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Stumbling Blocks for OVO-supported projects

Embarking on the journey of entrepreneurship is fraught with challenges worldwide, with companies encountering numerous stumbling blocks in their pursuit of success. Through insightful discussions with our dedicated local follow-up teams, we have identified and categorized the challenges faced by a total of 60 ongoing and defaulted loans in our four focus countries (Uganda, Rwanda, Senegal and Benin). These challenges are classified into six distinct areas, offering valuable insights into the obstacles encountered by OVO-supported projects.

1. Operational Stumbling Blocks
2. Managerial Stumbling Blocks
3. Communicational Stumbling Blocks
4. Market segment-specific Stumbling Blocks
5. External Stumbling Blocks
6. OVO-related Stumbling Blocks

The purpose of this exercise is to enhance OVO's operations and bolster the performance of the projects it supports. By identifying and resolving these stumbling blocks, we strive to reinforce our monitoring and evaluation process so we can optimize our dedication to sustainable entrepreneurship and provide African companies with the necessary knowledge and resources to surmount obstacles.

1. Operational Stumbling Blocks

Operational stumbling blocks present formidable challenges for African SMEs supported by OVO, significantly impacting project execution and long-term sustainability. Among the identified hurdles, technical issues and low efficiency afflict 20% of OVO projects, hampering smooth operational processes and hindering productivity. In some cases, there is a lack of mechanical expertise or investment opportunities to address these technical issues. OVO addresses these challenges by matching business coaches or experts with projects, tailored to the specific needs of the companies. For instance, our collaboration with Engineers Without Borders provides additional expertise to projects in need. Licensing issues can also pose significant challenges. Projects in sectors such as healthcare often require specific licenses to operate, as exemplified by a Rwandan project unable to commence operations due to licensing issues since 2021. In response, OVO has implemented stricter compliance procedures to ensure better performance. Additionally, the lack of product differentiation might present a hurdle for SMEs, constraining market competitiveness and impeding growth potential. These challenges underscore the importance of tailored support and strategic interventions to empower SMEs in overcoming operational hurdles and driving sustainable growth.

Ensuring responsible financial management is indispensable for all companies, yet we observe a notable proportion of our portfolio encountering financial obstacles. Among these, the most prevalent issues are the absence of an accounting system and challenges in spending prioritization. While many SMEs possess a deep understanding of their business operations, they often lack proficiency in financial management, leading to cash flow difficulties. The primary stumbling block identified is the absence or infrequent utilization of an accounting system. In response, OVO and our local partners are actively providing financial training and assisting in the implementation of an online bookkeeping system known as ODOO. Moreover, within the realm of financial structure, sales-related hurdles compound operational challenges with inadequate sales revenue and payment collection difficulties affecting 30% of our loan portfolio. Additionally, challenges in market penetration and unclear target market focus further impede sales efforts.

The reliance on major contracts, grants, suppliers, and seasonal shifts adds complexity to operational strategies, impacting numerous projects. Dependence on major contracts emphasizing the need for diverse revenue sources and strategic alliances. Similarly, reliance on grants, suppliers, and seasonal fluctuations highlight the importance of reducing dependencies and fostering adaptability. These challenges are intertwined with SME's business models and the growth phases of OVO-supported projects. Another pervasive factor contributing to the aforementioned stumbling blocks is the prevalence of start-ups among OVO's facilitated loans, constituting nearly one-third of the projects. Following insights gleaned from initial Boost Camps, OVO recognized that start-ups often lack readiness for the specific loan structures facilitated by OVO. Consequently, a criterion was established mandating that projects seeking inclusion in the OVO trajectory must have been operational for more than two years.

2. Managerial Stumbling Blocks

The individuals or team responsible for shaping and executing the business model are just as crucial as the company itself. A substantial 40% of all projects grapple with over-reliance on a single individual, hindering effective delegation and decision-making. Often, these one-man show projects are intertwined with other managerial stumbling blocks, creating a recipe for failure. For instance, inadequate leadership skills hinder effective planning and execution in 10 projects, while a limited understanding of financial and market dynamics negatively impacts the decision-making process. Similarly, poor governance practices can have detrimental effects on the business. Additionally, 8 projects face challenges due to the absence of local operational oversight, hampering effective project management. Cumbersome bureaucratic processes further hinder agility and innovation in certain projects. Moreover, the personal health of entrepreneurs has historically affected projects supported by OVO, particularly in cases where businesses rely heavily on a single individual. This vulnerability is directly linked to the "one-man show" stumbling block mentioned earlier. When a business is dependent on one individual, any personal health issues they encounter can pose significant challenges to the project's continuity.

The personality traits and attitudes of the entrepreneur significantly influence project performance. Across various projects, a deficiency in entrepreneurial drive and initiative hampers overall progress, while a lack of collaboration from the entrepreneur impedes effective partnership development in others. Moreover, inconsistency in engagement and direction from the entrepreneur impacts project progress and strategic alignment. In rare cases, the sudden absence of the entrepreneur jeopardizes project continuity and sustainability. Overall, we observe that managerial stumbling blocks often coincide with projects facing the most difficulties. Addressing these challenges requires targeted interventions in the project selection process, focusing not only on the business but also on the individual behind the business.

3. Communicational Stumbling Blocks

Almost 50% of our projects report instances of non-transparent communication. Clearly this is one of the primary challenges we encounter in the project follow-up. Non-transparent communication undermines our efforts to maintain a trust-based relationship with our entrepreneurs. OVO should be seen not as a strict controller but as a partner that supports growth and offers solutions, especially when a project encounters problems. This lack of transparency restricts our ability to provide the necessary support for our OVO projects, affecting the dynamic between entrepreneurs, their business coaches, and OVO. Another communicational stumbling block are poor reporting practices. The impact of inadequate reporting practices extends beyond the follow-up of OVO. It undermines investor trust, constrains project tracking across managerial, financial, and impact-related dimensions. Additionally, comprehensive reports offer entrepreneurs a holistic view of their projects, providing valuable insights into their businesses. Addressing these communication challenges necessitates promoting transparency, establishing clear communication channels, and implementing structured reporting mechanisms to foster accountability among project stakeholders. Support from our local teams and business coaches is vital in persuading entrepreneurs about the importance of transparent communication, reports and encouraging adherence to best reporting practices. With the essential presence of our local teams, we have observed a significant enhancement in communication frequency and the quality of reports. This improvement stems from their concerted efforts in underscoring the significance of communication and reporting. The synergy between centralized coordination in Belgium and the local teams' on-the-ground presence fosters a dynamic intercultural blend, allowing all stakeholders to derive mutual benefits and opportunities for learning.

4. Market segment-specific Stumbling Blocks

As OVO maintains a sector-neutral stance, our loan portfolio encompasses projects operating across diverse markets. However, specific sector characteristics can present significant challenges, impacting project viability and growth prospects. For instance, certain projects operate in challenging markets characterized by limited access to resources, unstable economic conditions, or stringent regulatory environments. For example, two Ugandan projects in the mobile application sector face regulatory hurdles and intense competition, necessitating innovative approaches to overcome market challenges effectively. Unfortunately, one of these Ugandan companies couldn't surmount these obstacles, ultimately leading to the bankruptcy of the company. Similarly, the food sector poses challenges due to high competition levels, resulting in pricing pressures and reduced profit margins. A Rwandan company successfully navigated this competitive landscape by offering a unique value proposition, delivering fresh products from small rural farmers directly to customers, thereby distinguishing themselves from competitors. Addressing these market segment-specific stumbling blocks requires tailored strategies, comprehensive market analysis, and strategic positioning to enhance project resilience and capitalize on emerging opportunities. The experience and expertise of our local teams, business coaches, and experts play a vital role in navigating these challenges and devising effective solutions.

5. External Stumbling Blocks

The Covid-19 pandemic, with its disproportionate impact on Africa compared to Europe, significantly affected OVO-supported projects, aligning with global trends. Nearly all older projects in our portfolio experienced substantial disruptions, with some forced to cease operations entirely. Many projects continue to grapple with hindered growth and lingering consequences. For instance, a Ugandan project operating a modern chicken farm, reliant on egg sales for profitability, faced immense challenges during the pandemic. Travel restrictions prevented them from selling products in neighboring villages, leading to a drastic drop in egg prices and ultimately halting business activities after a viral outbreak among their chickens.

External factors, such as natural disasters like whirlwinds, can also disrupt project infrastructure in certain countries. To mitigate such risks, OVO emphasizes the importance of insurance and risk management policies to safeguard project sustainability. Additionally, the political situation in a country can impact project performance. For instance, upcoming elections can influence the financial market and hindered economic growth, thereby affecting project operations in the region.

Fluctuating currency rates can significantly impact the loans facilitated by OVO. Loans are collected in euros and converted into the local currency, which exposes entrepreneurs to exchange rate risks. If the conversion rate changes over time, it can increase the repayment burden for the entrepreneurs. A pertinent example is the Rwandan Franc, which has depreciated by more than 20% since June 2020. This depreciation means that loan repayments, when converted back to euros, become more expensive for the local entrepreneurs, thereby adding an additional financial strain on their businesses.

6. OVO-related Stumbling Blocks

The last category of stumbling blocks encompasses challenges specifically related to OVO. Within OVO, we are aware that there must be clear frameworks and guidelines for Business Coaches, and that we have to continuously improve and evaluate our operations. Effective guidance and mentorship from business coaches play a crucial role in the development and success of entrepreneurial ventures. However, challenges can arise when the involvement of a business coach is not optimal. 20% of the projects reported issues related to the stopped involvement of the business coach, disrupting communication between the entrepreneur and OVO and sometimes resulting in the loss of valuable expertise. Conversely, some projects faced challenges due to excessive involvement from business coaches who tried to steer the project too much according to their preferences. Entrepreneurs might tell us what we want to hear and follow coaches' ideas to increase their chances of securing a loan. This situation can lead to confusion for the entrepreneur if business coaches do not align with OVO's or the entrepreneurs perspective, complicating OVO's role and potentially affecting investor attitudes. These challenges underscore the importance of maintaining a balanced and supportive relationship between entrepreneurs and their coaches to maximize the benefits of mentorship while ensuring autonomy and ownership of the venture.

Additionally, the terms and specifications of loans provided to entrepreneurial ventures are critical for their financial sustainability and growth. Challenges related to loan specifications often arise, particularly when projects suddenly have to repay significant capital tranches after first receiving a grace period. Some projects reported challenges associated with working capital loans, as small obstacles can affect entire operations and rapidly deplete working capital. Addressing these challenges requires clear communication, transparent terms, and tailored loan structures that align with the unique needs and capabilities of each venture, fostering financial stability and growth. Establishing realistic repayment schedules from the outset is essential, prioritizing sustainable growth over rapid loan repayment. Feasibility should be emphasized over speed, as demonstrated by the fact that 80% of loans open for more than a year required rescheduling, underscoring the importance of ensuring loans are manageable within the project's operational capacity. An important lesson learned is to avoid extending grace periods that are too long.

Moreover, it's worth noting that in certain instances, business coaches have been observed to enforce loans on projects and push them through, regardless of potential future consequences. Such actions can lead to problems down the line, emphasizing the need for careful consideration and alignment between all parties involved in the decision-making process.

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Annex: Frequency Emerging Challenges

Frequency Criteria
Identifying Stumbling Blocks for OVO-loans

1. OPERATIONAL STUMBLING BLOCKS

1.1. Production problems
- 1.1.1. Technical issues: 9
- 1.1.2. Low efficiency: 3

1.2. Set-up problems
- 1.2.1. Licensing issues: 2

1.3. Financial structure
- 1.3.1. Spending prioritization issue: 4
- 1.3.2. Lack of an accounting system: 9

1.4. Product specifications
- 1.4.1. Lack of product differentiation: 1

1.5. Sales model
- 1.5.1. Insufficient sales revenue: 16
- 1.5.2. Unclear target market focus: 1
- 1.5.3. Market penetration challenges: 4
- 1.5.4. Difficulty collecting payments: 8

1.6. Business model
- 1.6.1. Start-up: 16
- 1.6.2. Dependence on big contracts (including government contracts): 7
- 1.6.3. Dependence on grants: 8
- 1.6.4. Dependence on suppliers: 5
- 1.6.5. Seasonal dependence: 10
- 1.6.6. Scaling-up strategy challenges: 2
- 1.6.7. Innovation branch inefficacy: 1

2. MANAGERIAL STUMBLING BLOCKS

2.1. Entrepreneurial management
- 2.1.1. One-man show: 24
- 2.1.2. Weak management skills: 10
- 2.1.3. Non-sufficient financial knowledge: 4
- 2.1.4. Non-sufficient market knowledge: 6
- 2.1.5. Poor governance practices: 9
- 2.1.6. No boots on the ground: 8
- 2.1.7. Bureaucratic structure: 3

2.2. Personality of the entrepreneur

- 2.2.1. Low involvement entrepreneur: 2
- 2.2.2. Lack of entrepreneurial spirit: 12
- 2.2.3. Shifting focus: 3
- 2.2.4. Entrepreneur disappearance: 1
- 2.2.5. Non-collaborative attitude: 4

3. COMMUNICATIONAL STUMBLING BLOCKS

3.1. Communication Issues:

- 3.1.1. Non-transparent communication: 26
- 3.1.2. Poor reporting practices: 9

4. MARKET SEGMENT-SPECIFIC STUMBLING BLOCKS

4.1. Sector Challenges

- 4.1.1. Operating in challenging market: 7
- 4.1.2. Competitive market: 5

5. EXTERNAL STUMBLING BLOCKS

5.1. Health

- 5.1.1. Personal health issues: 2

5.2. External factors

- 5.2.1. Covid: 11
- 5.2.2. Forces of nature: 3

6. OVO-RELATED STUMBLING BLOCKS

6.1. Business coach

- 6.1.1. Stopped involvement of business coach: 11
- 6.1.2. Too close involvement of business coach: 5

6.2. Loan Specifications

- 6.2.1. Working capital loan: 5
- 6.2.2. Discrepancy loan amount and repayment period: 4
- 6.2.3. Difficult loan structure: 4