CDE Southern Africa Regional Office

Final report

For the CDE Private Sector Development Programme (PSDP) in Botswana

Prepared by the Team Leader with input from BNPC, BIH and Basenet experts in Botswana

12/18/2014

Contents

1. Context and background

Under the framework of the Private Sector Development Strategy (PSDP), the Ministry of Trade and Industry (MTI) and Botswana Confederation of Commerce, Industry and Manpower (BOCCIM), in partnership with the EU and the CDE, developed the Private Sector Development Programme (PSDP) which was launched on May 2013 in Gaborone. CDE is the implementation agency of the PSDP programme.

Local experts from Intermediary Organizations (IO) such as BITC, BNPC, BIH and BIDPA were trained through CDE patronage to undertake SME performance diagnosis using the CDE/FUNDES diagnostic tool in September 2013. Two Basenet Consulting experts were later trained to increase the pool of local experts. The tool has been tested worldwide and under the WED initiatives in Botswana and has proven to be efficient in identifying the critical leverage /improvement points of SME.

In the framework of the PSDP programme in Botswana, CDE has commissioned two IO (BNPC, BIH) and Basenet Consulting to undertake the performance audit of 70 SME active in various sectors: Manufacturing including Agro-industries, Tourism, Construction and Public Works and Information and Communication Technology. The aim is to inform future programme interventions in SME capacity building and performance improvement.

The assignment was placed under the leadership of a team leader, whose role was to ensure quality assurance, implying the assistance to local experts in the audit planning phase, remote coaching, the review and validation of audit final reports. The team leader also report to CDE progress achieved and challenges.

50 audits have been completed as of November 15th, 2014 and work is still in progress. The CDE team has requested that findings are shared at this stage as they are elaborating the interventions which should be launched in January 2015 the latest.

2. Methodology

The methodology was structured around three main activities:

1. Segmentation of the selected companies (70 SME) in coordination with the PSDP team; the aim is to match resources (local experts and their areas of competency and interest) with sectors and activities of companies to be audited with the view to achieving efficiently and increased productivity. The 70 SME were organized in four categories (A through D) based on the size defined by the level of sales revenues.

2. Affectation of portfolio to the groups of experts: BNPC is to audit companies in the Manufacturing, Agro-industries, Construction and Public Works sectors. BIH is to assess SME in the ITC and energy sectors while Basenet Consulting is allocated SME in the Agro-

industry, Hotel and Tourism sectors as well as companies located out of Gaborone and Francistown areas.

Table 1: Distribution of the portfolio to audit

Intermediary Organization	Initial number	Revised*	Completed	Remaining
BNPC	35	29	26	3
BIH	15	15	8	7
Basenet	20	22	16	6
Total	**70**	**66**	**50**	**16**

* ***These figures are extracted from the periodic reports received from the various OI.***

The initial roadmap was designed to complete the assignment over a period of 4 months (May 1st to August 31st, 2014). Delay in audit kickoff and difficulties encountered by the audit teams in programming the audits (not all SME managers support the exercise), the assignment is taking longer than planned. Completion rate as of November the 15th, 2014 is 76% (50 SME audited out of a revised portfolio of 66 SME).

3. Off-field and in-field coordination of assessment teams and report reviews. The team leader has visited Gaborone in July 2014 to support and guide the expert team. A second visit was completed in the first week of November 2014.

The team leader is supported by two local coordinators: Kagiso Kayabe (CDE) for BNPC and BIH and Madei Mangori (TIO for Botswana) for Basenet Consulting. This mechanism has been put in place to take into account lessons learned from the WED audits in conjunction with BITC Botswana.

3. Organization of an audit

In general, each audit follows 5 steps: (1) preparation and desk reviews, (2) field interviews, observations and data collection, including financial statements, (3) preliminary assessment leading to the identification of company's strengths and major week subareas, (4) validation with the company during a co-construction workshop and (5) the preparation and submission of audit report during the closing visit with the company's management.

The level of effort required depends on the size of the business, the geographic location (may required traveling) and the complexity of company's operations. In some instances, the headquarters may be geographically separated from the plant and operations may be scattered over various sites). It was estimated that a large company would required 12 man days, the equivalent of 3 consultants over 4 days while a small company may need a team of two consultants for 3 days. The following table presents a summary of level of effort required per category:

Table 2: Estimates of level of effort for SME performance audit

Category	size	Preparation	Interviews	Prelimary assess.	co-construction	Reporting	Closing visit	Total	Equivalent
A	# experts	2	3	3	2	2	2		
	# days	0,50	1	1	0,5	1,5	0,50		
	man days	1	3	3	1	3	1	12	**3 for 4 days**
B	# experts	2	3	3	2	2	2		
	# days	0,50	0,5	1	0,5	1,5	0,50		
	man days	1,00	1,50	3,00	1,00	3,00	1,00	10,50	**3 for 3,5 days**
C	# experts	1	2	2	2	2	2		
	# days	0,25	0,5	0,5	0,5	1	0,25		
	man days	0,25	1	1	1	2	0,5	5,75	**2 for 3 days**
D	# experts	1	2	2	2	2	2		
	# days	0,25	0,5	0,5	0,5	1	0,25		
	man days	0,25	1	1	1	2	0,5	5,75	**2 for 3 days**

The estimates presented in the above table do not take into account travel time which is subject to separate evaluation on a case by case basis.

4. Audit results

4.1. Progress achieved

A total of 50 companies have been audited as of November 15th, 2014:

Table 3: Audits performance as of November 15th, 2014

Intermediary Organization	Portfolio	Completion rate	Reporting rate	Efficiency rate
BNPC	29	26 (100%)	26 (100%)	26 (100%)
BIH	15	8 (53%)	8 (100%)	2 (25%)
Basenet Consulting	21	16 (76%)	16 (100%)	13 (81%)
Total	**66**	**50 (81%)**	**50 (100%)**	**41 (82%)**

Note: these figures are based on reports received up to November 15th, 2014.

The completion rate indicates the number of audits completed compared to the revised portfolio. BNPC completed a total of 26 audits (100%). BIH achieved a 53% completion rate (8 audits) and Basenet 76% (16 audits). Basenet is handicapped by logistics issues as they have to travel in-country to complete the remaining audits.

The reporting rate points to the number of reports submitted compared to the number of audits completed: BNPC, Basenet Consulting and BIH have achieved 100%.

The efficiency rate translates the quality of the reporting and is determined by comparing the number of reports approved to the number of reports submitted. BNPC has achieved the highest score (100%) followed by Basenet Consulting (81%) and BIH (25%).

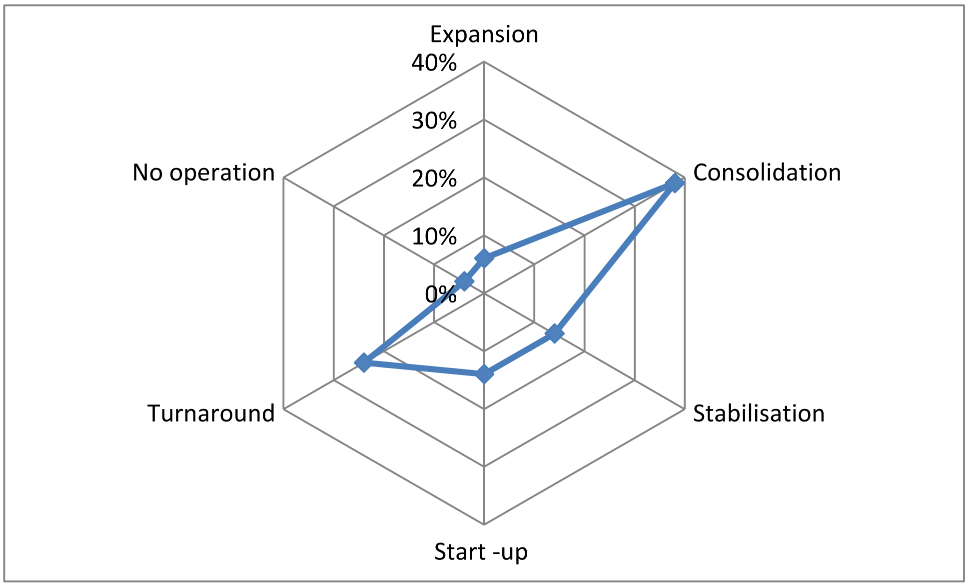
4. 2. Overall business performance of audited companies

As the end of the audit process, each company is recommended a priority intervention which indicates what the company needs to do urgently in order to get the business back on track (turnaround plan), or to stabilize the business when the growth path has been erratic (stabilization plan), or to consolidate or upgrade the company internal systems before any expansion is undertaken (consolidation plan) or to support the company's appetite for expansion (expansion plan). These proposed plans do not replace the detailed recommendations made by the team to address the gaps observed in key business areas, but are meant to indicate the current business conditions and what the company should do immediately as a follow up to the assessment.

A turnaround plan is more appropriate for companies with depleted equity base (negative net worth) as a result of cumulative losses. These companies are formerly considered in bankruptcy and are under the risk of closure.

The following figure highlights the conditions of companies audited regardless of the sector in which they intervene.

Figure 1: Overall current business conditions



A large proportion of the companies audited show potential for growth. 38% of the companies are in fair conditions but their performance is hindered by weak internal systems. Management systems are not formalized. Decision making is not informed by financial analysis. The capacity to anticipate (strategic management, information management, budgeting and monitoring on a regular basis) remains weak or inexistent. As a result, profitability is low and these companies face challenges in moving the business to the next level. To compete in an established market and improve profitability, they will require better business practices (consolidation).

6% are of the population audited is at the winning edge with sound financial situation. These companies are ready to expand (expansion plan).

14% are faced with erratic sales. These companies tend to rely on government tenders. Profit is low and cash flow is not consistent enough, preventing the company to seize new business opportunities and maintaining their productive equipment. These companies tend to stagnate unless a stabilization plan is implemented. The same proportion (14%) represents companies which are still at the infancy. Sales are not picking up. No real plant was established at the inception and financial situation is no comfortable (start-up plan).

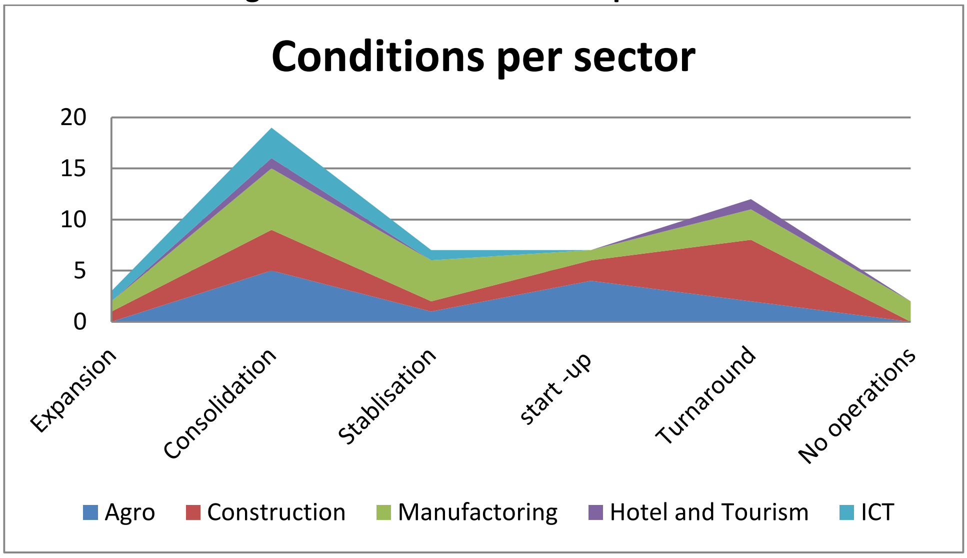
24% of the companies required drastic measures to turn the business around in order to avoid closure. These companies are faced with recurrent cash flow problems which prevent them from honoring their debts and financing their operations. Because they cannot generate enough sales and cash flow, these companies tend to live bank overdraft facility and on owner's personal resources. It was observed that companies in the group tend to use assets valuation to "cover" the negative net worth (turnaround plan).

Two of the companies audited were not operating at the time of the assessment.

4. 3. Business performance per sector

The following figure presents the situation of the companied audited regrouped per sector.

Figure 2: Business conditions per sector



The analysis is realized on 50 companies which operate in 5 main sectors: Manufacturing, Construction and Public Works, Agro Industry, Hotel & Tourism, and ICT across the country with a high concentration in Gaborone areas.

The large number of companies audited are active in the manufacturing sector (34%) followed by companies in the Construction & Public Works (28%) and in Agro Industry (24%). Companies in ITC and Hotel & Tourism represent 10% and 4% respectively.

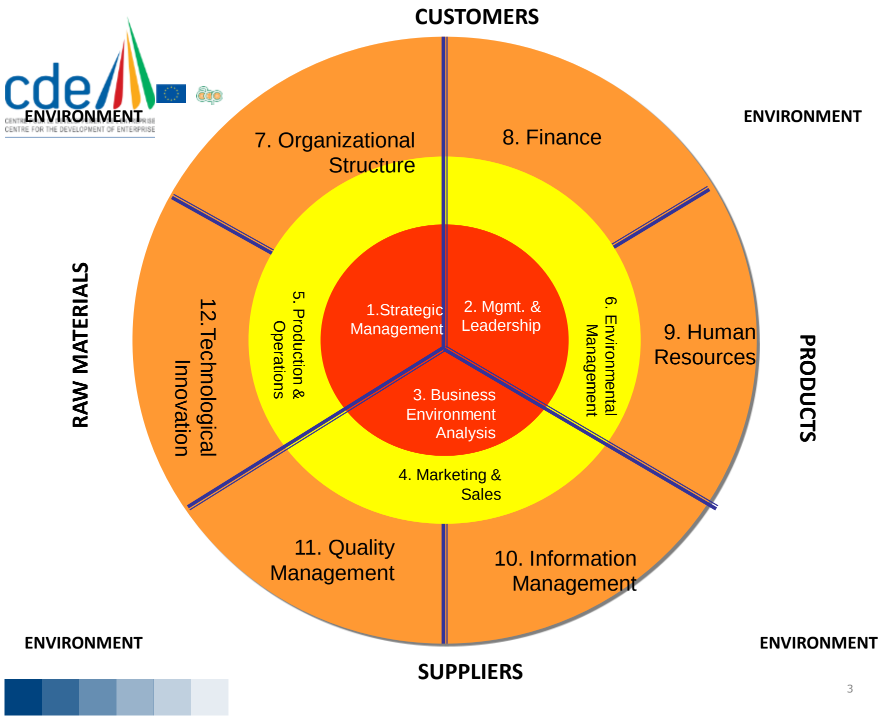
Companies in the manufacturing sector seem to be doing well with 85% of them in a positive trend (expansion, consolidation and stabilization). Companies in the Construction and Public Works show a reverse trend with 57% requiring either a turnaround strategy or the development of a start up plan to provide a clear direction to the company. The assessment reveals that most of these companies have focused on product development without a good understanding of market systems and demand, particularly from private sector segment of the market.

4.4. Business management areas needing improvement

4.4.1. Overview of the assessment tool

The model used in the diagnostic analysis considers the company at three levels: Strategic, Processes, and Support. These levels include activities that can be undertaken by a business unit which can be classified into 12 different areas. Three of these areas are grouped under Strategic Level, three others under Process Level, and six more are grouped under Support Level, as detailed below and shown in this figure:

Figure 3: Michael Porter model of business



1. STRATEGIC LEVEL (in red)
- ❖ Strategic Management Area
- ❖ Management and Leadership Area
- ❖ Understanding of the Industry

2º PROCESSES LEVEL (in yellow)
- ❖ Marketing and Sales Area
- ❖ Production and Operations Area
- ❖ Environmental Management Area

3º SUPPORT LEVEL (in orange)
- ❖ Organizational Structure Area
- ❖ Financial Area
- ❖ Human Resources Area
- ❖ Information Management Area
- ❖ Quality Management Area
- ❖ Technological Innovation Area

4.4.2. Critical areas of intervention

The audit of the 50 reveals deficiencies in 6 critical subareas regrouped as follows based on the Michael Porter model: Finance (18%), Marketing and Sales (17%), Strategic Management (13%), Human Resources (13%), Production and Operations (11%) and Quality Management (11%).

<u>At strategic level (1):</u>

- Strategic Management (13%) encompasses mission & vision, strategic objectives and understanding of business environment.

<u>At process level (2)</u>

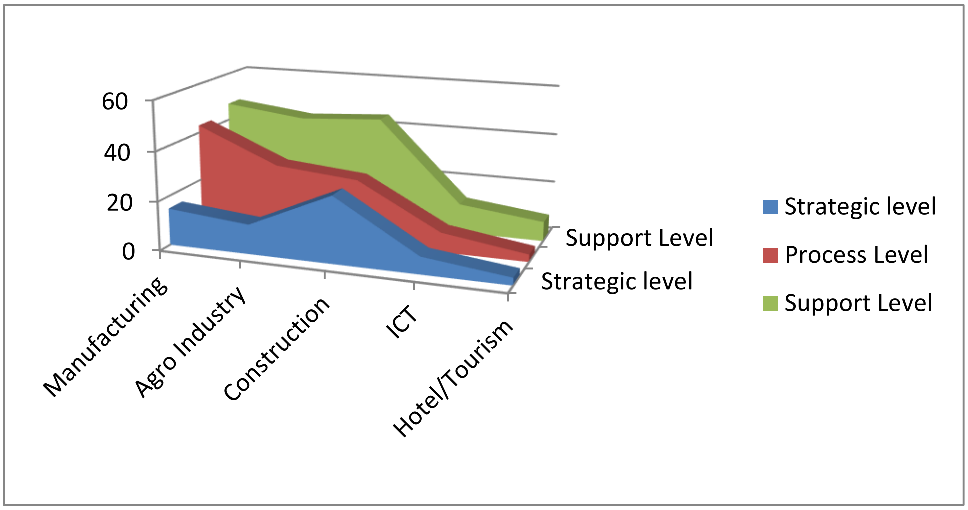
- Marketing and Sales (17%): segmentation, target market and positioning, Marketing strategy, sales management;
- Production and Operations (11%): inventory handling, plan layout (limited space for production or storage), technological level (aging machinery and equipment), suppliers;

<u>At support level (3)</u>

- Finance (18%) : cost structure, accounting records, financial administration, particularly working capital management and financing, budgeting and monthly financial production of financial statements and reporting to inform management decisions;
- Quality Management (11%): procedure, quality control and product quality;
- Human resources management (13%): personnel policy, corporate climate and personnel Motivation, staff performance management.

The following figure highlights critical areas of intervention per sector

Figure 4: Critical areas of intervention per sector



Intervention to strengthen the competitiveness of companies in the manufacturing sector should be targeted *to business process and support levels.* Companies in the construction sector tend to have weak internal systems (particularly at the process level) and lack of strategic drive. These areas should receive special attention when deciding on interventions to support manufacturing firms.

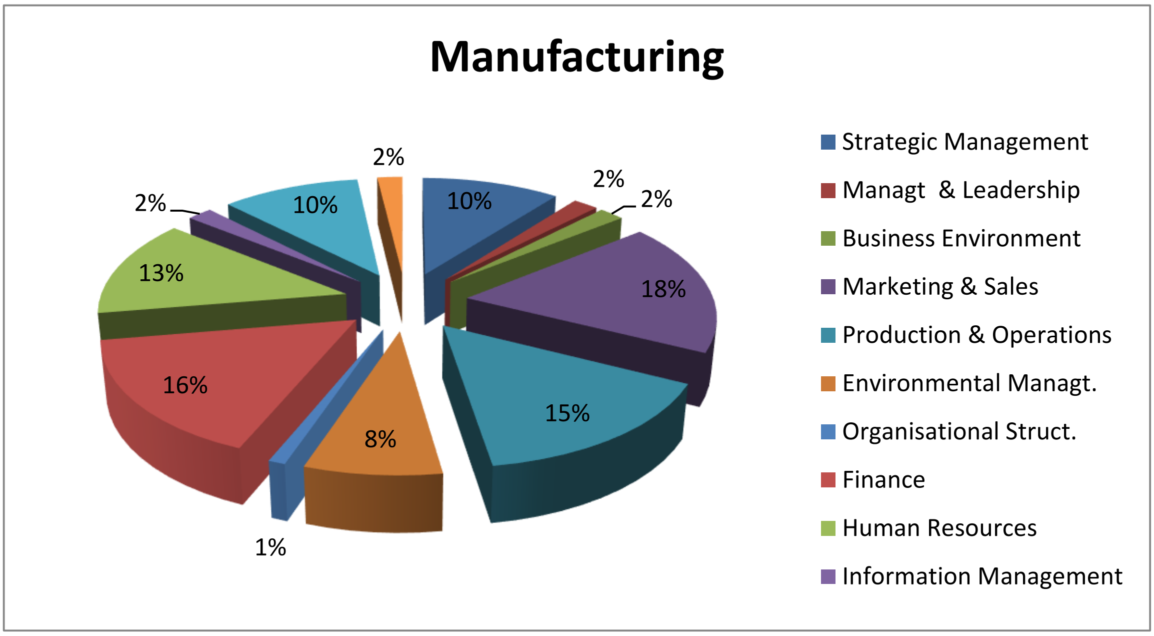
The details are captured on the results matrix attached this final report**.**

4.4.3. Results per specific sector

Manufacturing

Critical areas needing improvement for manufacturing companies are Marketing and Sales (18) followed by Finance (16%) and Production and Operations (15%). Areas regarding Human Resources (13%), Strategic Management (10%) and Quality Management (10) are also important but to a lesser extent.

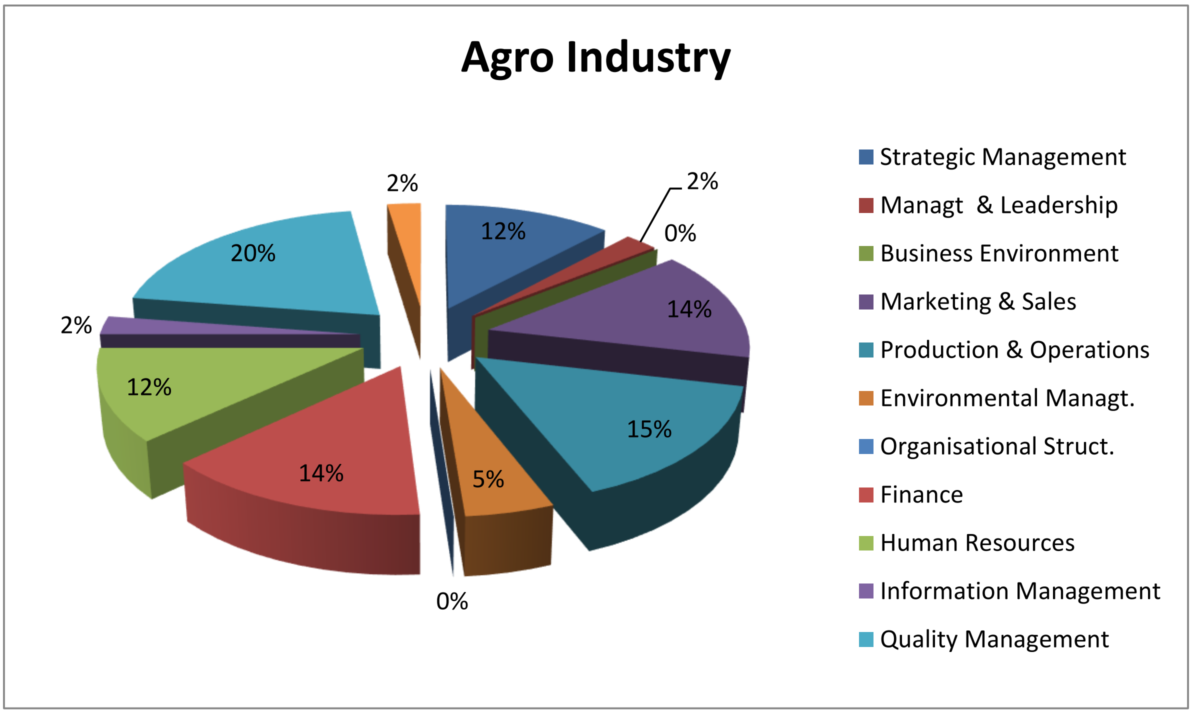
Figure 5: Results per manufacturing sector



Agro Industry

Main management challenges for enterprises in the Agro Industry are by far in the area of Quality Management (20%). These companies also face challenges in the areas of Production and Operations (15%), particularly in inventory management, Finance (14%) and marketing and Sales (14%).

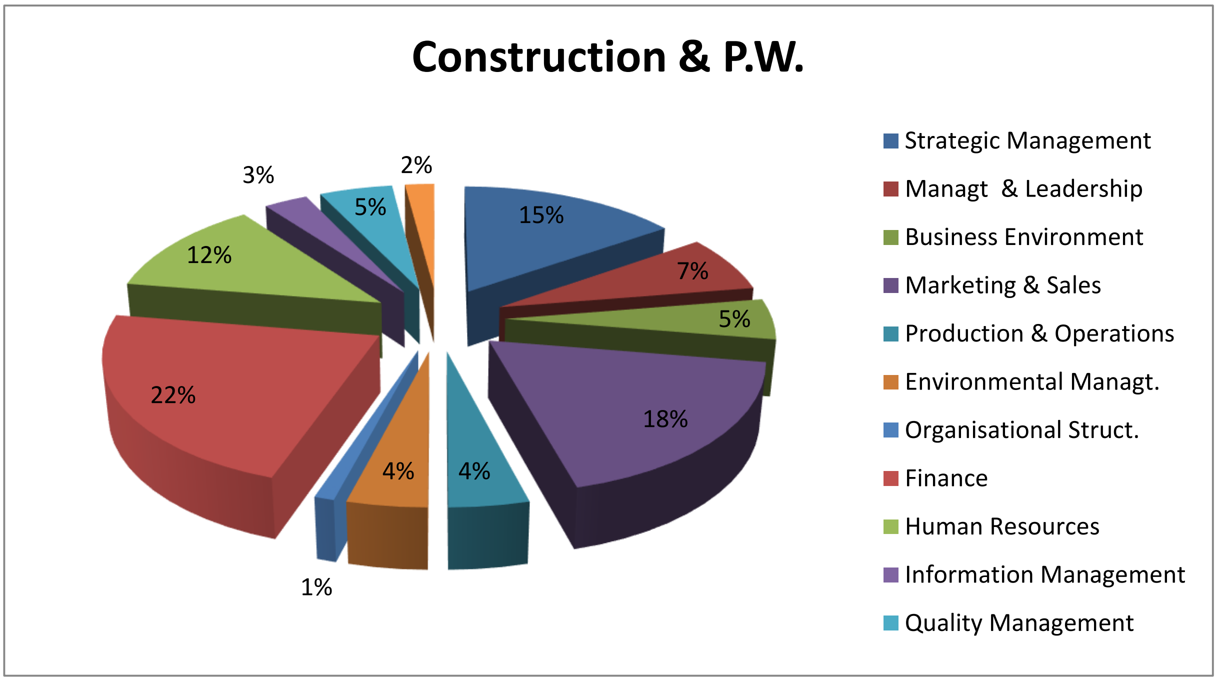
Figure 6: Results per Agro Industry sector



Construction and Public Works sector

Finance appears first on the list of challenges (22%) faced by companies in the Construction and Public Works sector followed by Marketing and Sales (18%) and Strategic Management (15%) and Human Resources (12%).

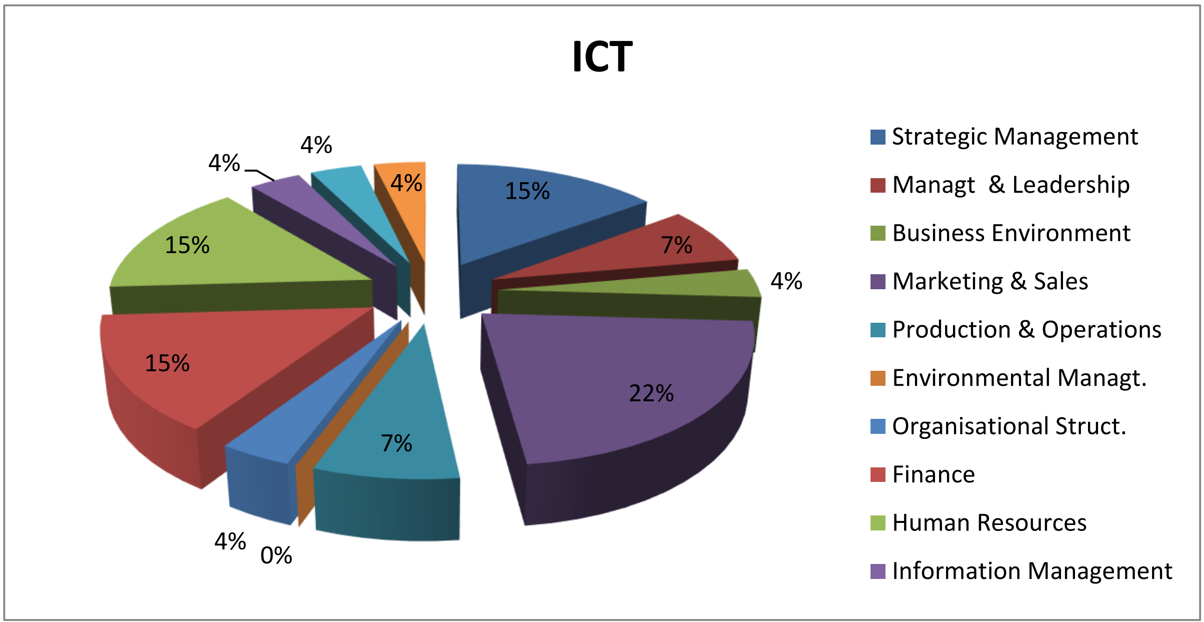
Figure 7: Results per Construction and Public Works sector



ICT sector

Main management challenges for enterprises in the Agro Industry are by far in the area of Marketing and Sales (22%). These companies also face challenges in the areas of Strategic Management, Marketing and Sales and Human Resources in the same proportion (15%).

Figure 8: Results per ICT sector

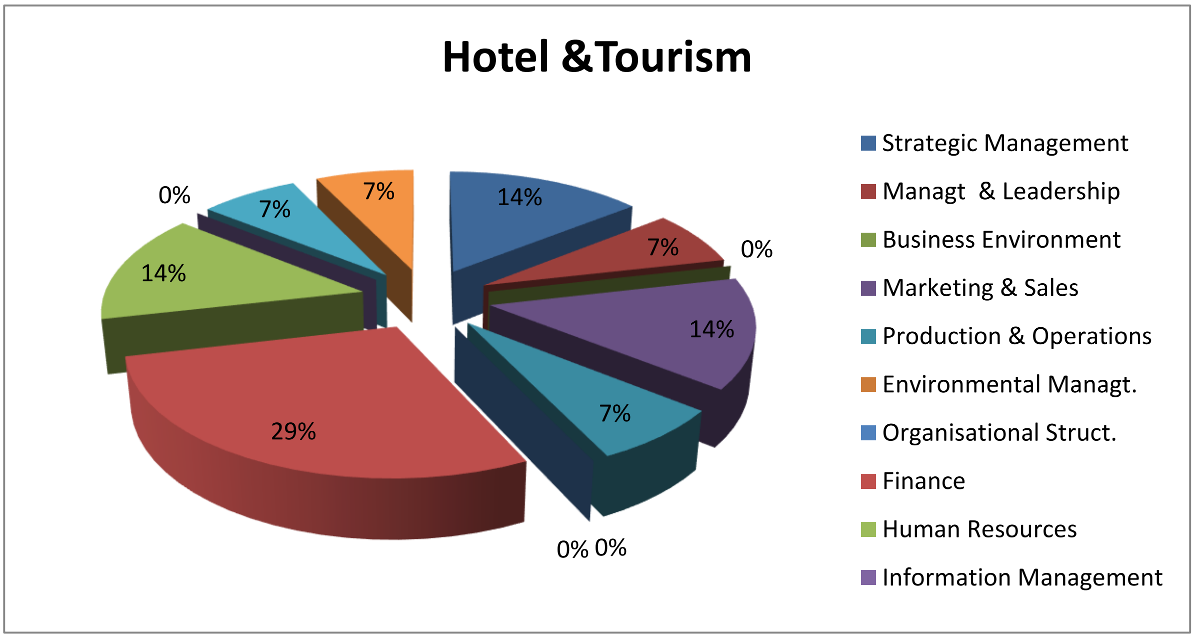


Main challenges in formal business practices are Marketing and Sales (22%) followed by Finance (20%) and Quality Management (20%). Other areas are: Strategic Management (16%) and Production and Operations (10%).

Hospitality sector

Finance is the main obstacle that hinders performance in the Hotel and Tourism sector. This refers to the inability of operators to determine their cost structure and to put in place proper financial management system to guide decision making and day to day operations.

Figure 9: Results per Hotel and Tourism



The area of business management needing immediate attention encompass marketing and sales (29%) followed by Strategic Management (14%), Marketing and Sales (14%) and Human Resources (14%).

5. Other findings

5.1. Challenges in the business environment

Companies visited have identified a number of challenges in the business environment which are hindering their competitiveness and growth. The following factors are regularly cited:

- Government drastic cuts in budget due to economy slowing down resulted in a steep decline in sales revenue for many companies especially in financial year 2012. Government plays a central role in the business ecosystem in Botswana and many SME are dependent on the government not only for funding but also expect Government to be their major customer. Government budget cuts have reduced market opportunities for many companies. These companies are not equipped to deal with private sector. This explains the recurrence of issues related to Marketing and Sales. Particularly, market segmentation, targeting and positioning are totally absent from business management practices as these companies have been dependant on government tenders which require different skills.
- The Government tender process has been cited as a very cumbersome and costly process. Controls and regulations relating to the procurement procedures imposed by the central government inhibit expansion and innovation. Besides high receivable accounts are usually associated with government contracts. Government payment terms are long (around 90 days), forcing companies to rely on bank overdraft facilities which bring high interest expenses they cannot pass on to the client.
- Companies that are in manufacturing tend to rely on imported raw materials which are generally sourced from South Africa, Zambia and China. This has an significant adverse impact on procurement costs, profit margin and cash flow. High cost of procurement coupled with low negotiation power with suppliers (because the companies are small) constitutes a structural disadvantage affecting these companies ‘ ability to achieve economy of scale (the growth is not translated into growing income) and compete with imported products from South Africa and China.
- Lack of skilled technical local labour and weak work ethics. This challenge is cited to a large extent.
- Access to affordable funds to finance growth and expansion has also been repeatedly cited s well as high interest rates.
- Companies on the ICT sector cite the low bandwidth and high Internet connectivity price as bottlenecks for their business growth.

- Sector specific regulations which may not be conducive for the business
- Obstacles to cross-border trade and export. Many companies envision expanding in the region (Electromech, NTR Technology, ICT Dyanimics, Tonybase Contracting Services, Techno Feeds, Sezi Invesments, Sebube, Power Engineering, John F. Marshall, DCDMC Group, etc) but are refrained by the lack of information and the high cost of moving into these new markets.

5.2. Strategies observed in dealing with these challenges

- Creation of subsidiaries. Many of the companies audited tend to structure their businesses in a Group/Holding with subsidiaries (e.g. Kebo Holding, Mhago Properties, Experience Count, Glover Chemical Industries, etc.). This is mainly a coping strategy to deal with cumbersome regulations on government tenders and also to mitigate business risks. The consultant teams could not ascertain if these companies are compliant with regulations and requirements, particularly the registration and the accounting of business transactions (keep separate books for each subsidiary, record related-party transactions and prepare yearly consolidated statements). Besides, the management of such business structure requires specific skills such as business strategy and portfolio management. The consultant team could not ascertain if such skills exist.
- Investment in property development. Many of the companies audited have invested in property development; e.g. NTR Technology Holdings, Scothfield, ICL Botswana, etc. This is also a coping strategy to address the low profitability in the core business. They are attracted by the more lucrative profit on property development. It was observed that they have engaged in this sector without mobilizing adequate capital and working capital. In general, company's cash flow is diverted to finance the fixed assets which require the immobilization of cash in the short to medium term until the property is sold. As a result, these companies tend to face cash constraints and heavily rely on bank overdraft facilities. In addition, proper accounting system for property management is not in place. This translates into financial statements which are not reflective of the current situation; e.g. Mhago Properties.
- Companies which have successfully penetrated the regional market seem to be doing better and show steady growth; e.g. Gabs Bedding, First Polymers / Sunita Cables, etc.
- Other business strategy is the integration model: combining two or more activities which are integrated and support each other; e.g. animal feeds and agriculture equipment assembly for distribution and provision of machinery services.

6. Conclusion and recommendations for interventions

Most companies audited lack expertise or skills in the areas of strategic management, understanding of private systems and mechanisms, and financial literacy.

Marketing and Sales and Finance cross over all sectors and constitute the main leverage points for any follow-up interventions in terms of capacity building. Marketing and Sales appears as top priority for all sectors except the Construction & Public Works and Hotel & Tourism sectors whose development is held back by severe deficiencies in finance, particularly in the areas of product costing and pricing.

Table 4: Summary of priority subareas by sector

Business Sector	Challenge # 1	Challenge #2	Challenge #3
Manufacturing	Marketing and Sales	Finance	Production & Operations
Agro Industry	Quality Management	Production & Operations	Marketing and Sales /Finance
Construction and P.W.	Finance	Marketing & Sales	Strategic Management
ICT	Marketing & Sales	Finance	Strategic management/ Human Resources
Hotel & Tourism	Finance	Marketing & Sales	Strategic Management Human Resources

Note: two subareas are listed in a column when their score is the same.

Market segmentation, targeting and positioning has been highlighted as the weakest subareas for all sectors. It implies understanding the market, defining various segments using clearly identifiable criteria and targeting those with growth potentials and developed differentiated marketing strategy (treating each market segment differently using the instruments of the strategy (product, price, promotion and place) to position the company in each targeted segment. The articulation between marketing and Sales should also constitute the core of any interventions which aim at reinforcing the capacities of business managers in marketing and Sales as they are recurrent throughout the audits.

Proper bookkeeping, financial administration, product costing and pricing to secure adequate margin, as well as working capital management (stock, account receivable, account payable and cash) are the main topics to focus on for any capacity building interventions in finance for business managers. Most often, financial statements are prepared to meet legal and fiscal obligations. Barely, they are used to inform decision making to improve current operations or future investments of the company. They are not reviewed by management and they are marked with numerous inconsistencies.

Quality management is also decisive for companies in Agro Industry and Manufacturing. Interventions should focus on product certification with BOP and the establishment of best practices in manufacturing and food safety.

Strategic Management enables company to focus on where to go and how to get there and step by steps and allocate resources efficiently. It also assists the company to align strategic objectives with structure and operations leading improved performance and return on investment. Very few companies have a roadmap, even those that are in growth phase and envision expanding in new markets. These aspects should be addressed in the capacity building program. Upcoming training in business management might be extended to cover business strategy and portfolio management as a response to many companies creating subsidiaries to cope with many challenges in the business environment.

Production and operations are key leverage points and encompasses inventory management and production planning in conjunction with the marketing and sales unit. Such system enables speedy delivery and increases company's ability to capture new opportunities as they come.

Human resources management is also decisive. It entails setting a policy which promotes and value performance, participation of staff and transparency in rewards and sanctions and a sense of belonging. It is also related to delegation system in the company. It was observed that companies at the growth phase lack strong line managers and because of this gap, the business cannot properly function in the absence of managers. Putting in place an effective system requires skills, time and resources. As companies are poised by short term return, they tend to refrain from investing (train, align competencies and responsibility with resources and autonomy in decision making and evaluate performance) in their human resources. As a result, turnover is high and productivity is low and the business cannot progress to the next stage. Future interventions should integrate this aspect of the business for companies in the growth phase.

Lastly, Botswana companies have a high appetite for expansion into the regional market as a strategy to grow and enhance profitability. CDE should consider joining efforts with BITC to facilitate access to these markets; e.g. market information, trade mission to identify distribution partnership, or establish a branch in the host country, etc.

The capacity building program may combine group class-room training and on-field coaching to assist business owners and management in implementing priority interventions recommended by the consultant teams.

7. Perspective for the Diagnostic Tool in Botswana

The CDE diagnostic tool has been widely used in Botswana by various intermediary organizations and implementation partners of the PSDP project in Botswana: BiH, BITC, BNPC and recently CEDA and LEA. Private BDS providers such as Basenet have also been utilizing the application and the methodology. They have been trained by CDE Botswana. Skills have been developed and experts trained who have participated in the WED and PSDP initiatives are willing to expand the use of the diagnostic tool beyond the CDE PSDP project on a commercial basis and sustain the product in Bostswana.

To respond to this move, I would suggest putting in place an *formal accreditation mechanism* implying a transparent process and a reputable institution approved by CDE to run the Diagnostic accreditation for experts. Here is the layout of the proposed scheme:

First, we will need from the IO who sponsored the expert (BITC, BNPC, BiH and potentially CEDA and LEA as well as Basenet Consulting), *a statement indicating for every expert*:

a) The level of effort (number of audits the expert has participated in and the role played and estimate of number of hours for each audit)
b) An assessment of each expert (areas of competencies and areas of management where they need to be reinforced). An expert may be very good in quality management and may not have contributed much in Marketing and Sales and Finance or Business Strategy.

Second, CDE will undertake the gap bridging for local experts. CDE will use this grid to propose few core training modules (strategic management, marketing and sales, industrial management, quality management, Financial analysis, etc.) to provide complementary training for the expert. The itinerary for each expert will be developed based on assessment conducted in b). I am hoping that we can get some support through PSDP as they will soon launch a series of training for entrepreneurs. We can get the same implementer/firms to provide specific modules for consultants.

Third, selection of a reputable institution to run the accreditation system. BNPC is a strong candidate. Their core mission is productivity development and they have embarked in the PSDP audits because they are willing to better support private sector in Botswana and they are eager to acquire tools and skills that will provide them the needed edge. CDE can further investigate before selecting a technical implementer.

If successful, CDE Botswana can claim the initiative as a unique experience in sustaining the CDE diagnostic tool in the sub Saharan Africa