

OEG *Findings*

May 5, 2003

AN EVALUATION OF THE AFRICAN MANAGEMENT SERVICES COMPANY (AMSCO)

DFC, a consulting firm based in London, U.K., conducted this 2002 study for the Operations Evaluation Group of the International Finance Corporation (IFC) and on behalf of the donors funding AMSCO. This is one of four evaluations of individual SME facilities that are part of an overall study of IFC's facilities. IFC's Operations Evaluation Group (OEG), an independent unit that reports to IFC's Board of Directors, is responsible for the post-evaluation function within IFC. OEG's work aims to: (i) help provide accountability for achievement of IFC's objectives; (ii) identify lessons from past experience for improving IFC's operational performance; and (iii) help reinforce corporate objectives and values among staff.

Private companies in Sub-Saharan Africa confront enormous obstacles in their efforts to become sustainable enterprises capable of competing in international markets. Among the challenges are attracting and retaining competent managers, particularly expatriate managers who are often reluctant to accept positions in Africa.

To help meet this need, The African Management Services Company (AMSCO) was established in 1989 by the International Finance Corporation, the United Nations Development Program and the African Development Bank, with the support of international companies and donor institutions.

AMSCO identifies and hires experienced expatriate managers. It then assigns them to client companies for one to three years, with salaries subsidized at smaller companies. These managers take on the status of UN experts, with the associated benefits of tax exemptions, automatic work permits, duty free importation of household goods and participation in UN security systems in cases of emergencies. To prepare the companies for life after the departure of these expatriate managers, AMSCO also develops and carries out client-specific training programs to improve the performance of client company staff.

AMSCO policy is to charge clients a mark-up of around 15% over the direct costs of employing seconded managers, with more expected from larger companies and with smaller companies obtaining subsidies. Donor funds were provided to help cover costs.

As of 2001, AMSCO had undertaken operations in 28 countries.*

Mission and Method

AMSCO remains an experiment and has been subject to numerous adjustments and readjustments. It has decentralized, setting up regional offices in Africa. It has redefined its focus. Initially the program was designed to provide managers for medium sized companies and larger joint venture companies with substantial African ownership. In 1997, its mission was refined to focus on small and medium sized enterprises (SMEs) with African ownership.

To some extent, AMSCO's mandates are at odds. The companies AMSCO can most help are, by definition, most in need. Yet AMSCO is supposed to become self-sustaining based on fees and bonuses from these very clients. Its economic context—most of the countries in which AMSCO

operates have small economies and slow economic growth, yielding limited opportunities-- is at best challenging.

Due to cumulative losses and recent declines in donor funding, AMSCO is now constrained in its ability to finance ongoing operations. The evaluation described here was intended in part to help guide donor decisions on further funding.

This summary presents only highlights of a detailed 110-page study, available at www.ifc.org/oeg. The evaluation, carried out in 2002, was based on interviews with 107 companies and 85 seconded managers, records analysis, and interviews with AMSCO management. It covers the period 1995-2001. Client companies that no longer exist, could not be located, or refused to be interviewed were not surveyed, most likely giving a positive bias to the survey results. This may be partially offset by the fact that 58 companies were too difficult or expensive for evaluators to visit. Because of their locations, they may have been in greater need of AMSCO's services and may have reported a greater impact.

Striking Successes

AMSCO has assisted some 250 companies. Of those surveyed and responding, about half credited AMSCO assigned managers and AMSCO training with improving their overall performance and, in some instances, their profitability.

Using two different approaches, the evaluation estimated that clients visited for the study realized sales on average about 40% higher and net profits on average \$0.4 million higher than they would have without AMSCO's assistance. Most surveyed said they have changed business practices as a direct result of AMSCO participation. AMSCO's contributions to training of managers were especially useful, they reported.

These perceptions of performance were generally supported by other analysis. The team found, for example, that the economic benefits to some clients exceed the total subsidies for all clients.

There were some striking success stories, such as an agribusiness venture that AMSCO-seconded managers helped restructure from fruit production, which had become uncompetitive, to a profitable flower business.

The need and demand for AMSCO's services were strong. The overall package it offered was unique and otherwise unavailable. Clearly it filled a gap.

Substantial Shortcomings

However, the evaluation found significant deficiencies in AMSCO's operation. Some, as will become apparent, lessen the favorable portrayal above. Some obstruct AMSCO's economic development mandate. These areas require attention and are at the heart of the evaluation team's recommendations.

- *Client Base:* AMSCO's client base included too many companies that appeared to have little or no need for its services. These tended to be larger foreign-affiliated companies capable of finding their own managers and likely to provide training on their own. Too many exhibited a modest interest, if any, in the substantive services AMSCO provided and an overwhelming interest in the financial benefits AMSCO confers, particularly the tax exemptions. Providing assistance to such companies generates more reliable fees for AMSCO but contributes minimally to economic development.
- *Manager Rebadging and Wholesaling:* In too many instances, client companies did not actually use new managers hired for them by AMSCO. Rather, they relabeled (or rebadged) existing managers as AMSCO seconded managers. Rebadging contributes nothing to economic development. It has been condemned by IFC and at least two host country governments. Yet AMSCO has continued the practice in a few companies. Rebadging is closely, though not exclusively, linked with foreign affiliated companies.

AMSCO also "wholesaled" too many managers. It deployed larger numbers of managers to a

smaller number of client companies. In 38 companies, AMSCO seconded five or more managers, and in one company it seconded nineteen. Some 70% of the secondments were for positions below top management levels. Again, while increasing fees to AMSCO, this frustrates the mandate of providing chief executives and senior managers.

- *A Lot from a Few:* As noted above, overall profitability was good. But the good was concentrated in a relatively small proportion of AMSCO's clients-- the top quartile. The bottom quartile of AMSCO clients reported no impact or a negative impact from AMSCO's assistance. And importantly, over 50% of the aggregate improvement in sales attributed to AMSCO's services came from companies with rebadged managers.

- *Premature Terminations:* Roughly 30% of AMSCO's corporate contracts and 24% of its contracts with seconded managers were terminated prematurely. The most common reasons for termination related to default in the payment of fees by client companies or withdrawal of the seconded manager, based either on the decision of the manager or the client.

Some of this was inevitable in the context of the difficulties of operating in Africa. But premature termination also reflected deficiencies in AMSCO's client and manager selection.

- *Client Viability:* The evaluation found that AMSCO was insufficiently alert to viability issues among potential client companies. The evaluation team's sample of ten project proposals, for example, showed that none of the documents provided adequate information or reasoned judgments about the viability of the prospective client's business. Discussions of potential risks were perfunctory and superficial. For a closer look, the core evaluation team visited 27 companies in Ghana, Kenya and Mali. It found that in 20 companies, performance was significantly better than it would have been without the assistance of AMSCO. Yet of the 27, only 10

appeared likely to meet the AMSCO objective of remaining viable after the departure of the AMSCO manager. Since AMSCO's mandate is to help companies become self-sustaining, this high level of instability is troubling.

- *Overstaffed Underproductive:* AMSCO itself appeared overstaffed and underproductive. Premature contract termination was a contributing factor as AMSCO staff devoted substantial amounts of time to contracts that dropped out of its portfolio. AMSCO attributes the decline in staff productivity during 1998-2001 to decentralization to regional offices. Indeed, the field survey raised questions about the benefits of regionalization. Only 38% of AMSCO's clients believed that regional offices had strengthened AMSCO's contribution to their companies.

- *Unremunerative Activities:* As noted in the introduction, AMSCO is having trouble sustaining itself financially and donors' multiple priorities make the task of achieving financial sustainability more difficult. At donors' urging, for example, AMSCO has adopted a policy to have SMEs be at least 70% of their clients. Such companies are less profitable for AMSCO. Further, AMSCO has regionalized in accordance with donor wishes, establishing a network of offices in Africa. Regionalization inflated AMSCO's overhead costs and may have weakened already inadequate management controls. The desire of donors for AMSCO to undertake various non-remunerative activities, such as improving corporate governance, may also contribute to its financial troubles.

- *Slow Address of Earlier Study Findings:* By the same token, AMSCO has been slow to address weaknesses in management and internal processes identified in earlier studies. Included among these weaknesses are several mentioned above, such as poor client selection, inadequate marketing and excessive premature terminations.

Recommendations

The subsidies for managerial salaries and training are drawn from a non-profit donor-financed foundation, Stichting ATMS. While AMSCO has operated around the breakeven point recently, among other things AMSCO's margin excluding subsidies has increased from \$2k per active client for 1998 to \$21k per active client for 2001. Without these subsidies, it would have lost about \$1.8 million for 2001. It now faces the difficult challenge of increasing volume and margins and reducing administrative costs in order to sustain its operations without having to rely on continuing infusions from its shareholders. The study yielded a number of recommendations directed mainly at helping AMSCO achieve a balance between its developmental mission and its need for financial sustainability. Among them:

- AMSCO should increase its fees and reduce subsidies and tax exemptions for foreign-affiliated companies and large companies.
- AMSCO should exercise closer oversight over training needs assessments and training plans as well as the selection and performance of trainers; systematically evaluate outcomes and AMSCO's best practice; and emphasize management training and developing managers to replace the AMSCO secondees when their contracts end.
- To improve profitability, it should improve productivity, e.g., by reducing early terminations. It should market its services more aggressively, especially with locally controlled small and medium businesses.
- Also, the financial reports of AMSCO and the Stichting do not give a clear picture of the financial flows between the two entities and the purposes for which funds are transferred. Many of the figures AMSCO provided are inconsistent with the audited financial statements of the Stichting and AMSCO. AMSCO has been unable to reconcile these figures. Auditors for both entities should review the internal control systems, particularly with respect to the use of donor funds. AMSCO and the Stichting should produce consolidated financial statements to provide a complete accounting for the use of donor funds.

*AMSCO has been active in Angola, Benin, Botswana, Burkina Faso, Cameroon, Cape Verde, Chad, Cote D'Ivoire, Gabon, Gambia, Ghana, Guinea Bissau, Kenya, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Nigeria, Senegal, South Africa, Swaziland, Tanzania, Togo, Uganda, Zambia and Zimbabwe.