most of their clients are operating at levels with little reserves, i.e. they have little room for manoeuvring. As such, clients weigh the 'return on investment' between the services of the provider and other – maybe more prudent – investments such as new equipment. This implies that providers must focus much more on the direct benefits of their services for that client, convincing clients that their investment pays off.

This is not easy for many providers, as they have not been much exposed to such practices. Many providers are 'self-made' and emerged from the managerial layers of the industries of Angola, a country and an industry that have been suffering from a planned economy, isolation and war. Providers need to continue to broaden their horizon and focus on self development.

Many providers operate in isolation, and it seems that they do not actively seek cooperation among their colleagues. Trying to build cooperation and partnerships would enable them to 'gain importance' in the industry and at the same time would enable them to learn from each other.

The commercial providers are largely serving the more established enterprises with various expert services. It appears that few have ventured into less 'sophisticated' markets, such as those clients that have less purchase power but that do exist in large numbers. This 'bottom of the pyramid'¹⁰ view suggests that clients with little purchase power, when served in an appropriate manner, can be an interesting segment due to their sheer size. Developing such alternative delivery modes is thus most important.

It appears that many of the services are externally driven, e.g. by the requirement of the banks for feasibility studies or the legal requirement for record keeping. Providers appear unable to increase the number of 'saleable services' to these clients. This would call for a

¹⁰ Bottom of the Pyramid, Prahalad,

better understanding of their clients' needs (maybe not yet demands) and developing products and delivery modes that can meet their (latent) demands. This would automatically lead to longer term relationships between provider and client.

6 The market size

6.1 Demand side

There is hardly any statistical information about the size and performance of the enterprises but there are various indications that there are huge numbers of micro enterprises with relatively fewer numbers of medium enterprises, and a portion of that would be the 'business owners' that may be targeted by these providers.

One MFI that only started lending two years ago has already an outstanding portfolio of USD 3 million with some 500 smaller enterprises (served by two branches). Two banks have received USD 5 million each as loan capital for individuals and enterprises, and that would be allocated to some 1.000 to 2500 clients. One MFI estimates that there are some 13000 smaller registered enterprises, yet some 650.000 unregistered enterprises in Angola¹¹.

In one provincial capital a small business association of micro entrepreneurs has more than 150 paying members and stated that this was only a tiny portion of the potential members. In another province there were some 400 registered smaller enterprises and an unknown number of unregistered micro enterprises.

One business association claims to have been training some 1000 micro entrepreneurs over the past two years and is convinced that there are many more potential clients. Other providers state that they find 'sufficient' clients and some are even investing in infrastructures, hinting that the market is there.

Looking at the major constraints that were listed by the entrepreneurs, as well as their desire to learn and procure services, it appears that there is sufficient mass.

6.2 Supply side

With a concentration of NGOs in the rural areas focussing on agriculture, most of the other providers are in more urban areas. In each provincial capital at least three associations were encountered, some of them active as providers, others rather dormant, while an equal number of commercial providers were encountered easily.

It probably implies that there are more commercial providers and individuals that provide these services. It is obvious that in the more industrial and high density populated areas like Luanda, Cabinda and Lobito, the number of providers is likely to be higher. The number of active consultants in the enterprise field is estimated to be anywhere between 50 and 150.

Although an exact number cannot be given, it can be safely assumed that there are a number of providers that have their own (sometimes small) market, and that any facilitation intervention should treat lightly in these markets. Facilitating the growth of these providers should be stepwise and not create a temporary imbalance in the market.

It is strongly advocated that rather than to undertake extensive, expensive and time consuming research, to take a more action-reaction approach and to test the market.

¹¹ Although the estimation is based upon the population size and used to predict the demand for MF

7 Options

There are a number of interventions that might address the constraints in the BDS market.

7.1 Demand

Interventions are possible that stimulate the demand side, such as a general market sensitisation programme. Such a programme might promote that the media put small enterprise development on their agenda, and that time and attention is given to the various problems that enterprises face, but more importantly, at the various solutions that exist (such as seeking advice and other forms of BDS). Such a programme would involve advocacy and lobbying but also exposure and role modelling, and it might be a very sustainable instrument with an enormous outreach at a very low cost (or even free if advertising pays for it). However, such a programme requires a long and sensitive approach with indirect results at a point relative far in the future. Although such a programme can be very effective, it does not fit the vision of the present AEP.

Stimulating demand by subsidising the delivery, e.g. through voucher programmes, is another option, but there are some serious set backs. The first is that it would be a relatively expensive programme, with high input and limited outreach. The second constrained is the market distortion for those clients and providers that do not participate in the programme, and of course the troublesome exit strategy. The fourth and major constraint is that it assumes that the providers exist and have instruments appropriate to the needs of the enterprises. The later is probably not yet the case in Angola.

There is definitely a need for stimulating the demand side, but that is best done by the providers themselves. They are operating in the market, and with some technical and financial assistance, they should be able to stimulate demand, as any business needs to do attract clients. Their sensitisation can be much more focussed and can take place in line with their expected growth in capacity.

7.2 Supply

Stimulating the supply side is another option. One might simply create a fund and offer providers the possibility to propose programmes and projects. Although in some countries such experiences have proven interesting, it requires a rather mature BDS industry (i.e. strong providers) to be able to develop such programmes, as more often than not it could result into financial requests or into delivery programmes such as training programmes, delivered by the proponent but halted once finance ended.

One could also think of programmes that assist existing providers to develop products that are suitable (or better: in high demand) for the specific target group (or better: market segment) that the AEP wants to reach. Such programmes could stimulate, e.g. through premiums for each trained client, that commercial companies are oriented towards that group of (micro or small) enterprises. However, such a programme would then also be subsidizing the service delivery, and more importantly, will not be a very sustainable solution. Once the premium stops, or when other market segments become more attractive, the providers will no longer address the (previously subsidised) clients.

A third option to orient providers towards the envisaged sector is to convince well established providers that there is a future in this segment. One might even revert to subsidising part of their investments by e.g. employing young consultants and training them in becoming the

specialists in the field of small enterprise development. Although such a market segment would be interesting and profitable for these providers, one may question if their present markets are not more profitable and if public funds can be justified for this intervention.

One might also consider creating new providers, but there are very few - if any - examples that such providers are sustainable. In many cases, the providers are not operating as a business and tend to provide services rather than sell services. Moreover, creating providers is relatively complex and expensive, and the time before the actual service delivery starts is often considerable.

A fifth option is to look for organisations that are active in the field, such as business organisations, but that do not provide these services yet to their members. The main advantage is that the organisation exists and has a potential client base. The risk is of course that the culture of such organisation is not conducive and that the services provided are not in high demand by their members, or that members are not accustomed to paying for these services. On the other hand, there are good indications that active and dynamic business associations (e.g. AMEH, ATREINE) can deliver services to their members in a sustainable way, and that this even contributes to increased institutional sustainability of the organisation.

One might even consider introducing (again) non-financial service delivery to financial institutions in various ways. MFIs could provide typical services that are said to be of use for their clients, such as working sessions on 'costing and pricing' or 'financial administration'. The relatively limited cost of the training could be included in the credit package and in that way one could stimulate demand. However, the risk lies in the fact that clients in need of credits only participate and 'just pass time' because the course is obligatory.

Moreover, the MFIs, that are de facto very few and still immature, would face difficulties in combining this training attitude with the bankers' attitude. More logically would be that the MFIs, rather than delivering this course themselves, would seek partnership with a specialised provider that offers either that training on behalf of the MFI (so indirect payment through the MFIs' income) or by referral and clients pay for the course (possibly even with the credit issued to them).

Another version would be to focus on the commercial banks that issue loans to small and medium enterprises. Although most of their lending takes a very conservative approach, there are signs that they will (have to) become more active in the market. Demanding feasibility studies or business plans is one indication thereof, and a next step might be that loan officers (and bankers) are capacitated in analysing these plans. However urgently necessary that might be, this would be a task of the banks themselves who have sufficient means to organise and pay for these trainings. The only role foreseen is to advocate such capacity building measures, but such programmes would better be hosted within the financial component of the AEP.

A more direct approach would be to capacitate the providers in the actual service provision, for them to understand the reasoning of the banks and be able to deliver realistic business plans. It has proven that clients are willing to pay for such plans, but that payment is often linked to obtaining the loan. It would be worthwhile to investigate if banks are willing to invest into e.g. certifying consultants that are qualified and experienced in providing these services to their (potential) clients. Although there is definitely a role for such promotional activities, one might also leave it to the actual providers to establish these links and sell their services.

8 Recommended option

There are sufficient indications that small enterprises are seeking services and that they are willing to pay for these services, if these services will assist them in achieving better business results. Many enterprises do not know where to find these services, even though there are a number of existing providers that deliver a limited number of services to the enterprises. The providers offer a limited range of services and appear unable to reach out to other clients.

It is therefore recommended that a facilitator will assist the providers with:

- 1 further developing their existing services**
 - a. improving their core services in terms of delivery modes
 - b. reaching out to other market segments with these core services
- 2 developing new services such as training and coaching**
 - a. broadening their range of services
 - b. selling these new services to their existing and new client groups
- 3 marketing their (new) services to (new) market segments**
 - a. technical advise in defining (marketing) strategies
 - b. financial assistance to test and initiate the marketing strategies

8.1 Further developing their existing services

Many of the providers are specialised in one or two products that they offer to their clients, such as feasibility studies or accounting services. Most of these services are expert services that are relatively expensive and not always affordable by all enterprises. If providers want to gain market share, they must work on further developing their core services. This implies that providers must develop delivery modes that are more appropriate to the entrepreneurs in general and distinguish between the various market segments.

In many instances it might imply that rather than to sell expansive fancy glossy business plans, the expert advice is low cost, verbal, on site ad and to the point. It also implies that the provider must develop a costing/pricing strategy that takes the purchase power of the various client groups into consideration. Reference is made to the BoP concept and advising groups (e.g. running business clinics) becomes one of the alternative solutions that need to be looked into.

Often this implies that the provider shall need to switch between his expert role and his coaching role. The less purchase power the client has, the more likely it is that the providers' role would be more coaching than expert advise. This also explains the need for the training and coaching services and techniques that will be introduced. By transferring the knowledge and coaching the entrepreneur, the (relative expensive) time of the expert remains limited. The facilitator will offer new skills and techniques for providers in this field of coaching entrepreneurs and developing alternative delivery modes for their services.

8.2 Developing new services

The range of services is rather limited and if providers want to be able to gain more service contracts, they shall have to develop more services. The logic behind this strategy is that it is easier to sell more services to one client (gain his trust) than it is to sell one service to many customers. Moreover, a client would require such service only once or twice, and adding more services to the package results in more saleable services.

The facilitator will assist the providers to develop a number of services that appear to be in demand and that could be transferred rather easily. The products that will be 'on offer' will be training, coaching (or mentoring) as well as alternative mechanisms such as business clinics. This diversification will offer them a more stable base to operate from and will enlarge their customer base, with more changes on selling different services later on.

The facilitator will offer a capacity building programme to the providers that enable them to train and coach their clients. These services have shown to be effective in similar countries and the various existing (Portuguese) training manuals can be easily adapted by the providers (as a real life practice supported by the facilitator). It is stressed that only the appropriate mechanism that needs to be introduced by the facilitator, not the actual technical expertise and that much of the attention will be on how to design and deliver according to the specific needs of the clients of each provider.

8.3 Marketing their (new) services to (new) segments

To assist the providers to diversify their services and market segments, technical and financial support is provided by the facilitator.

The facilitator will assist the providers to analyse their market with the objective of looking for opportunities to broaden their client base and increase their turnover. That will result in realistic business plans and strategies, taking into consideration the inputs given to the development of existing and new services. As such, the coaching of the provider by the facilitator will serve as a life case for the provider.

Given the rather weak capital base of many providers, and the risk they have to take by investing into these new ventures, the facilitator has the financial means to co-fund some of the investment costs of the provider. Marketing is extremely important. First the clients need to be sensitised, i.e. made aware of the existence and benefits of such services, where after the providers have to actually sell their services to some of these clients.

The marketing/investment plan will be evaluated as is practice with any other business investment (cost/benefit analyses, payback period, services, clients, etc.) but will also take into consideration the various types of providers in their context. It is suggested that a maximum of 50% is funded with a ceiling of USD 10.000 per provider. To ensure commitment of the provider, the payment mode will be staggered, e.g. the provider will raise and invest (cash and upfront) the initial 25% where after the facilitator will release 25%. Upon completion of the planned activities (so another 25% paid up by the provider) the facilitator will release another 25%. The facilitator will develop a "key" to determine how much will be co-funded taking into consideration the various factors described above.

Typical costs that are expected to be reimbursed are development and marketing costs such as advertising, personal selling, networking and organising seminars, as well as additional training of staff by others and investments into the institution itself, e.g. in the field of information technology.

Additional information on the training and coaching services are provided in annex 5.

9 Implementation

9.1 Activities

The facilitator will establish offices in Luanda and after a short familiarisation and preparation period, will announce the facilitation service, using various publicity and marketing tools. It may contact a number of potential providers directly¹², but the approach must be one of a contest: the provider will be invited must show an interest in the programme and will be screened. It is assumed that 10 or more providers will show an interest of which 5 will be selected per round.

Some of the selection criteria will be their track record in BDS, their commitment and ability to invest in their business. It is stressed that the programme is open to individual consultants, commercial providers, business associations as well as public institutions. However, participation in the programme will not be through overall agreements between the facilitator and some of the providers, but through individual contracts¹³.

The combination of coaching (in order to analyse the market and further develop their core activity) and capacitating (the training and coaching tools) will ensure a hands on approach with direct results. This rather intensive initial period with almost daily contacts will last some three months, where after the coaching will continue for as long as needed, but at a lower level. This prolonged coaching will also assist the facilitator in monitoring impact at provider and enterprise level.

It is stressed that the providers themselves will choose their markets, which implies that some of them will be active in commerce, others will specialise in certain sub sectors. There should be no attempt by the project to enforce certain segments, target groups or sectors to be serviced by the providers. The actual key to success is that each providers looks for its own (niche) market.

The proposed implementation plan implies that the facilitators, after a 3 months establishing period, will be able to take 5 providers on board every three months. With 5 initial rounds, it is assumed that three provinces (one round each) and Luanda (2 rounds) will result in some 25 providers benefiting from the programme. In principle the initial choice for the provinces will be based on the expected market size (for the providers), and likely to include Luanda and either Cabinda, Benguela and Huila. The programme will be announced in all these provinces, yet final selection and order of the provinces will depend on the interest shown by the providers.

The intensive initial period will consist of both joint working/training sessions and individual coaching sessions. The joint training sessions will consist of an introduction course, followed by training sessions on coaching techniques, trainer of trainers and other topics. They will be short, flexible and participative to enable exchange of experiences. It is foreseen that there will be some 40 half-day training sessions, some combined in 3-4 days, others planned at various intervals during the three months. In between, there will be the individual coaching sessions and assistance provided for the providers according to their needs.

After the initial start up (3 months) and staggered intensive coaching periods (5 times three months per round), the coaching is continued for the duration of the programme (6 more

¹² Eg through RAMSE, the network for organisations involved in small enterprise development.

¹³ E.g. the facilitator may work with one provincial office of INAPEM and may choose not to work with another branch of INAPEM

months) to assist the providers to implement their expansion programme and to monitor their progress. During that period, if resources are mobilised, the programme could be continued to either assist more providers in the same areas or to extent to other provinces. The activity plan is provided in annex 6.

9.2 Management

The facilitator will be an autonomous entity, funded by AEP but managed by the facilitator itself. It will create its own image, not displaying its link to AEP or the funding partners. It is important that the facilitator is managed and viewed as a private entity, and not as a donor organisation. The profile of both facilitator and provider are provided in annex 8.

The facilitator will consist of two experts in BDS facilitation, one international expert (to bring in experiences from other countries) and one local expert (to bring in expertise from the Angolan industry). They will be supported by the two international consultants on a needs basis, either to set up some of the programme components, or to bring in additional expertise in e.g. delivery modes during the first 12 months.

The facilitator will set up office in Luanda, permanently manned by the two experts and one support staff. The office will be fully yet modest equipped, with minimal investments and maximal flexibility, implying e.g. that training facilities will be rented when need be. The intensive and prolonged coaching in various provinces will imply frequent and long stays in the working areas by the experts.

The facilitator will report to AEP through an inception report, three months after being awarded the contract, as well as through quarterly progress reports. The inception report will detail the methodology and work plan for 18 months, focusing on the expected results of the programme. The AEP will ensure guidance, support and feedback at regular intervals, e.g. through monthly meetings. Twice a year the facilitator will report and meet with the steering committee of the AEP.

An independent 18-month mid term evaluation will focus on efficiency and effectiveness of the facilitator and achieved results at provider's level. A post-programme impact analysis is foreseen after 36 months, i.e. 12 months after the project ending, which will focus on impact and sustainability at both provider and enterprise level.

An indicative budget is provided in annex 7.

9.3 Monitoring and evaluation

The facilitator will agree with the participants (i.e. the providers) that they strive towards transparency regarding their operations to enable proper (and at low cost) monitoring of their performance and impact.

Impact will be primarily measured at providers' level, based upon the simplified assumption that if providers are able to sell their services to the enterprises, these enterprises will grow and as such will lead to increased employment and income. The monitoring will thus be as cost efficient as possible by measuring only a few yet decisive (proxy-) indicators:

- The number of clients and/or services provided per year.
- For business associations this might also include the number of paying members.

- The number of repeated sales / customers
- The increase in turnover and/or profitability for the provider.

The providers will (as good business practice) maintain a database and include activities that will measure customer satisfaction. These satisfaction measuring levels might differ per provider, and as such a more qualitative monitoring will be done by both provider and facilitator. The planned Mid Term review after 18 months will assess the quantitative and qualitative results collected and processed by the facilitators and providers. The MTR will also include an impact analysis at enterprise level, focussing on employment creation and income generation.

The overall impact analysis after 36 months will include an assessment of the cost of the inputs, i.e. the cost of the facilitators and the providers, in relation to the increased turnover of the provider (direct effect) and the increased performance of the client (indirect effect). These indicators are then benchmarked to similar BDS facilitation projects in as far as possible. The assessment should take into consideration the various types of providers (e.g. business associations and consultancy companies) and the client segments they serve (e.g. micro versus medium enterprises).

10 Assumptions and risks

The main assumption is that the recommended measures that are to improve the overall economic environment will actually be implemented and will result in the expected growth of the economy. Besides these overall macro-economic factors, it is expected that the environment will be conducive to the enterprises and that e.g. access to finance will continue to improve.

The so called 'killer-assumption' is whether sufficient and capable providers will be interested, committed and able to participate in the programme. It is assumed that the consulting sector (coaching, training and expert advice) remains sufficiently attractive to the providers and that they will be able and willing to invest in this business, and not invest in other sectors that might be more profitable.

The proposed capacity building will be focussed on techniques and methodologies and it is assumed that the providers do have (or are able to develop) the necessary technical expertise, since the facilitator can only screen and advise, but cannot enforce.

It is also assumed that the facilitators and providers will be able to develop appropriate services that are beneficial to the potential clients and can be provided at relatively low cost, i.e. at affordable rates for their clients. It is thus also assumed that the market will positively respond to these efforts of the providers.

Last but not least, it is assumed that the market is no further distorted by donor and government interventions that provide similar services at subsidised rates, making competition by commercial (and sustainable) providers very tough.

11 Expected results

11.1 Short term

As argued earlier, the efficiency and effectiveness of the facilitator can be measured, yet the results at provider level depend on various factors outside the control of the facilitator. As such, it is expected that as (measurable) direct results one should expect:

- 25 participating providers identified,
- Some 100 staff or associates of these 25 providers trained and coached
- 25 realistic business plans developed (one by each provider)

As indirect results it is expected:

- 22 providers (85% of 25) implemented their marketing campaign
- 18 providers (75% of 25) offer more services to more market segments, resulting in increased turnover and profitability as detailed in chapter 10 (monitoring and evaluation).

11.2 Long term

One of the reasons for recommending this option is that so far little attention has been given to promote BDS in Angola. It is assumed that as a side effect, this approach might set an example to other practitioners. It is hoped that the BDS paradigm shift that has taken place in many other countries, will also take place in Angola and that donors and implementers will embrace that approach.

It is at the same time hoped that after this initial programme, the AEP and other actors, will further develop BDS facilitation programmes that should take a more sectoral approach and be broadened to include the various forms of BDS and alternative forms of providing them, besides the capacity building approach and the matching of supply and demand. Subsequent approaches should be more focussed on the constraints in the sub sector and facilitating solutions that address these changes as advocated in the IR.