

Background

TechnoServe has conducted 30 business plan competitions (BPCs) in Latin America and Africa since 2002. While BPCs have become a popular development methodology implemented by many organizations, TechnoServe distinguishes its competitions with a package combining rigorous screening and scoring from competition judges, and advancement that includes training, wrap-around aftercare and business development services. TechnoServe is also the first organization to undertake a meticulous academic study of the developmental impact of BPCs. In particular, no study had ever compared the success of participants to a credible control group, and thereby clearly demonstrated the impact of the intervention.

After seven years of running competitions, and many informal impact studies, we decided to address two key questions in a scientific manner:

- 1) What is the true impact of the BPCs?
 - How does the training involved in BPCs affect the likelihood of success of our businesses?
 - How cost-effective are BPCs in generating additional sales, capital mobilization and jobs?
- 2) How can the process be improved?
 - Are we selecting the best entrepreneurs?
 - What hurdles are our participants running into? What do they need to overcome these hurdles?
 - Are there features we can add to the program to expand its impact?

Study Design/Process

To address these questions, TechnoServe completed a full-scale study of its 13 Central American competitions in the summer of 2009, comparing the success of our participants to that of applicants that were not accepted into the program. We followed the methodology of a pilot study by Dr. Bailey Klinger, Director of the Entrepreneurial Finance Lab of Harvard University's Center for International Development. Importantly, this allowed us to control for selection bias (the bias that results from trying to select the best applicants), by including the scores given to program applications in the regression analysis, and to compare only participants with the lowest scores to the non-participants with the highest scores.

Over six weeks, four interns conducted 590 phone interviews with participants and non-participants, collecting detailed information on annual sales, capital raised, employees, and key hurdles. The data was checked on a daily basis and compared to previously gathered information from TechnoServe.

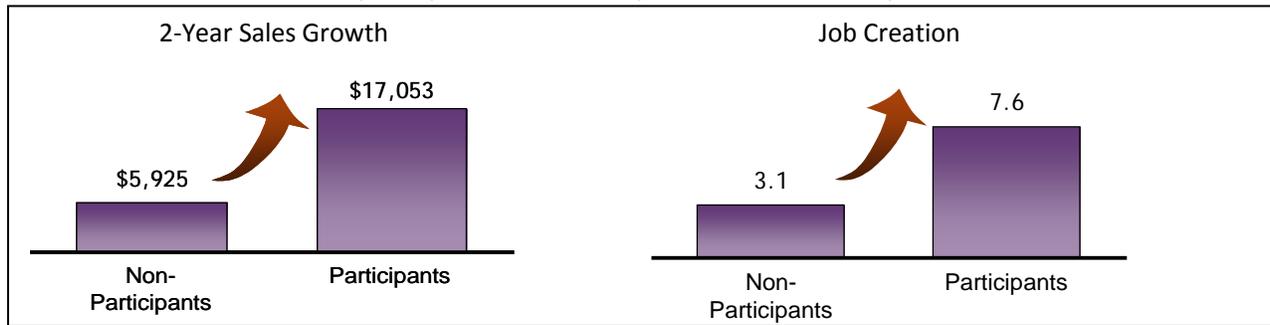
Focus groups and interviews with the entrepreneurs complemented the surveys and data analysis.

Impact

BPC participants dramatically outperformed the non-participants. The study found that relative to non-participants, participants:

- generate 2x the one-year sales growth and 2.5x the two-year sales growth;
- create nearly 2.5x more jobs over two years;
- mobilize nearly 3x as much capital;
- are 1.5x more likely to follow through on their plans to start or expand their business, and then much more likely to formalize it; and
- (amongst new businesses) are nearly twice as likely to survive two years.

Key Comparisons of Participants and Non-Participants



The analysis also demonstrated that each stage of the competition adds value. Those that completed the first round of training had more success than those similar applicants that were not accepted. Those that completed both the first and the second round had more success than those that completed just the first. The prize given to the winners, typically \$6,000 to \$12,000 in seed capital, also had a strong and consistent impact on the business success of those that received it.

Based on these results, the programs are cost-effective development tools. The analyzed BPCs generated \$3.70 in client business sales over three years for every program dollar spent and one full-time job per \$700 spent. Note that this only takes into account the sales and employment growth that can be transparently and credibly attributed to the training — it is not simply the net change in sales or jobs (which can be unrelated to participation in the BPC).

In focus groups, we learned that the BPC emphasis on creating a business plan was of great value, forcing entrepreneurs to explore and resolve key issues. Through the classroom training, entrepreneurs learned how to conduct serious market and competitive analysis, plan strategically and break into new markets. Participants repeatedly told us that the financial training allowed them to think critically about their cash management plans and explore alternative sources of capital. Receiving personal feedback on their business plans from well-respected local entrepreneurs validated their ideas and ambitions, and boosted their confidence and motivation.

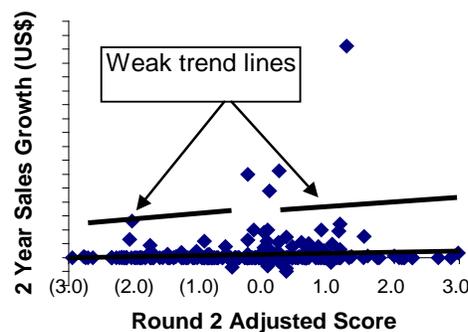
Areas for Improvement

While the study demonstrated that the BPCs have a strong impact, it also identified a number of areas for improvement. These include:

1) Selection criteria

- We saw that the scores we gave businesses, both on their applications and their developed business plans, were weak predictors of their success
- Less educated, but innately talented entrepreneurs were at a disadvantage in creating a competitive business plan

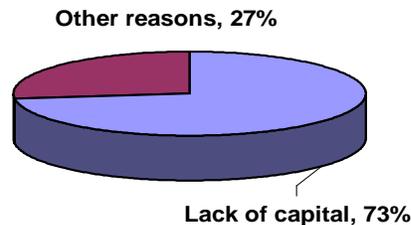
Correlation of Score and Sales Growth



2) Access to capital

- The entrepreneurs who did not have success cited lack of access to capital as the most significant obstacle

Why Entrepreneurs Failed



3) Aftercare

- Central American entrepreneurs, participating in early competitions without aftercare, expressed a desire for support after the competition. They reported that after the competition, they encountered a number of unexpected challenges, such as entering new markets, negotiating with large customers and raising capital from alternative sources. They believed that even limited support from business experts would have been extremely helpful in overcoming these challenges.
- As an example, Colombian entrepreneurs who received this support believe it dramatically improved their chances of success. (Colombia was not part of this particular study, but we have completed a pilot study in the Andean countries.) According to current analyses and projections, the ROTI (Return on TechnoServe Investment) for the Colombian entrepreneurs will be 70% higher than it was for participants in Central America.

Action Plan

In Latin America and the Caribbean, we already are implementing the following changes in our programs:

- **Test for Entrepreneurial Ability:** We are implementing a test for entrepreneurial ability designed by Harvard economist Bailey Klinger to improve our selection process. The test has three components: (1) fluid intelligence (“street smarts”), (2) entrepreneurial personality, and (3) an intuitive (not knowledge-based) business case. In the microfinance context, Klinger has demonstrated that the test is a superior predictor of the likelihood of loans being repaid than traditional credit-scoring mechanisms. His studies also suggest it is effective in predicting business growth. We expect this test, which measures a person’s talent rather than knowledge, will not only improve our selection process, but also “level the playing field” between poorly and well-educated entrepreneurs, expanding the program’s inclusiveness.
- **Cash Awards:** Commonly, entrepreneurs that lack seed capital struggle to set their business in motion. We have therefore achieved partnerships that allow us to provide access to seed capital in the form of a no-interest loan to a large pool of entrepreneurs, increasing their chances of success and allowing us to study the patterns of such success.
- **Capital Raising:** Lack of capital was reported as the greatest barrier to business success. We are developing a platform for attracting capital and providing top-up business development training for past Central America BPC participants to ensure a greater number have the opportunity to reach their potential. On a more basic level, we are reevaluating our finance training. With the help of JP Morgan., one of the sponsors of our BPC program in South America, we are rolling out a financial toolkit that offers

a guide to entrepreneurial finance, including simple guides to cash management and capital raising. The toolkit also provides a number of relevant financial model templates.

- **Aftercare:** Respondents were nearly unanimous in a desire for more support following the competition. TechnoServe's South American BPCs supported by the Multilateral Investment Fund of the Inter-American Development Bank offer finalists up to one year of light-touch ongoing services after the competition, consisting primarily of ad hoc consultancies and access to business networks. Our pilot studies there have shown that the consulting services have provided motivation and helped entrepreneurs overcome challenges. We are testing different models of aftercare to find the right balance to provide cost-effective yet comprehensive support to the entrepreneurs that can benefit most from it.
- **Gender:** Further study is needed to determine why (if) our impact varies amongst men and women.
- **Future studies:** We will integrate this rigorous analysis of our results into all our BPCs, striving to constantly learn and improve our model. For instance, it is clear that lack of access to capital is a key barrier for participants in our competitions and, therefore, seed-capital prizes can have a significant impact. It is also clear that business training and aftercare substantially increase an entrepreneur's chance of success. In order to optimize the resources of future competitions, we are going to use our upcoming Ecuador competition as a case to rigorously study the impacts of seed capital versus aftercare.