

## **DISCLAIMER**

**This report was prepared for Africa Project Development Facility (APDF) and the Operations Evaluation Group (OEG) of the International Finance Corporation (IFC) by Nexus Associates, Inc., a consulting firm based in Belmont, Massachusetts, USA. The views expressed herein do not necessarily represent the views of APDF, OEG, or the IFC. Some sources cited in this document may be informal documents that are not readily available.**

Evaluation of the  
Africa Project  
Development Facility

Final Report: Volume I

November 14, 2003

**Submitted to**

Africa Project Development Facility  
and International Finance Corporation  
in fulfillment of Contract #7123799

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## Preface and Acknowledgements

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This report was prepared for Africa Project Development Facility (APDF) and the Operations Evaluation Group (OEG) of the International Finance Corporation (IFC) by Nexus Associates, Inc. – an economics and management consulting firm based in Belmont, Massachusetts, USA – in fulfillment of Contract # 7123799.

Nexus Associates and the other consultants involved in this evaluation worked under direct contract with IFC's Operations Evaluation Group (OEG), an independent unit that reports directly to IFC's Board of Directors through the Director General, Operations Evaluation, of the World Bank Group.

Linda Morra (Head of Studies, OEG) and Walter Cohn (Walter I. Cohn & Associates, LLC), who has been charged by OEG with responsibility for an overall evaluation of the IFC-managed project development facilities, developed the terms of reference, selected the consultants, provided supervision and guidance to them, and commented on all report drafts. APDF and the joint World Bank-IFC Small and Medium Enterprises Department, which has management responsibility for APDF, provided OEG with a share of the funding for the evaluation, and commented on the terms of reference, the selection of consultants, and the draft reports, but were not in a position to circumscribe the consultants' independence or control the scope or execution of the assignment.

Members of the evaluation team included the following:

- Eric Oldsman, Ph.D. (Nexus Associates, Inc.). Study Director. Responsible for developing the study design, conducting field interviews in South Africa and Mozambique, overseeing data collection and analyses, interacting with OEG, APDF and the SME Department, and drafting the final report.
- Hilary Holbrook (Nexus Associates, Inc.). Project Manager. Responsible for supervising data collection efforts, compiling of APDF records, administering the client survey, conducting statistical analyses, interacting with APDF staff, and drafting elements of the report.
- Colin Barnes (Cambridge Resource Economics). Responsible for conducting field interviews in Ghana, Senegal, and Uganda.
- Christina Wood (Independent Consultant). Responsible for assessment of environmental and social issues in South Africa.
- Samba Yade (Independent Consultant). Responsible for assessment of environmental and social issues in Ghana and Senegal.
- In addition, Steadman Research Services International (Nairobi) was retained to administer the survey designed by Nexus Associates.

The study design was finalized in January 2003. Work officially began on the evaluation in March 2003. Field interviews were conducted in May 2003 with the broader survey effort ending in July 2003.

We would like to thank the staff of APDF and the SME Department for their assistance throughout the course of the study.

## Abbreviations and Acronyms

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<b>AE</b>	Associated Expert
<b>AEP</b>	Associated Expert Program
<b>ADB</b>	African Development Bank
<b>APDF</b>	Africa Project Development Facility
<b>BAS</b>	Business Advisory Services
<b>BDO</b>	Business Development Officer
<b>BDS</b>	Business Development Services
<b>CAD</b>	Community Action for Development
<b>CBF</b>	Capacity Building Facility
<b>CEO</b>	Chief Executive Officer
<b>CIDA</b>	Canadian International Development Agency
<b>CPI</b>	Center for Promotion of Investment
<b>DTI</b>	Department of Trade and Industry
<b>E&amp;S</b>	Environmental and Social
<b>ENTP</b>	Ecole Nationale des Travaux Public
<b>ESS</b>	Enterprise Support Services
<b>ESSA</b>	Enterprise Support Services for Africa
<b>FTE</b>	Full-time Equivalent
<b>FUNDES</b>	Fundación para el Desarrollo Sostenible
<b>GDP</b>	Gross Domestic Product
<b>GNAPS</b>	Ghana Association of Private Schools
<b>IT</b>	Information Technology
<b>IFC</b>	International Finance Corporation
<b>MIS</b>	Management Information Systems
<b>MOU</b>	Memorandum of Understanding
<b>OEG</b>	Operations Evaluation Group
<b>OU</b>	Organization Units
<b>PDF</b>	Project Development Facility
<b>PODE</b>	Project for Economic Development
<b>SAWEN</b>	South African Women Entrepreneurs Network
<b>SME</b>	Small and medium-sized enterprises
<b>TDNA</b>	Training and Development Needs Assessment
<b>TRS</b>	Time Recording System
<b>TWIB</b>	Technology for Business Women
<b>UNDP</b>	United Nations Development Program
<b>WB</b>	World Bank
<b>WBS</b>	Work Breakdown Structure

## Executive Summary

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The Africa Project Development Facility (APDF) was initially established in 1986 as a project of the United Nations Development Program (UNDP). The establishment of APDF was co-sponsored by the International Finance Corporation (IFC) and the African Development Bank, and backed by numerous donor organizations. From the outset, IFC has served as the Executing Agency, with responsibility for the ongoing management of the Facility. UNDP withdrew from the project in May 1996; since then, APDF has operated as a donor-funded project under IFC. Support for APDF has been extended three times since 30 June 1990 when the initial four year funding cycle ended. The current funding cycle – APDF 4 – runs from 1 July 2000 through 30 June 2005.

IFC and donor organizations have requested an independent evaluation of APDF, covering the period from FY99 through the end of FY02. The evaluation is intended to serve three principal purposes: provide donors with an initial assessment of APDF 4; serve as an input into the overall evaluation of the IFC-managed Project Development Facilities being carried out by IFC's Operations Evaluation Group; and facilitate learning within each of the respective organizations and the broader development community.

This report presents the principal findings and conclusions of an independent evaluation of APDF focusing on the period from 1 January 1999 through 30 June 2002, and offers recommendations on needed actions.

### Principal findings and conclusions

***Overall, the rationale for APDF remains sound...***

In general, companies in Sub-Saharan Africa operate within a very difficult environment marked by political instability, poor physical and social infrastructure, undeveloped local markets for goods and services, and capital constraints. Moreover, many lack the management capabilities needed to build successful firms within this challenging environment.

The findings of this evaluation generally support the rationale for the program and suggest that it remains valid. Survey results and interviews point to the limited availability of high-quality services at affordable prices, as well as the reluctance of companies to pay for services given uncertainties with respect to potential benefits.

APDF has responded to needs in these markets, increasing both the level and quality of consulting and training services available to SMEs at a price that clients are willing to pay. During the evaluation period, APDF offered three principal services to SMEs: Business Advisory Services (BAS), Enterprise Support Services (ESS), and training seminars. BAS centers on the preparation of a business plan for submission to a financial institution as part of a loan application or request for equity. Under ESS, APDF provides services that are intended to address a broad range of business issues faced by firms. The organization offers recommendations on ways in which companies can improve operations and sometimes assists firms in implementing proposed changes. APDF has also offered a broad range of training courses that are intended to upgrade the skills of management and workers. Courses have dealt with a variety of subjects, including business planning, general management, marketing and sales, production and quality, information technology, and finance.

***...but, the argument for continuing to focus on helping***

APDF is based, in part, on the premise that companies need support in order to access financing. The evaluation, however, found that 40 percent of survey respondents that reported that they secured financing through APDF believed

***companies secure financing should be questioned...***

that they could have obtained financing on their own. Moreover, more than 80 percent of survey respondents that reported that they did *not* receive financing through APDF indicated that they were able to secure financing on their own and/or draw on their own resources to undertake investment projects. In addition, interviews with banks suggested that while APDF's assistance to clients seeking financing may help to shorten the financial institution's appraisal time, it does not result in clients securing loans on terms that are better than they otherwise would receive. These findings call the relevance of BAS, APDF's current approach to addressing capital constraints, into question.

***... as should the goal of serving all of Sub-Saharan Africa without a substantial increase in resources.***

Additionally, APDF has been encouraged by donors to operate throughout Sub-Saharan Africa. While APDF has attempted to focus on selected countries, the geographical scope is still expansive. In many countries, APDF has only undertaken a couple of projects over a four year period. Even with the development of a network of local consultants through its Associated Expert Program, APDF will continue to be stretched and the effectiveness of managing projects in countries where APDF does not maintain an office is likely to be compromised.

***For the most part, APDF is providing services to companies and institutions in the target population.***

As directed by donors, APDF has provided services to small- and medium-enterprises (SMEs), business associations, financial institutions, and consultants. It has expanded the scale and scope of its activities, rolling out new products to meet the needs of diverse clients. Most of the companies that have received BAS, ESS, and training services meet the World Bank/International Finance Corporation SME Department's definition of SMEs. However, roughly 12 percent of BAS clients, 13 percent of ESS clients, and 24 percent of training clients are either microenterprises or large companies.

APDF has made an effort to work with female-owned enterprises and business organizations oriented toward women as well as provide training courses that deal with gender issues in the work place. According to survey results, 37 percent of BAS clients, 30 percent of ESS clients, and 32 percent of training clients are headed by women.

***APDF clients are generally satisfied with the services that they have received.***

An important determinant of success for any program is the degree of satisfaction among clients. In this regard, approximately 82 percent of BAS clients reported that they were satisfied with BAS services – suggesting that the services met or exceeded their expectations. Comparable figures for ESS clients, training participants, and Associated Experts are also high – 90 percent, 97 percent, and 89 percent, respectively.

***APDF has helped companies secure an estimated US\$15.6 million in debt and equity that they otherwise would not have been able to raise on their own.***

According to APDF records, 118 firms received commitments from financial institutions, totaling US\$68.5 million. However, a financial institution's intent to provide financing does not ensure that the funds will actually be provided. As such, survey results indicated that some of these 118 companies did not successfully secure financing for the investment projects through APDF. In addition, others believed that they could have obtained the same amount of financing on their own. Adjusting for these factors suggests that APDF was responsible for raising a total of US\$15.6 million over the evaluation period.

***Many APDF clients have made changes in their business and reported improvements...***

Approximately 44 percent of clients that completed a BAS project and 86 percent of those that completed an ESS project reported that employees gained new knowledge or skills. Approximately 90 percent of companies that gained new knowledge or skills reported putting them to use. Corresponding figures for training clients are 82 percent and 96 percent. Approximately 82 percent of BAS clients, 93 percent of ESS clients, and 83 percent of training clients reported performance improvements in areas such as product quality, capacity utilization, labor productivity, and on-time delivery.

***...and, while these gains are not always reflected in higher sales or profit, ...***

Approximately 54 percent of BAS clients, 62 percent of ESS clients, and 52 percent of training clients reported higher sales as a direct result of APDF services. In terms of net profits, the proportion of clients reporting gains was: 54 percent, 60 percent, and 41 percent of BAS, ESS, and training clients, respectively.

***...aggregate impacts in terms of sales and employment are substantial (although a few companies account for the bulk of aggregate reported benefits).***

All told, the 27 of 113 BAS and ESS clients that were willing to quantify sales impacts reported additional sales in 2002 totaling US\$64.7 million, while the 48 of 113 BAS and ESS clients willing to quantify employment impacts reported 1,042 additional employees as a direct result of APDF services. Eleven of 29 companies that participated in training were willing to quantify sales impacts, while 13 companies were willing to quantify employment impacts. These companies indicated that sales in 2002 were US\$11.6 million higher than they would have been in the absence of APDF services with additional employment totaling 33. In all cases, reported impacts were highly skewed with a few companies accounting for the bulk of aggregate benefits.

***APDF has contributed to the development of local services providers, but it is too early to see the full results of these efforts.***

Associated Experts report that APDF has reduced the cost and associated risks of doing business with SMEs, while also contributing to the development of new products targeted at this sector of the market. Roughly 63 percent of the consultants reported that they have used content or techniques obtained from APDF with 52 of their own clients, on average.

APDF has helped establish one business association in South Africa and has provided training services to numerous financial institutions. It is too early to judge the impact of these new capacity building initiatives either in terms of effects on the organizations or on SMEs.

***Overall, the benefit of APDF services appears to outweigh the cost.***

According to APDF records, the organization spent a total of US\$20.9 million on BAS and ESS projects, including allocated business development costs and overhead. Given aggregate reported gains of US\$64.7 million and 1,042 additional employees as a direct result of APDF services, the one-year benefits reported by clients indicate that program expenditures, as a whole, are justified. Taking a closer look at BAS alone: the evidence suggests that for every dollar expended on BAS, APDF helped companies secure one dollar in debt or equity. While this analysis does not take into account any of the other benefits that the companies may have derived, it does call into question the cost-effectiveness of APDF's activities that are directed toward helping companies secure financing.

It appears that the benefit of training programs for SMEs have outweighed the cost. As noted above, companies that participated in training indicated that sales in 2002 were US\$11.6 million higher than they would have been in the absence of APDF services with additional employment totaling 33. This compares to APDF expenditures of US\$904,000 during the relevant time period.

***The organization has increased revenue, but has not yet achieved goals for cost-recovery.***

APDF was not intended to be self-sufficient. The IFC Board Report projected that fees would account for 22 percent of total expenditures over the five-year life of APDF 4.

With this in mind, client-paid fees have increased significantly over the past four years. Preliminary estimates for FY03 suggest that APDF will earn US\$1.4 million, representing 18 percent of total expenditures in that year. Further analysis of different product lines demonstrates that while the organization is meeting its cost-recovery goals with respect to ESS and training, BAS continues to require greater subsidy. In FY03, estimated cost recovery for ESS was 28 percent, followed by training at 21 percent and BAS at 14 percent. To reach the cost-recovery target for BAS, APDF would need to reduce costs and/or raise prices dramatically without a significant decrease in volume. Given that roughly 70 percent of BAS clients indicated that the fees were equivalent or greater than the value derived, the potential to raise prices may be limited.

## Recommendations

***APDF should establish clear priorities, refine its strategy, and reallocate resources among programs.***

As currently defined, APDF cannot expect to deliver services to a substantial percentage of the target population throughout Sub-Saharan Africa without a significant increase in resources. APDF needs to set clear priorities and refrain from expanding the scope of its activities. This will mean placing limits on the types of firms that are eligible for assistance, the countries in which APDF will provide services, and the range of services that APDF will offer.

The results of the evaluation suggest that APDF's strategy needs further refinement. This should begin with a clear statement of the objectives of each program based on a clear assessment of need. Given the results of the evaluation, in terms of enterprise-level services, APDF should place greater emphasis on the provision of consulting and training services to enable SMEs to use existing assets more productively, rather than attempting to help companies secure financing for new investments.

In the near-term, APDF should continue to focus on delivering services where it maintains offices. This would enable the organization to reduce travel, communications, and other transaction costs associated with operating in other countries. In addition, this focus would maximize the utility of local knowledge that the organization has obtained to date and enable it to develop and implement more integrated country-specific strategies. Close proximity to clients afforded by having a physical presence in the country would also enable APDF staff to manage projects more effectively and thus maintain quality standards. Given its mission and resources, APDF should consider whether it needs to add or reduce the number of offices in particular countries.

The organization should extend its reach by entering into formal agreements with certified Associated Experts in selected countries.

***APDF should consider reorganizing its operations based on regional offices and practices.***

APDF should consider adopting a matrix management structure built around regions and practices. The latter could be defined by type of client (e.g., private business, financial institution, business association) or product (e.g., consulting services, training, supply chain development). Matrix management would help promote cross-practice interactions within regions based on region-specific objectives, while also enabling staff to be part of peer groups with shared responsibility for accomplishing objectives related to particular practices.

***APDF should increase management supervision of staff.***

Regional managers and practice leaders should work more closely with staff at all stages of project development, implementation and closure. Greater supervision would contribute to staff development, quality control and greater accountability.

***APDF should clarify and implement E&S policies.***

APDF needs to prepare and provide a written statement on environmental and social (E&S) policy to every staff member and take steps to ensure that it is followed. This will entail a fair amount of staff training to develop a thorough understanding of APDF's requirements as well as the skills required for implementation. APDF may need to hire an E&S specialist to assist APDF staff, consultants, and client companies to deal with E&S issues.

***APDF should develop an explicit***

APDF needs to be able to generate revenues to defray a portion of its operating costs in keeping with cost-recovery targets. Before setting prices for particular

***pricing policy, beginning with a clear articulation of objectives.***

services, APDF should specify the objectives of its pricing policy. These objectives could include one or more of the following: recovering the costs of providing the service; maximizing the use of the service among customers in the target population; exerting downward pressure on prevailing market prices for the service; or maximizing profits. With objectives defined, APDF should then take steps to determine the specific prices for particular services.

The pricing policy should be written and shared with all APDF staff. As part of this process, the organization should tighten up the policy with respect to what it charges particular companies for services. The extent of the subsidy extended to specific companies should be based on explicit guidelines rather than left to ad hoc decisions to ensure fairness and transparency. The magnitude of the subsidy extended to particular firms should be made transparent so that clients understand the difference between the price and the cost of service delivery.

***APDF should take immediate steps to strengthen accounting and information systems.***

As part of this process, APDF should reduce the number and complexity of restrictions associated with donor funding or design systems to accommodate associated reporting requirements; clarify and apply procedures for opening projects, eliminate the use of internal orders; clarify and apply definitions of budget categories (including general and administrative expenses); establish policies and procedures concerning file management and storage; establish a central database of operating data; and strengthen monitoring and evaluation systems based on client surveys and qualitative research.

***APDF should take steps to ensure closer coordination with the IFC/World Bank.***

The World Bank Group is in the process of implementing a new Africa strategy.<sup>1</sup> APDF needs to ensure that it is supporting this new approach. In addition, APDF staff should take steps to meet regularly with staff of country offices to discuss specific projects to identify opportunities for closer collaboration.

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<sup>1</sup> This evaluation does not consider any of the recommendations presented in the new Africa strategy since it was released subsequent to the evaluation.

# I. Introduction

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## Overview

1. The Africa Project Development Facility (APDF) was initially established in 1986 as a project of the United Nations Development Program (UNDP). The establishment of APDF was co-sponsored by the International Finance Corporation (IFC) and the African Development Bank and backed by numerous donor organizations. From the outset, IFC has served as the Executing Agency, with responsibility for the ongoing management of the Facility. UNDP withdrew from the project in May 1996; since then, APDF has operated as a donor-funded project under IFC. Support for APDF has been extended three times since 30 June 1990 when the initial four-year funding cycle ended.<sup>2</sup> The current funding cycle – APDF 4 – runs from 1 July 2000 through 30 June 2005.<sup>3</sup>
2. APDF aims to improve economic and social conditions within Sub-Saharan Africa by strengthening the performance of small and medium-sized enterprises (SME). To this end, APDF provides a range of services that are intended to promote the development of individual businesses and strengthen providers of business and financial services. APDF is headquartered in South Africa (Johannesburg) with offices in Ghana, Kenya, Nigeria and Cote d'Ivoire.<sup>4</sup> It has worked in 35 countries throughout the region.
3. The planned five-year budget for APDF 4 is currently set at US\$34.5 million.<sup>5</sup>

## Purpose of study

4. IFC and donor organizations have requested an independent evaluation of APDF, covering the period from FY99 through the end of FY02 (i.e., June 2002). The evaluation is intended to serve three principal purposes: provide donors with an initial assessment of APDF 4; serve as an input into the overall evaluation of the IFC-managed Project Development Facilities being carried out by IFC's Operations Evaluation Group; and facilitate learning within each of the respective organizations and the broader development community.
5. This report presents the principal findings and conclusions of an independent evaluation of APDF. It provides answers to a broad range of questions posed by stakeholders. Although there are numerous lines of inquiry, they can be summarized in the form of five basic questions: Was the original rationale for the establishment of APDF sound? Has APDF provided needed services to companies and institutions in the target population? Are the resources of APDF being used in an efficient manner? Has APDF been successful in achieving intended outcomes? Are outcomes likely to be sustained once APDF exits the market?

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<sup>2</sup> The first three funding cycles were as follows: APDF 1: 1 July 1986 through 30 June 1990; APDF 2: 1 July 1990 through 30 June 1995; and APDF 3: 1 July 1995 through 30 June 2000.

<sup>3</sup> APDF 4 is also referred to as APDF2000. For APDF2000, the organization developed a new strategic direction, which was set out in an APDF2000 business plan and operational goals.

<sup>4</sup> APDF maintained an office in Zimbabwe until July 2001.

<sup>5</sup> The proposed budget in IFC originating documents was US\$65 million. Expected fee income was projected at US\$11.8 million, with the remainder coming from international donors. However, it is important to note that the US\$65 million budget was subsequently rejected by the donors who did not believe that APDF would be able to deliver on BAS targets that were three times higher than those in APDF 3 and also achieve targets for new services. Given this rejection, a new business plan was presented to the Donors in June 2001. The new business plan presented a five-year budget of US\$39.4 million. While the budget was agreed to in principle by donors at that time, the budget was scaled back further in FY03 to US\$37 million and then again in FY04 to US\$34.5 million. Operations are currently based on this budget.

## Methodology

6. The evaluation includes two components: process evaluation and impact evaluation. Both combine rigorous quantitative analysis with qualitative research, drawing on numerous sources of information:<sup>6</sup>
  - **Program documents.** The evaluation team reviewed the APDF 2000 business plan and operational goals; minutes of meetings of the donors' board and supervisory board; annual reports on operations and action plans; previous evaluations of APDF; assessments of various programs (e.g., Enterprise Support Services for Africa – ESSA); and newsletters, presentations, brochures and other marketing materials.
  - **APDF records.** APDF was asked to provide financial and operating data, including information on staffing levels, direct project expenditures, lists of Business Advisory Services (BAS) and Enterprise Support Services (ESS) clients together with information on services provided and financing arranged, where applicable; list of companies that had participated in training seminars together with information on specific training seminars; a list of supply chain management and other “special projects”; and a list of associated experts and other consultants that APDF had retained to provide services.<sup>7</sup>
  - **Interviews with APDF and World Bank Group staff.** The evaluation team met with management and staff of APDF to discuss the evolution of the organization's strategy, programs, and operations over time. In addition, the team met with representatives of the World Bank Group to discuss the role of APDF, issues related to coordination, and specific projects in which IFC had invested.
  - **Client survey.** Companies that *completed* a Business Advisory Services (BAS) or Enterprise Support Services (ESS) project or participated in at least one training seminar during the evaluation period were surveyed.<sup>8</sup> The sample included two groups: all companies that had completed at least one BAS and/or ESS project between 1 January 1999 and 30 June 2002 and a stratified random sample of companies that participated in the training seminars (excluding the companies that were already included in the BAS/ESS client sample). The survey instrument included a series of closed-ended questions related to firm characteristics, changes in business practices and performance, and the role of APDF. A total of 113 surveys (including 15 that were the subject of more in-depth interviews as discussed below) were completed with BAS/ESS companies, representing an effective response rate of approximately 73 percent. An additional 29 surveys were completed with companies that had received training, representing an effective response rate of roughly 49 percent.
  - **Interviews with owners and managers of selected client companies.** Senior members of the evaluation team visited 15 companies that had received BAS or ESS services from APDF.<sup>9</sup> These firms were selected at random from companies located in Ghana, Mozambique, Senegal, South Africa, and Uganda that completed at least one BAS and/or ESS project.<sup>10</sup> Prior to conducting the interviews, the evaluation team reviewed the project documents and other reports prepared by APDF. The interviews typically lasted two to three hours and included an inspection of the facilities. The interviews

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<sup>6</sup> The study design, including survey instruments and interview guides, is available upon request. A list of people interviewed as part of the evaluation is presented in Appendix K.

<sup>7</sup> APDF cooperated fully with this effort and attempted to compile all data requested by the evaluation team. In some instances, however, data were unavailable because of shortfalls in the organization's information systems. Specific problems with data are discussed in the relevant chapters and appendices.

<sup>8</sup> A discussion of the sampling strategy and response rates can be found in Appendix J. While most training programs have been directed to SMEs, APDF has also provided training to consultants, financial institutions and other organizations. Given budgetary constraints, the evaluation does not include an assessment of these other training programs.

<sup>9</sup> An environmental and social consultant accompanied a team member for 11 of these visits.

<sup>10</sup> The in-depth interview sample included four companies (two BAS and two ESS clients) in each of the following three countries: Ghana, South Africa, and Uganda and three companies in Senegal (there was only one ESS project completed in Senegal during the evaluation period). There were no in-depth interviews with BAS/ESS clients in Mozambique because APDF did not complete any BAS or ESS projects in that country during the evaluation period.

followed a standard protocol, which generally mirrored the survey but allowed for follow-up questions to probe for additional detail and called for judgments on the viability of the enterprises, the contributions made by APDF, and the clients' environmental and social performance.

- **Associated Expert survey.** All 27 consultants that had been designated as "Associated Experts" during the evaluation period were included in the survey sample.<sup>11</sup> Five of these 27 Associated Experts were chosen to be surveyed in-person by senior members of the evaluation team (two in Ghana, two in Senegal, and one in Uganda). The survey instrument included a series of closed-ended questions related to firm characteristics, changes in business practices and performance, and the role of APDF. The same survey instrument was used for the in-depth interviews, except that it also included open-ended questions to probe for additional details with regard to answers given to the closed-ended questions. A total of 18 surveys (including four of the five Associated Experts that were scheduled to be interviewed by senior members of the evaluation team) were completed for the consultant group, representing an effective response rate of roughly 67 percent.
  - **Interviews with government officials and other organizations.** The team interviewed key government officials in Ghana, Mozambique, Senegal, South Africa, and Uganda to develop a better perspective on the governments' views of APDF and the role that it has played in the respective countries. In addition, interviews were conducted with business associations, as well as local representatives from the donor agencies. In a separate small-scale survey, donors were asked to render their views and perspectives on APDF's current and future role in the region.
  - **Interviews with senior officials of financial institutions.** Senior members of the evaluation team planned to conduct interviews with officials from eight of the roughly 80 financial institutions that have provided financing for BAS clients. These eight financial institutions were selected randomly from the list of banks that provided financing to the BAS clients chosen for in-depth interviews. One bank official cancelled the interview and was not available to reschedule it during the time the evaluation team was conducting the fieldwork. Interviews were completed with the remaining seven financial institutions. Interviews focused on the overall banking environment, SME loan activities, and the impact of APDF on bank strategies, operations and performance.
7. IFC and other donors are particularly interested in determining whether APDF has been successful in improving the performance of SMEs. Estimated impacts are based on participant judgments, judgments by the senior evaluation team, and the results of various statistical analyses.

## Organization of report

8. This report summarizes the principal findings and conclusions resulting from the evaluation. It is organized into eight sections. Following this introduction, Section II describes the basis upon which APDF was established and the role it plays in the region. Sections III, IV, and V present an analysis of BAS and ESS, training seminars, and capacity building efforts, respectively. This is followed by a discussion of the cost and sustainability of service delivery in Section VI. Section VII lays out some organizational issues. Section VIII summarizes the major conclusions of the study. A series of recommendations are offered in Section IX.
9. The report also includes several appendices providing more detailed information on methods and results.

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<sup>11</sup> More detail on the methods used to carry out this survey, including more information on the response rates, can be found in Appendix J.

## II. Rationale and Role of APDF

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10. The overall goal of APDF is to promote the development of small and medium-sized enterprises in Sub-Saharan Africa as a means of generating employment opportunities and spurring economic growth.<sup>12</sup> While a comprehensive assessment of the situation within the thirty-five countries in which APDF operates is well outside the scope of the evaluation, it is important to note that economic and social conditions vary widely across the countries in which APDF operates. This is reflected in part by differences in the size of the overall economy and in the level of per capita income. For example, in 2001, gross domestic product (GDP) ranged from US\$199 million in Guinea Bissau to more than US\$113 billion in South Africa.<sup>13, 14</sup> Per capita income ranged from approximately US\$100 in Burundi and Ethiopia to more than US\$3,100 in Gabon.<sup>15</sup>
11. In general, companies operate within a very difficult environment marked by political instability, poor physical and social infrastructure, undeveloped local markets for goods and services, and capital constraints. With regard to the latter, there are significant differences among the countries served by APDF – gross capital formation as a percent of GDP ranged from 6.9 percent in Burundi to 50.7 percent in Mauritania in 2001.
12. Many of these factors are outside the control of owners and managers of SMEs. However, companies also face internal constraints, including the lack of management capabilities needed to build successful firms within this challenging environment.
13. Against this backdrop, APDF states that its mission is “to assist African entrepreneurs to launch and expand sustainable SME projects which will contribute to reducing poverty and to improving the quality of life of the people in the region.”<sup>16</sup> The organization offers three principal services to private businesses, consulting firms, business associations, financial institutions, and government agencies:
  - **Business Advisory Services (BAS).** BAS centers on the preparation of a “business plan” for submission to a financial institution as part of a loan application or request for equity. In carrying out the service, APDF typically works in concert with one or more outside consultants to develop the business plan, identify financial institutions that would be likely to provide financing, make introductions to the potential financial institutions, meet with bank officials to review documents and discuss loan applications, and follow up with the financial institutions to determine the status of the applications.
  - **Enterprise Support Services (ESS).** Under ESS, APDF provides services that intended to address a broad range of business issues faced by firms. Working in conjunction with consultants and other organizations, APDF offers recommendations on ways in which companies can improve operations. In some cases, APDF assists firms to implement proposed changes.
  - **Training Seminars.** APDF has offered a broad range of courses to private business, consulting firms, business associations, financial institutions and government agencies that are intended to upgrade skills of management and workers. Courses have dealt with a variety of subjects, including business planning, general management, marketing and sales, production and quality, information technology (IT), and finance. Courses have also been developed specifically for consultants and financial institutions. Training curricula are developed and delivered by consultants and training institutions with support provided by APDF.

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<sup>12</sup> The goal is sometimes stated in terms of alleviating poverty through employment and income growth (APDF2000 business plan).

<sup>13</sup> At the time this analysis was conducted, 2001 was the year for which most recent data was available.

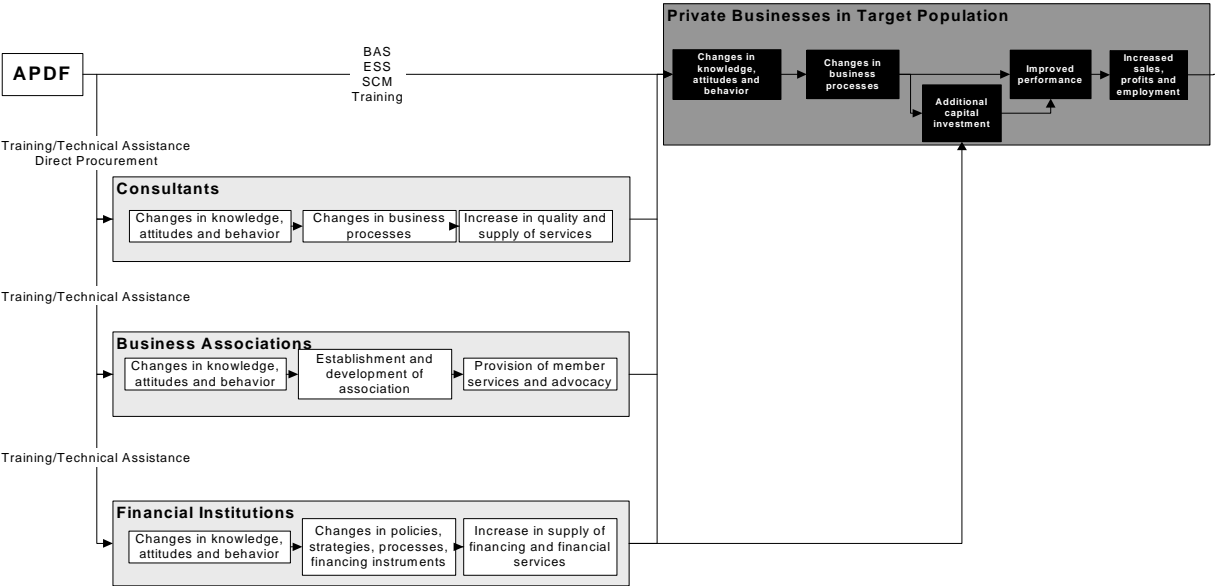
<sup>14</sup> See Figure A-1 in Appendix A for more details on the distribution of GDP in the countries in which APDF operates.

<sup>15</sup> See Figure A-2 in Appendix A.

<sup>16</sup> APDF2000 business plan.

14. These services are interrelated – all focus on strengthening the performance of SMEs and thereby contributing to economic growth as illustrated in Figure 1. APDF provides services directly to SMEs through Business Advisory Services (BAS), Enterprise Support Services (ESS), and training seminars.<sup>17</sup> All of these services are intended to improve the performance of participating firms. In other cases, APDF works with intermediary institutions such as consultants, business associations and financial institutions. The intention is to change the behavior and performance of these institutions in ways that benefit SMEs. As such, the effectiveness of APDF should be judged, in part, on its success in transforming these intermediary institutions to better meet the needs of SMEs.

**Figure 1. APDF Basic Program Logic Model**



Source: Nexus Associates, Inc.

15. The mix of services offered by APDF has evolved as the organization has sought to expand its reach and impact. Through the end of APDF 2 (30 June 1995), APDF focused solely on BAS. In 1996, APDF began a four-year pilot project in Ghana to address non-financial needs of companies.<sup>18</sup> While the pilot project officially ended in March 2001, APDF began rolling out the new service in other countries in early 1999 under the ESS umbrella. With the initiation of APDF 4 in July 2000, APDF shifted its orientation to focus more on building the capacity of intermediary organizations with the encouragement of the SME Department. This included a charge to work with consultants, business associations, and financial institutions. In addition to multiplying APDF’s impact, the new business development service (BDS) orientation is seen as a major element of the organization’s exit strategy.

<sup>17</sup> Initially, APDF defined SMEs as enterprises with total assets of US\$500,000 to US\$5 million. It broadened this range to US\$250,000 to US\$7 million in the mid-1990s and then broadened it further at the beginning of APDF 4. At that time, the criteria called for employment to be greater than five and less than 300, for sales to be greater than US\$250,000 but less than US\$50 million, and for fixed assets to be greater than US\$100,000 but less than US\$15 million. The current IFC/WB SME Department definition of SMEs is as follows: 10 to 300 employees, annual sales of US\$100,000 to US\$15 million, and total assets of US\$100,000 to US\$15 million.

<sup>18</sup> The ESSA program was funded separately by CIDA and IFC.

16. During the evaluation period, approximately 70 percent of APDF's direct expenditures were allocated to BAS, 24 percent to ESS, and six percent to training seminars. These direct expenditures accounted for 36 percent of APDF's total expenditures. Business development and general and administrative expenditures accounted for the balance.
17. APDF employed 66 people on a full-time equivalent (FTE) basis in FY02, operating from four regional offices (Abidjan, Accra, Johannesburg and Nairobi) and three local offices (Cape Town, Harare and Lagos).<sup>19</sup> Roughly one-third of APDF's employees are based in South Africa, distributed between the headquarters office in Johannesburg, the Johannesburg regional office, and the local office in Cape Town.<sup>20</sup> The staffing levels are fairly similar across the four regional offices, ranging from approximately 12 employees (FTE) in Abidjan to 17 employees (FTE) in Johannesburg (including Cape Town) in FY02.<sup>21</sup>
18. In FY02, roughly 42 percent of the staff (FTE) were project staff.<sup>22</sup> These staff members tend to have backgrounds in finance. They serve as generalists, calling on outside consultants for specific functional or industry expertise, as needed. General management, finance and administrative staff account for the remaining 58 percent of the workforce.<sup>23</sup>
19. During the period covered by the evaluation, APDF provided services to companies and organizations in 35 countries. However, activities tend to be concentrated in relatively few of these countries as shown in Table 1. To a great extent, the pattern is reflective of APDF policies. With donor endorsement, APDF identified specific countries on which the organization would focus based on potential demand and the overall business environment. This was done in order to "be cost-effective, generate critical volume of clients, and improve sustainability as the foundation for existing at product and country levels."<sup>24</sup> Beginning with APDF 4, the organization classified countries into three categories according to criteria noted above. Category I countries were deemed to offer the best prospects and therefore merited the most emphasis.<sup>25</sup> APDF management assesses county conditions on a periodic basis and re-classifies countries as warranted. It should be noted that the five countries in which APDF maintained an office throughout the evaluation period were classified as Category I. Zimbabwe, which had an office until July 2001, was classified as Category III. These six countries accounted for approximately 61 percent of BAS projects, 61 percent of ESS projects, and 70 percent of training workshops during the evaluation period.

**Table 1 . Distribution of APDF Services by Country Category**

Country Category	Number of countries and (%)	BAS Projects	ESS Projects	Training Workshops	Total
I	14 (40%)	83.7%	68.4%	87.7%	79.1%
II	8 (23%)	8.1%	4.6%	7.4%	6.8%
III	13 (37%)	8.1%	27.0%	4.9%	14.0%
Total	35 (100%)	100.0%	100.0%	100.0%	100.0%

Note: Projects were active at some point between January 1, 1999 and June 30, 2003.  
Source: APDF records.

<sup>19</sup> The Harare office was closed in July 2001. When the Harare office was closed, some staff were reassigned to other offices.

<sup>20</sup> At the end of June 2001, APDF moved its headquarters from Washington, DC to Johannesburg.

<sup>21</sup> See Table A-1 in Appendix A.

<sup>22</sup> Project staff include business development officers, investment officers, project officers, regional managers, enterprise support service managers and other similar positions.

<sup>23</sup> Finance and administrative staff include the General Manager, finance officer, communications officers and other administrative staff.

<sup>24</sup> APDF originating documents.

<sup>25</sup> Category I includes South Africa, Ghana, Uganda, Kenya, Nigeria, Côte d'Ivoire, Mozambique, Tanzania, Mali, Senegal, Cameroon, Mauritania, Zambia, and Cape Verde. Category II includes Guinea, Malawi, Gambia, Ethiopia, Burkina Faso, Gabon, Namibia, and Benin. Category III includes Zimbabwe, Burundi, Lesotho, Swaziland, Chad, Liberia, Botswana, Burundi, Djibouti, Rwanda, Eritrea, Niger, and Togo.

### III. Business Advisory and Enterprise Support Services

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#### Rationale

20. APDF operates on the premise that a significant share of firms in Sub-Saharan Africa lack strong managers and access to financing. With regard to the later, it is also believed that financial institutions are more likely to provide long-term financing for particular projects when given reliable information on expected cash flows and the overall creditworthiness of the investment.
21. Therefore, from its inception, APDF has worked with companies to address both financial and non-financial issues through the provision of consulting services. The rationale for APDF's intervention in the consulting market is two-fold. On the one hand, services needed by companies may not be available at all. On the other hand, even if services are available, companies may not elect to purchase services for a number of reasons, including the lack of knowledge about their own needs, unwillingness to share proprietary information, inability to judge the quality of services that they are likely to receive, difficulties finding qualified service providers, and inability to afford services given cash flow constraints.

#### Role of APDF

##### ***Business Advisory Services (BAS)***

22. APDF's core product continues to be Business Advisory Services. As noted above, BAS focuses on the preparation of a business plan for submission to a financial institution as part of a loan application or request for equity. In a sense, the plan serves as a prospectus for potential investors in the project, disclosing information that financial institutions would find important in making a financing decision. While the scope and quality vary, the business plans typically describe the company, existing markets, marketing strategies, principal operations, management team, ownership structure, past operating and financial performance, and the proposed investment project. In addition, they present a financing plan along with pro forma financial statements and a description of the risks associated with undertaking the project.
23. Typically, an APDF Business Development Officer (BDO) works in concert with one or more outside consultants retained by APDF to prepare the business plan. As part of this process, consultants are called on to analyze particular aspects of the business or prepare the entire plan. The BDO typically conducts the financial analysis and is responsible for the final product. As part of the service, APDF also identifies financial institutions that would be likely to provide financing. In addition to making introductions, the BDOs typically meet with bank officials to review documents and discuss loan applications. The BDOs often follow-up with financial institutions to determine the status of the applications and help move toward a commitment.

##### ***Enterprise Support Services (ESS)***

24. Under the rubric of ESS, APDF provides consulting services to help companies formulate strategic plans, develop marketing and sales strategies, develop organizational structures and human resources, improve productivity and quality assurance, improve purchasing and inventory management systems, improve financial management and accounting systems, and develop management information systems (MIS). At times, APDF provides managers to work for client companies on a short-term basis.

25. The BDO is tasked with helping to define the company's needs, formulating an appropriate course of action, marshalling needed resources, and overseeing the provision of services.<sup>26</sup> Typically, BDOs serve in a project management capacity, linking clients to qualified third-party service providers.

### Activities and clients

26. Between 1 January 1999 and 30 June 2002, APDF undertook 258 BAS projects with 255 clients and 174 ESS projects with 153 clients.<sup>27</sup> As shown in Table 2, APDF completed 136 BAS projects during this time frame and dropped twenty-five. The remaining 97 projects were still active as of 30 June 2002. Roughly one-third of these active projects had been active for two or more years. Correspondingly, according to APDF project records, the organization completed 124 ESS projects and dropped one. The remaining 49 ESS projects were still active as of 30 June 2002; roughly 10 percent of these projects had been active for one year or longer.

**Table 2. BAS and ESS Project Activity**

	BAS	ESS	Total
Active at beginning	25	5	30
Started	233	169	402
Completed	136	124	260
Dropped	25	1	26
Active at end of 30 June 2002	97	49	146

Source: APDF records

27. While there has been some quarterly fluctuation in the number of projects started, the number of active BAS projects in a quarter has increased steadily throughout the evaluation period, rising from 45 to 124 between the first quarter of fiscal year 1999 (January-March 1999) and the fourth quarter of 2002 (April-June 2002) – an increase of 176 percent.<sup>28</sup> A similar picture is observed when looking at the ESS project activity. The number of active ESS projects in a quarter has risen rapidly over the evaluation period, increasing from 9 to 75 between the first quarter of fiscal year 1999 (January-March 1999) and the fourth quarter of 2002 (April-June 2002) – an increase of 733 percent.<sup>29</sup> Like BAS projects, the number of ESS projects that APDF has started in a quarter has fluctuated over the study period, with a significant spike in the first quarter of FY02.
28. As shown in Table 3, almost one-third of the BAS projects and slightly more than half of the ESS projects were undertaken by the Johannesburg regional office. The mix of services offered by each regional office has changed over time. While all offices offered BAS services since their inception, some offices began operations later. Moreover, regardless of when an office opened, certain offices began offering ESS services later than others. The timing of the roll-out of different product lines should be considered when examining differences in the number of projects carried out by each office. For instance, as mentioned previously, ESS services began as a pilot project in the Accra regional office in 1996. In early 1999, APDF

<sup>26</sup> APDF has adopted a tool developed by FUNDES to assist in the initial needs assessment.

<sup>27</sup> Tables B-3 and B-4 in Appendix B provide detailed quarterly data on project activity.

<sup>28</sup> Some of the growth may be due to the fact that more projects are going into limbo for a number of reasons. As noted in the text, of the 97 BAS projects that were active at the end of the study period, one-third had been active for two or more years. Preliminary data provided by APDF suggests that at least 34 of the 96 active projects were subsequently cancelled in FY03 – a much higher rate than during the study period.

<sup>29</sup> It is important to note that this significant increase is due, in part, to the rollout of ESS services to other offices from 1999 through early 2001, as described in more detail below.

extended its ESS services to clients served from the Johannesburg regional office. The roll-out of ESS to the Nairobi and Abidjan regional offices was planned for 2000, but was delayed until late 2000/early 2001 when funding for APDF 4 was secured.<sup>30</sup>

**Table 3. Regional Distribution of BAS and ESS Projects Undertaken by APDF**

REGIONAL OFFICE	BAS PROJECTS		ESS PROJECTS	
	NUMBER OF PROJECTS	PERCENTAGE OF PROJECTS	NUMBER OF PROJECTS	PERCENTAGE OF PROJECTS
ABIDJAN	44	17.0%	21	12.1%
ACCRA	67	26.0%	34	19.5%
JOHANNESBURG	81	31.4%	89	51.1%
NAIROBI	66	25.6%	30	17.2%
<b>TOTAL</b>	<b>258</b>		<b>174</b>	

Note: Percentages do not add to 100.0% due to rounding.  
Source: APDF records

29. APDF has undertaken BAS and ESS projects with private businesses, business associations, financial institutions and government agencies. According to APDF records, roughly 95 percent of BAS clients and 78 percent of ESS clients are private businesses. A brief profile of the companies that completed at least one BAS or ESS project during the evaluation period follows:<sup>31</sup>
- **Firm size.** Under the broad guidelines established by the IFC/WB SME Department, 89 percent of the responding BAS/ESS client firms that reported sales and employment figures at the time of their first interaction with APDF would be considered SMEs.<sup>32</sup> On average, BAS clients had annual sales of approximately US\$1.6 million (median = US\$690,293) and employed 82 people (median = 50). Similarly, on average, ESS clients that responded had annual sales of approximately US\$735,000 (median= US\$309,566) and employed 65 people (median=49). Based on the results of the client survey, although all BAS/ESS clients had annual sales of US\$15 million or less at the time when they first started working with APDF, three clients (6 percent) are considered “large enterprises” based on reported employment of more than 300 employees. In addition, it should be noted that three BAS/ESS clients (6 percent) are categorized as “microenterprises” based on reported employment of up to 10 employees and reported sales of up to US\$100,000.<sup>33,34</sup>
  - **Ownership.** Based on the results of the survey, approximately 75 percent of BAS clients and 71 percent of ESS clients are fully owned by local private investors. Sixteen percent and 20 percent of BAS and ESS clients, respectively, have some foreign investment, with foreign investors owning a majority interest in five percent of the BAS clients and 11 percent of the ESS clients. Two percent of BAS clients (one firm) and four percent of the ESS clients (two firms) that responded to the survey are 100 percent foreign-owned enterprises. Government (including state-owned enterprises) is a minority

<sup>30</sup> APDF originating documents.

<sup>31</sup> APDF does not capture data on firm size or other characteristics on a systematic basis; as a result, findings are based on the client survey, which was administered to companies that completed at least one BAS or ESS project between 1 January 1999 and 30 June 2002.

<sup>32</sup> The IFC/WB SME Department define SMEs as follows: more than 10 and less than or equal to 300 employees, annual sales of more than US\$100,000 and less than or equal to US\$15 million, and total assets of more than US\$100,000 and less than or equal to US\$15 million.

APDF client information on total assets was not available and thus, the analysis is based solely on employment and sales.

<sup>33</sup> Percentages add to more than 100% due to rounding.

<sup>34</sup> More detailed information on the size of clients is contained in Table B-1 in Appendix B.

shareholder in roughly two percent of BAS and ESS clients (one firm in each group) and one ESS client is 100 percent government-owned.

- **Management.** Approximately 83 percent of BAS clients and 87 percent of ESS clients indicated that the chief executive of the company was a permanent resident of the country. Of those that completed the survey, 37 percent and 30 percent of BAS and ESS clients, respectively, reported that its chief executive officer (or a joint chief executive officer) is female.
- **Industrial distribution.** The manufacturing sector accounts for 40 percent of the BAS clients and 25 percent of the ESS clients that responded to the survey.<sup>35</sup> Wholesale and retail trade account for 19 percent and 13 percent of BAS and ESS clients, respectively. APDF also services companies in the agricultural sector with six percent of BAS clients and 16 percent of ESS clients falling under this classification.<sup>36</sup>
- **Geographical distribution.** APDF completed BAS or ESS projects in 26 countries. Approximately half of the BAS clients that completed a project during the evaluation period are located in one of three countries – South Africa (24%), Ghana (15%), or Nigeria (10%). Similarly, over 70 percent of the ESS clients that completed a project during the evaluation period were concentrated in one of four countries – Zimbabwe (25%), Ghana (19%), South Africa (16%), and Uganda (13%). APDF completed BAS projects with four or fewer clients in 19 of the 26 countries over the 42 month period. Similarly, it completed ESS projects with four or fewer clients in 20 countries.<sup>37</sup>

## Client satisfaction

30. All organizations need to be concerned with the extent to which they are able to satisfy their customers. The degree of satisfaction has a direct bearing on client loyalty, repeat business and the acquisition of new customers. In general, customer satisfaction revolves around expectations. Expectations are a function of explicit promises made through advertising, personal selling, contracts and other communications as well as assurances arising from past experience or word-of-mouth. Clients are satisfied when their perception of the services provided to them is consistent with their expectations.
31. As shown in Figure 2, approximately 80 percent of BAS clients reported that they were "very satisfied" or "satisfied" with BAS services – suggesting that the services met or exceeded their expectations. Moreover, in interviews with APDF clients, owners/managers of firms noted that they were pleased with the competence and quality of the consultancy that provided services to the firm. A few managers noted that APDF provides more follow-up than other firms and offers greater subsidies. The combination of greater follow-up and subsidies allows companies to build better relationships with APDF staff and contributed to the overall perception that APDF services are more comprehensive even though they are less expensive. Approximately ten percent of companies expressed dissatisfaction with BAS services. It appears that some of this displeasure may be due to unrealistic client expectations and difficulties experienced in securing financing, including the time required to finalize deals. With regard to the latter, as one manager stated, "APDF needs to react more quickly and needs to reinforce its links with the banks."
32. Almost 90 percent of respondents reported that they were "very satisfied" or "satisfied" with ESS services provided by APDF.<sup>38</sup> Approximately 5 percent of respondents reported dissatisfaction with ESS services.

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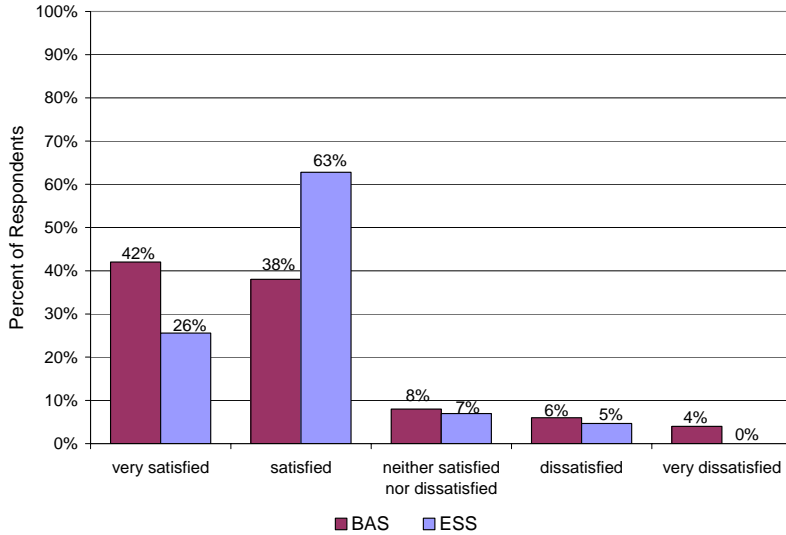
<sup>35</sup> APDF's policies state that the organization is open to working with companies engaged in "any productive venture in agriculture, agribusiness, manufacturing, services, tourism, or infrastructure; [however], projects involving tobacco, military products, real estate development, and pure trading operations are not eligible for APDF assistance."

<sup>36</sup> See Figures B-1 and B-2 in Appendix B for more details.

<sup>37</sup> See Table B-2 in Appendix B for more details.

<sup>38</sup> The difference in satisfaction between BAS and ESS clients is not statistically significant at a 90% level.

**Figure 2. Degree of Satisfaction with BAS and ESS**

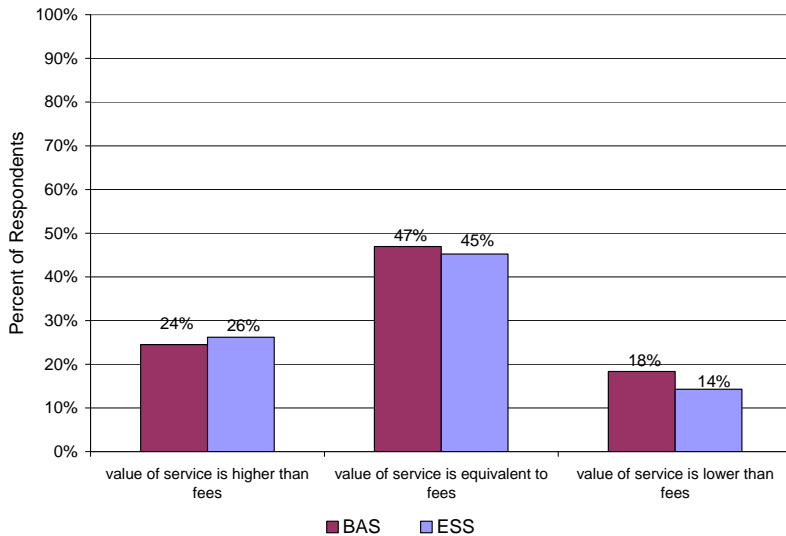


Note: (BAS: n=50; ESS: n=43). Percentages for BAS clients do not add to 100 percent because one BAS respondent (2 percent) indicated that he/she did not know how satisfied he/she was with the BAS services provided by APDF (i.e., responded "don't know") and is not included in this figure.

Source: Client survey

33. Satisfaction can also be judged in terms of the perceived value of the services compared to the fees charged to clients. In this regard, responses for BAS and ESS clients are almost identical. Roughly seven out of ten respondents stated that the value of the services provided by APDF was equal to or greater than the fees charged as shown in Figure 3.

**Figure 3. Perceived Value of Business Advisory Services Relative to Fees**



Note: (BAS: n=49; ESS: n=42). The percentages for BAS and ESS do not add to 100 percent because five (10 percent) BAS and six (14 percent) ESS respondents indicated that they did not know (i.e., responded "don't know") what the value of APDF's services was in comparison to the fees charged. These respondents are not included in this figure.

Source: Client survey

34. The degree of satisfaction expressed by companies that have received BAS and/or ESS services signals that the vast majority perceive that APDF services met their standards of quality. On the whole, the evaluation team’s review of reports prepared by APDF and subcontracted consultants suggests that project materials are comprehensive and well-prepared. Nonetheless, the quality of project materials varies. In some instances, materials prepared by APDF did not account for the specific needs of the client or particular conditions within the market. In general, the bank officials interviewed as part of the evaluation consider the business plans submitted by APDF clients to be of good quality. However, two of the banks – both located in the same country – indicated that plans were “sometimes too optimistic” and were not based on a thorough understanding of relevant markets.

## Impact

### ***Availability of alternative sources of financial services***

35. Responses to the survey suggest that APDF has served needs that are not adequately addressed by other service providers. As indicated in Table 4, approximately 32 percent of BAS clients and 42 percent of ESS clients that responded to the survey stated that there were no other companies or organizations that could have provided services similar to those offered by APDF at the time they sought assistance.<sup>39</sup> Therefore, these companies were not selecting among alternative services providers – they believed that APDF was the only organization that could render needed services in the respective countries.

**Table 4. Availability of Similar Services from Other Providers**

AT THE TIME YOUR ESTABLISHMENT SOUGHT ASSISTANCE FROM APDF, WERE THERE ANY OTHER COMPANIES OR ORGANIZATIONS THAT COULD HAVE PROVIDED SERVICES SIMILAR TO THE BAS/ESS SERVICES PROVIDED BY APDF?	<u>BAS (N=53)</u>	<u>ESS (N=45)</u>
	<b>PERCENT OF RESPONDENTS</b>	<b>PERCENT OF RESPONDENTS</b>
<b>YES</b>	47.2%	46.7%
<b>NO</b>	32.1%	42.2%
<b>DON'T KNOW</b>	20.8%	11.1%

Note: Percentages do not add to 100.0% due to rounding.

Source: Client survey

36. Approximately 47 percent of both BAS and ESS clients indicated that there were other options available to them. Companies pointed to donors, local consultants, government agencies, and banks as providers of similar services. However, as shown in Table 5, most chose APDF over these other providers because they perceived APDF services to be of higher quality and more responsive to their needs. In addition, roughly 32 percent of BAS clients and 60 percent of ESS clients selected APDF due to price considerations.<sup>40</sup> Other reasons cited by companies for selecting APDF rather than other organizations include APDF’s connection to IFC and the World Bank—the connection provides a stamp of approval for APDF’s services and creates expectations of potential funding from IFC. Some managers also indicated that the company chose to work with APDF mainly because of personal contacts with APDF staff or because a trusted colleague recommended their services.

<sup>39</sup> The difference in responses between BAS and ESS clients is not statistically significant at a 90% level.

<sup>40</sup> The difference in response between BAS and ESS clients is statistically significant at a 90% level (p=.06).

**Table 5. Reasons for Selecting APDF for BAS and/or ESS Services**

Company selected APDF because...	Percent of Respondents	
	BAS Clients (n=25)	ESS Clients (n=20)
Believed that APDF would provide higher quality services than available elsewhere	76.0%	65.0%
Believed that APDF would respond to its needs more rapidly than available elsewhere	76.0%	95.0%
Believed that APDF's services were less expensive than available elsewhere	32.0%	60.0%
For other reasons	60.0%	65.0%

Source: Client survey

### ***Access to financing***

37. One of the principal rationales for the donor support of APDF is to help companies secure financing. In this regard, it is important to note that roughly 49 percent of the BAS clients that responded to the survey had approached banks or other financial institutions for financing for the project before seeking help from APDF. Approximately 46 percent of these firms were not able to raise monies from outside sources prior to seeking assistance from APDF. The remaining 54 percent were able to raise at least some of the needed financing on their own -- these companies came to APDF in order to raise additional capital needed for the projects.
38. According to records provided by APDF, the organization completed 136 BAS projects with 135 companies between 1 January 1999 and 30 June 2002.<sup>41</sup> Under the definition employed by all PDFs, a BAS project is supposed to be recorded as "completed" when a financial institution indicates that it is willing to provide financing under specified terms and conditions. APDF procedures state that the commitment should be presented in a letter or other documentation provided by the financial institution.
39. While APDF records identify 136 completed BAS projects, details regarding the amount of financing offered by financial institutions were only available for only 118 of these projects.<sup>42</sup> The financing arranged for these projects totals US\$68.5 million, representing an average of approximately US\$580,500 per firm. As shown in Table 6, the financing includes US\$14.7 million in equity and US\$ 36.4 million in debt financing (including US\$3.1 million in short-term credit).<sup>43</sup>

<sup>41</sup> See Figures B-3 and B-4 in Appendix B for further detail on the pattern of responses to survey questions pertaining to financing.

<sup>42</sup> There are a number of potential reasons for missing data for the remaining 18 "completed" projects. First, some of the projects might have been miscoded. APDF stopped work on some BAS projects before the company received a commitment from a financial institution to provide financing. It may be more accurate to report these projects as "dropped" rather than "completed". In addition, when APDF was asked about the lack of financing details for some of the "completed" BAS projects, a few were described as "light touch BAS" with a further explanation that no funds were raised. Second, APDF indicated that some files were either incomplete, missing, or otherwise unavailable. APDF acknowledges that the organization has not received or retained copies of letters from all of the financial institutions that expressed an interest in financing projects.

<sup>43</sup> See Table B-5 in Appendix B for more details on financing reported as having been arranged for individual clients.

**Table 6. Financing Commitments Arranged by APDF**

	Completed Projects	Total	Mean	Median
<b>Total financing</b>	<u>118</u> <sup>(a)</sup>	<u>\$68,499,286</u>	<u>\$ 580,502</u>	<u>\$350,000</u>
<b>Equity financing</b>	19 <sup>(b)</sup>	\$14,702,974	\$ 773,841	\$401,070
<b>Debt Financing</b>	<u>79</u> <sup>(c)</sup>	<u>\$36,370,613</u>	<u>\$ 460,388</u>	<u>\$340,761</u>
<b>Term loans</b>	68 <sup>(d)</sup>	\$33,225,720	\$ 488,614	\$352,062
<b>Short-term lines of credit</b>	17	\$ 3,144,893	\$ 184,994	\$ 93,879
<b>Other type of financing</b> <sup>(e)</sup>	15	\$ 5,393,386	\$ 359,559	\$156,250
<b>No type specified</b>	11	\$12,032,313	\$1,093,847	\$500,000

Notes: (a) While APDF records identify 136 completed BAS projects, details regarding amount of financing raised was not available for 18 of the completed projects. (b) APDF records identified 20 projects where equity financing was raised. However, for one of those projects, the amount of equity financing was not available. (c) APDF records identified 80 projects that involved debt financing. However, for one of those projects, the amount of the debt financing was not available. (d) APDF records identified 69 projects that involved term loans. However, for one of those projects, the amount of the term loan was not available. (e) Other includes lease, grant, rescheduling, supplier guarantee, own contribution/sources.

Source: APDF records

40. APDF arranged financing with approximately 80 different financial institutions, including local commercial banks, branches of large international banks, international financing institutions, and other entities. Despite the large number of financial institutions with which APDF has worked, two-thirds of these financial institutions were involved in only one project during the three-year period. Nonetheless, it appears that ADPF has established ongoing relationships with a few selected institutions that have been involved in multiple transactions. These include Business Partners Limited, Nedbank, and the Industrial Development Corporation (South Africa); East Africa Development Bank (Kenya); and the International Finance Corporation. In regard to the latter, according to APDF records, the organization helped arrange 10 deals with IFC with a total value of roughly US\$3.5 million.
41. However, a financial institution's intent to provide financing does not ensure that the funds will actually be provided. In reality, financial institutions may withdraw offers or clients may decide not to pursue the financing offered by banks due to collateral requirements, unacceptable terms and conditions, or a variety of other reasons. The evaluation team surveyed companies that completed a BAS project during the evaluation period. Roughly 57 percent of respondents (30 companies) reported that they actually obtained financing for the BAS project as a direct result of APDF assistance.<sup>44</sup> Twelve of these 30 firms responded that they would have been able to obtain the same amount of financing without APDF assistance, although nine indicated that it may have taken longer to secure financing and/or the terms may have been

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<sup>44</sup> As noted above, although APDF completed BAS projects with 135 companies, ten companies were dropped from the sample frame because APDF could not provide current contact information. Sixty-four of the 125 companies in the sample frame responded to the survey; however, only 53 indicated that they had received BAS services from APDF and thus, were subsequently asked questions about the BAS project. Thirty of these 53 companies reported that they secured financing.

worse.<sup>45,46</sup> Eleven companies indicated that they would not have been able to obtain the same amount of financing without APDF assistance.<sup>47</sup>

42. Fifteen companies have already completed the projects for which they secured financing. According to survey results, the average total project cost for companies that have received financing as a result of APDF assistance and gone on to implement the project was on the order of US\$977,455 (median=US\$ 980,061), with the largest project representing a total investment of over US\$2.3 million.<sup>48</sup> The total investment associated with these projects is on the order of US\$14.7 million. Four of the remaining fifteen projects are scheduled to be completed within the next year, representing a total investment of over US\$10 million.<sup>49</sup> Three other companies indicated that projects have gone ahead and are expected to be completed at some time. Finally, seven companies that received financing have indefinitely postponed or cancelled the projects.<sup>50</sup>
43. In thinking about the impact of APDF, it is also useful to consider what would have happened if these companies had not obtained financing from the institution which APDF brought to the table given the potential for raising needed capital from other sources. Of the 23 BAS client respondents that indicated that they received financing as a direct result of APDF assistance and did not postpone or cancel the project, 15 (65 percent) stated that the company would have “probably” or “definitely” gone ahead with the project without APDF assistance.<sup>51</sup>
44. Roughly 42 percent of respondents (22 companies) reported that they did not secure financing through APDF.<sup>52</sup> Two examples illustrate some of the reasons why this may have occurred:
  - APDF worked closed with a company formed by a group of traders to develop and maintain an outdoor market. After working with the group over an extended period of time, APDF assisted them in arranging an eight-year, US\$200,000 loan from Oikocredit – a development organization based in the Netherlands with offices in South Africa. However, agreement could not be reached with the abutters to the proposed market during the zoning process and thus, the project has not gone forward. While all of the financing agreements were in place, financing was never disbursed.

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<sup>45</sup> It should be noted that all but two of the companies that obtained financing through APDF reported being satisfied with APDF services, regardless of whether they felt that they would have obtained financing on their own. In fact, all 12 companies that responded that they would have been able to secure financing without APDF assistance were still satisfied with APDF services. Clients can believe that they could raise financing without APDF assistance, but still be satisfied with APDF services because these services met their expectations. Consider the following example: a person purchased a pair of shoes in Store A. They could get the same pair of shoes in Store B, but they are still satisfied with the original purchase because the shoes and associated buying experience at Store A met their expectations.

<sup>46</sup> Interviews with representatives of financial institutions suggest that some banks would have “possibly” provided financing to APDF clients if these companies had approached the bank on their own without benefit of the business plan prepared by APDF; the decision would depend on the banks’ assessment of risk. Furthermore, banks indicated that while the availability of the APDF-prepared business plan may shorten the application process, it does not result in better terms than the company otherwise would receive.

<sup>47</sup> Six reported that they did not know and one did not respond to the question. Given the small sample sizes, there were no statistically significant differences with respect to firm size (employment and sales), geographical location, gender of owner and other firm characteristics between the companies that indicated that they would have been able to obtain financing without APDF assistance and those that indicated that they would not have been able to secure financing otherwise.

<sup>48</sup> Companies were asked to estimate the total cost of the project, including the cost of acquisition of fixed assets, interest during construction, other preliminary and pre-operational expenses, and the increase in net working capital (current assets minus current liabilities) required for the project. Results from the survey are comparable to data maintained in APDF files with respect to project costs.

<sup>49</sup> Two of these four companies did not provide information on the total cost of the BAS project. However, according to APDF records, the total costs of the BAS projects for these firms were US\$140,000 and US\$6.9 million. These amounts are not included in the total of “over US\$10 million.”

<sup>50</sup> One company did not respond to the relevant questions in the survey. This company indicated that the project had gone ahead, but did not indicate whether or not the project had been completed.

<sup>51</sup> Seven companies indicated that the company “probably” or “definitely” would not have gone ahead with the project without APDF assistance. The one company mentioned above that said that the project had gone ahead, but did not answer if the project had been completed also did not answer this question.

<sup>52</sup> One respondent (2 percent) indicated that he/she did not know if the company had secured financing through APDF (i.e., answered “don’t know” to the question).

- A retail business in West Africa was seeking US\$2.5 million, comprised of US\$1 million in equity and US\$1.5 million in debt financing, for the construction of a shopping mall. A loan application was submitted to Barclays Bank (Ghana) Ltd. in April 2002. The bank expressed an interest in providing financing; however, there were significant delays in putting the loan agreement in place. In the end, the company secured a loan from Barclays Bank (UK) on its own, using property that the owner of the firm held in London as collateral. The project has gone ahead successfully.
45. Despite not being able to raise financing through APDF, 18 of the 22 companies indicated that they went ahead with their respective projects anyway.<sup>53</sup> Fifteen companies (including the retail business in West Africa discussed above) reported that they raised financing for investment projects on their own. The remaining three companies presumably financed projects with retained earnings.

### ***Improved performance***

46. APDF provides more than help with obtaining financing. As noted above, technical assistance is frequently bundled with BAS or offered as a stand-alone service under the banner of ESS. In both cases, the intention is to improve the performance of clients with respect to specific business processes and/or the enterprise as a whole. As a result, companies may benefit from APDF services in areas that go well beyond securing credit.
47. In this regard, approximately 60 percent of survey respondents that completed a BAS or ESS project reported that employees gained new knowledge or skills as a direct result of APDF's services. Companies that received ESS were almost twice as likely to report these gains as those that received BAS (86 percent compared to 44 percent).<sup>54</sup> Over 90 percent of the companies that reported that their employees gained new knowledge and skills indicated that these had been put to use within the firm.
48. In turn, new knowledge and skills that have been obtained as a result of APDF services have enabled companies to institute a variety of new practices. Approximately 88 percent of BAS and ESS clients combined reported making changes in at least one aspect of their business as a direct result of APDF services. ESS clients were more likely to report making changes than BAS clients (96 percent compared to 88 percent).<sup>55</sup> In general, the most frequently reported changes made by companies tend to be the kinds of things that one would expect given the subject of the assistance provided by APDF. Companies report developing new or improved products or services, shifting their business strategies, adopting new marketing approaches, changing their method for sales and distribution, reorganizing the layout of production facilities, entering new markets, tightening quality control procedures, and introducing better accounting or management information systems.<sup>56</sup>
49. However, changes in capabilities and practices are a means to an end. The test is whether these changes actually improve performance. In this regard, 83 percent of respondents, on the whole, reported that their performance improved along one or more dimensions such as product quality, capacity utilization, labor productivity, and on-time delivery.<sup>57</sup> Again, ESS clients were more likely to report improved performance than BAS clients (93 percent compared to 81 percent).<sup>58</sup>
50. More than 65 percent of BAS and ESS clients that responded to the survey indicated that APDF assistance increased the ability of their company to compete to a "great" or "moderate" extent.<sup>59</sup>

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<sup>53</sup> One of the 22 companies did not respond to this question.

<sup>54</sup> The difference in responses between BAS and ESS clients is statistically significant at a 95% level ( $p=.001$ ). See Table B-6 in Appendix B.

<sup>55</sup> However, this result is not statistically significant at a 90% level.

<sup>56</sup> See Tables B-7 through B-9 in Appendix B.

<sup>57</sup> See Tables B-10 through B-12 in Appendix B.

<sup>58</sup> The difference between BAS and ESS clients is statistically significant at a 90% level ( $p=.09$ ).

<sup>59</sup> See Figure B-5 in Appendix B.

Moreover, almost 30 percent of BAS and ESS clients that responded to the survey indicated that without APDF assistance, their establishment could not have started operations, while 23 percent indicated that their establishment would have gone out of business.

51. In the end, the aim of BAS and ESS is to boost sales and/or net profit. As demonstrated in Table 7, more than half of BAS and ESS clients that responded to the survey reported that APDF's assistance resulted in higher annual sales and/or higher net profits.<sup>60</sup>

**Table 7. Impact on Enterprise Performance**

Is your establishment's performance in the following areas better than it would be without APDF's assistance?	All clients (n=102)			BAS (n=48)			ESS (n=42)		
	Yes	No	Don't Know	Yes	No	Don't Know	Yes	No	Don't Know
<b>Annual sales</b>	52.9%	35.3%	11.8%	54.2%	35.4%	10.4%	61.9%	26.2%	11.9%
<b>Net profit</b>	52.9%	34.3%	12.8%	54.2%	37.5%	8.3%	59.5%	23.8%	16.7%

Source: Client survey

52. The survey also asked clients to attempt to quantify the impact of APDF services on sales and employment. Specifically, it asked companies to estimate what the level of sales and employment would have been in FY02 in the absence of APDF services. The actual (observed) performance in 2002 was compared to the estimated performance in the absence of APDF services (i.e., the counterfactual) to gauge the impact of APDF services.
53. Only 27 clients provided sufficient data to calculate the difference in sales attributed to APDF's intervention, while 48 clients provided sufficient data to calculate employment impacts. Together, these companies reported a total of US\$64.7 million in additional sales in 2002 as a direct result of the assistance provided by APDF and a total of 1,042 additional employees.<sup>61</sup>

**Table 8. Estimated Impact of BAS and ESS on Sales and Employment in 2002**

	N	Median	Mean	Std dev.	95% confidence interval	
<b>Change in annual sales</b>	27	\$79,830	\$2.4 million	\$5,758,631	\$101,664	to \$ 4,689,388
<b>Change in employment</b>	48	5	21.7	48.5	7.6	to 35.8

Source: Client survey

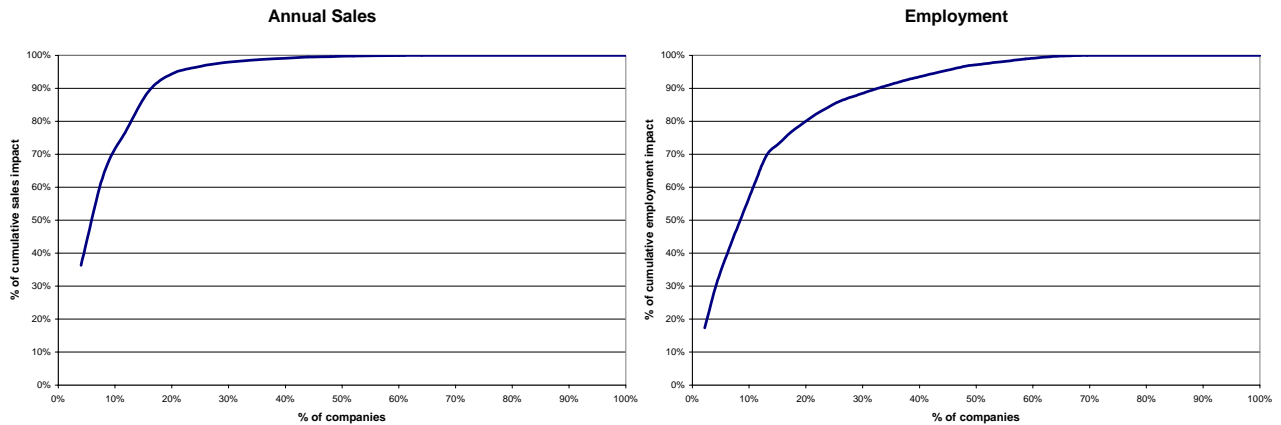
54. Reported impacts are highly skewed as shown in the cumulative distributions in Figure 4. One firm accounted for 36 percent and four firms accounted for 90 percent of the aggregate sales impact. A similar

<sup>60</sup> Further analysis of the data suggest that there is no statistically significant difference in the likelihood of companies reporting sales or profits impacts among companies that received different services (i.e., BAS, ESS or training), controlling for regional office and firm characteristics. Companies that received ESS alone, or in conjunction with BAS, reported higher employment impacts than clients that received BAS alone or training services. Company size tends to be related to sales impacts: larger companies reported higher sales impacts than smaller firms, other things being equal. See Appendix G.

<sup>61</sup> Additional analyses were conducted to examine the difference in performance between clients that had received services from APDF to those that had not yet received services during the evaluation period. Results suggest that there is no statistically significant difference in sales, exports, profits and employment between the two groups, controlling for baseline performance, year and year of first service, office and fixed-firm effects. See Appendix H.

pattern, albeit not as dramatic, emerges in terms of employment gains. Here, five firms accounted for 60 percent of the additional jobs reported by all clients.

**Figure 4. Cumulative Distribution of Reported Impacts**



Source: Nexus Associates based on client survey.

### **Viability**

55. Approximately 63 percent of clients that responded to the survey report that the company was profitable in 2002 and 31 percent stated that the firm was not profitable (the remaining 6 percent did not know). Approximately one-quarter of respondents revealed that the company had difficulty paying suppliers and approximately one-fifth had significant problems servicing existing debt. As a result, roughly 36 percent of companies needed owners to inject additional cash into the firms to maintain operations and more than 25 percent of respondents stated that the company’s “survival” was dependent on continued cash contributions from owners.<sup>62, 63</sup> However, most companies see better times ahead. Approximately 83 percent of survey respondents expect that sales will be higher in three years and 89 percent believe that the firm will be profitable in three years.<sup>64</sup>

### **Development impacts**

56. Successful clients are contributing to economic development in the region. Impacts on clients ripple throughout the economy, giving rise to changes in value added, employment and other measures of economic activity. While an analysis of the broad economic impact of APDF is outside the scope of this evaluation, it is possible to gain some insights into the effects of improved performance among APDF clients:

<sup>62</sup> It is important to note that the survey was limited to companies that are still in business. However, some of the companies that received services from APDF are no longer in operation. Out of the 232 clients that APDF identified as having completed at least one BAS and/or ESS project during the evaluation period, APDF identified twelve clients as having gone out of business. Moreover, the survey firm identified two additional clients as having gone out of business. The survey firm was unable to contact an additional 56 BAS/ESS clients, but was unable to definitively determine if these clients were still in business or not. Unreliable communication technology in parts of Africa sometimes made it difficult for the survey firm to determine if the inability to contact a company was due to the communication technology or if the company was no longer in business.

<sup>63</sup> See Table B-13 in Appendix B.

<sup>64</sup> See Table B-14 in Appendix B.

- **Economic distortions.** About 46 percent of clients believed their financial performance had been impeded to some degree as a result of government policies. Approximately eighteen percent of clients expressed the view that the company's performance has been significantly harmed by tariffs, import restrictions, government subsidies or similar provisions. The companies that reported being harmed called attention to local taxation, problems with customs, lack of subsidies for start-ups, and general government bureaucracy. Approximately 24 percent of clients reported having benefited from government policies.
- **Exports.** On average, the clients that provided information on the extent of their exporting activity in 2002 had annual exports of approximately US\$933,000. However, the distribution is highly skewed. In fact, 27 percent of companies that responded to the question indicated that they do not export any of their goods or services. Exports are important for a number of reasons. Beyond the classic rationale of gains from trade when countries focus on products in which they enjoy a comparative advantage, exporting offers a means for companies in countries with relatively small markets to benefit from economies of scale, provide exposure to increased competition thus spurring further quality improvements, while enabling greater economic diversification and often creating higher paying jobs.<sup>65</sup> Exporting is particularly important for companies in small and highly fragmented domestic markets such as those that prevail in most of Sub-Saharan Africa.
- **Competitors.** Two-thirds of clients that responded to the survey indicated that most of their competitors are located within the same country where the company is located.<sup>66</sup> It also appears that a higher percentage of companies located in countries with more developed domestic business markets, such as South Africa and Nigeria, tend to have most of their competitors located within the same country. To the extent that companies compete with other local companies for a fixed share of the market, there is a chance of displacement, i.e., one firm may gain market share at the expense of another.
- **Backward linkages.** As companies expand, their demand for raw materials and components also expands leading to further economic impacts. Here it is important to note that companies source a significant percentage of purchased inputs from other companies within their respective countries. Approximately 53 percent of clients that responded to the survey purchased more than 75 percent of the raw materials—components and subassemblies used to produce their own goods or services—from other firms within the country where they are located.<sup>67</sup>
- **Demonstration value.** Approximately 70 percent all BAS/ESS clients that responded to the survey indicated that they knew of other firms that had followed their lead in making changes in business strategies or operations, undertaking new investments in the country, seeking assistance from outside providers of consulting and training services, and/or providing training for employees.<sup>68</sup>

### ***Environmental and social issues***

57. APDF is supposed to assess environmental and social issues as part of BAS and ESS projects. To this end, the diagnostic tool developed by FUNDES, and now in use by APDF, includes several questions dealing with environmental and social matters.

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<sup>65</sup> See for example, K. Hallberg and H. Tan, "Mexico Export Dynamics and Productivity: Analysis of Mexican Manufacturing in the 1990s." Report No. 19864-ME, September 15, 2000. Washington, DC: The World Bank. Using plant-level data from 1993-98, the report shows that exporting firms perform better than non-exporters (in terms of total factor productivity, labor productivity, and new investment) and that causality runs in both directions -- suggesting that "learning-by-exporting" effects do exist.

<sup>66</sup> See Table B-15 in Appendix B.

<sup>67</sup> See Table B-16 in Appendix B.

<sup>68</sup> See Table B-17 in Appendix B.

58. Two independent consultants were retained under separate contract by OEG to conduct an assessment of E&S issues at APDF as part of the evaluation.<sup>69</sup> As part of this assessment, the consultants visited nine companies that completed BAS and/or ESS projects during the evaluation period. Three out of the nine companies visited were found in compliance with IFC requirements, while four out of the nine companies were found in compliance with local environmental requirements. In terms of social requirements, 89 percent of firms were found to be in compliance with both IFC and local standards. APDF did not provide any written recommendation concerning E&S issues to these firms.

### Summary of major findings

- In general, APDF has provided BAS and ESS to companies in the target population. Most clients are satisfied with these services and report benefits. However, only half of clients reported that annual sales or profits increased as a result of APDF services. Moreover, aggregate impacts are concentrated in a relative small percentage of firms. One firm accounted for 36 percent and four firms accounted for 90 percent of the total US\$64.7 million in additional sales reported for 2002. Similarly, only five firms accounted for 60 percent of the total 1,042 additional employees attributed to APDF.
- APDF has helped some companies secure financing for investment projects. However, access to financing does not appear to be a major constraint to many of the companies served by APDF. In this regard, 12 of the 30 companies that reported that they secured financing with APDF assistance indicated that they would have been able to raise the same amount of financing on their own. Moreover, 18 of 22 respondents that reported that APDF assistance did not result in financing indicated that they went ahead with the planned investments anyway.

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<sup>69</sup> This section of the report is based on separate reports by Christina Wood (independent consultant) "Evaluation of Africa Project Development Facility (APDF): Environmental and Social Review, South Africa," June 9, 2003, and by Samba Yade (independent consultant) "Evaluation of Africa Project Development Facility (APDF): Contribution to the Evaluation of Environmental and Social Issues," May 2003. IFC arranged to have another consultant examine E&S issues in Uganda, but the consultant was unable to complete the work as contracted.

## IV. Training Services (Skills Development)

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### Rationale

59. The ability of companies to compete effectively is based to a significant degree on the capabilities of their management and workers. APDF determined that there was a need to upgrade labor skills in various areas and that existing training institutions were not meeting this need. As such, APDF entered into the training market and began providing services directly to SMEs.<sup>70</sup>

### APDF's role

60. APDF has identified subjects that may be of interest to owners and/or managers of SMEs. The process used to determine which courses to offer is informal. It is mainly based on feedback from clients as well as insights from APDF staff. The organization has taken the approach of offering a wide variety of training courses both in terms of their content, format and duration. In general, training curricula are developed and delivered by consultants and training institutions with support provided by APDF. APDF has also drawn on materials developed by IFC, particularly for training programs for credit analysis and loan portfolio management.

### Activities

61. APDF offered at least 60 courses directed primarily to owners and managers of SMEs during the evaluation period.<sup>71</sup> Courses have dealt with a variety of subjects, including business planning, general management, marketing and sales, production and quality, information technology (IT), and finance.<sup>72</sup> The broad range of subjects is reflected in various course titles: Strategic Business Planning, Goal-Oriented Project Planning, Customer Care, Essential Principles of Food Handling, Logistics Training, Maintenance Management, Packaging Techniques, Construction Management, Effective Business Writing, Information and Communication Technology, Finance for Non Financial Managers, and Packaging Your Business To Attract Funding.<sup>73</sup>
62. Many of these courses are designed to last eight hours, while others provide more than 30 days of training extended over a number of months. Some courses have been offered a number of times in one or more countries; others were delivered only once during the evaluation period.
63. The most significant training programs as reflected in the total number of participant training-hours include the following:<sup>74</sup>
- **Training in Construction Management (Chad).** Developed and taught by Ecole Nationale des Travaux Public (ENTP), the course was presented in 15 modules for a total of 306 hours during September and October of 2001.<sup>75</sup> Working in collaboration with the Chadian Association of Construction Companies and the local Chamber of Commerce, this training program was designed to

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<sup>70</sup> In addition to providing training for SMEs, APDF has worked with intermediary organizations to boost their capacity to deliver services to companies in the region. This topic is dealt with in the next section of the report.

<sup>71</sup> Information on training courses and participants was only available for the period 1 September 2000 – 30 June 2002.

<sup>72</sup> See Table C-1 in Appendix C for a breakdown of the types of training offered by country.

<sup>73</sup> See Table C-2 in Appendix C for a complete list of training courses offered by APDF during the evaluation period.

<sup>74</sup> Participant-training hours equals the number of course participants multiplied by the number of course hours.

<sup>75</sup> ENTP is translated as the National School of Public Works. The school is publicly-owned and was created in 1966 to provide training in urban development and agricultural engineering, public works, and building trades.

help local SMEs qualify for subcontracting opportunities under the Chad/Cameroon Pipeline Project, as part of the World Bank/IFC's Chad SME Initiative. Modules included: preparing bid proposals, construction site management, health and safety on the construction site, topography, foundations, building stability, reinforced concrete techniques, carpentry, masonry, fillings, electricity and wiring, plumbing, waterproofing techniques, quantity surveying, and environmental management.

- **Financial Management, School Governance, and Control (Ghana).** APDF worked with the Ghana Association of Private Schools (GNAPS) to help strengthen the financial management systems and the governance and administrative structures of private schools in Ghana. As part of this work, APDF organized a training program for owners and managers of private schools. The training course involved three modules – school administration, school governance and control, and basic financial management. It was held in Accra between May 28 and 30, 2002. The course was developed by A-BAS SME Solutions and IEPA, in consultation with the Executive members of the Greater Accra GNAPS. The course was taught by three Senior Consultants of A-BAS SME Solutions and four Lecturers from IEPA.
- **Information and Communication Technology Program (South Africa).** APDF partnered with Technology for Business Women (TWIB) to develop this training course as part of APDF's assistance to South African Women Entrepreneurs (SAWEN). Topics included E-business/E-commerce, website design, and internet security as well as how to use various software applications (e.g., Microsoft Word, Excel, and PowerPoint). The eight to 16-hour course was offered in different areas in South Africa (including Durban, Pietersburg, East London, and Gauteng).

## Training participants

64. According to APDF records, a total of approximately 1,500 participants (seats filled) from 1,087 companies have attended APDF-sponsored training seminars between September 1, 2000 and June 30, 2002. Companies are spread out across 19 countries. The largest share of these companies is located in Ghana, South Africa, and Nigeria where the most training courses were offered.<sup>76</sup>
65. Based on the results of the survey, companies that have participated in training programs can be characterized as follows:
  - **Firm size.** Seventy-six percent of survey respondents that have participated in training programs meet the definition of small and medium-sized enterprises adopted by the IFC/WB SME Department.<sup>77</sup> On average, companies that responded to the survey had annual sales of approximately US\$1.7 million (median = US\$321,000) and employed 67 people (median =25) in 2002. Based on the results of the client survey, although all training clients had annual sales of US\$15 million or less in 2002, one client (4 percent) is considered a "large enterprise" based on reported employment of more than 300 employees. In addition, it should be noted that 5 training clients (20 percent) are categorized as "microenterprises" based on reported employment of up to 10 employees and reported sales of up to US\$100,000.
  - **Ownership.** Approximately 75 percent of the companies that received training services from APDF and responded to the survey are fully owned by local private investors. Seven of the responding companies (14.6 percent) reported foreign investment – four of those are fully owned by foreign investors. One company was a state-owned enterprise.

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<sup>76</sup> See Table C-4 in Appendix C.

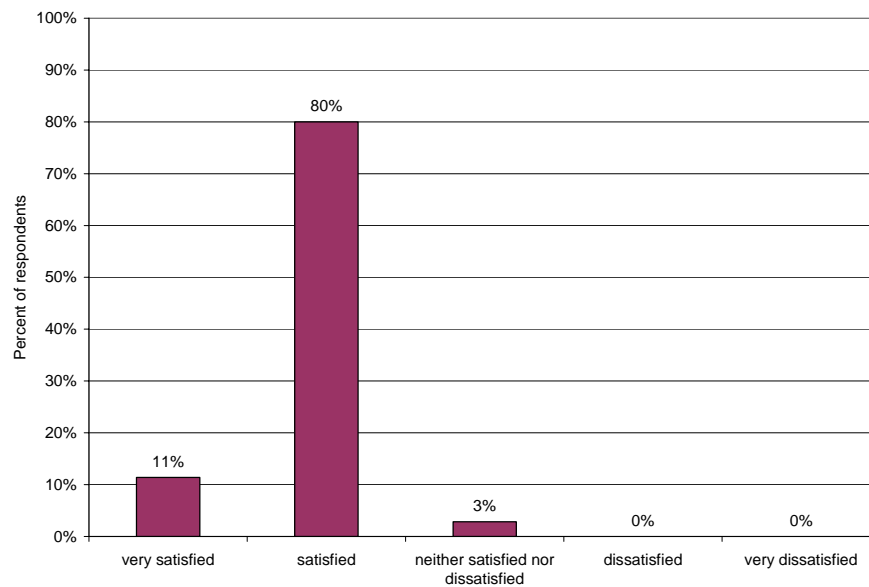
<sup>77</sup> See Table C-3 in Appendix C.

- **Management.** Approximately 94 percent of the companies that responded to the survey are headed by permanent residents. In addition, 32 percent reported that the chief executive or a joint chief executive is female.
- **Industry distribution.** Approximately 32 percent of respondents are engaged in manufacturing, 21 percent are in the hotel and restaurant sector, and 14 percent are in wholesale or retail trade.<sup>78</sup>

## Satisfaction

66. Most respondents (91%) reported that they were "very satisfied" or "satisfied" with the training services provided by APDF as shown in Figure 5. No companies expressed dissatisfaction.

**Figure 5. Satisfaction with APDF Training Services**



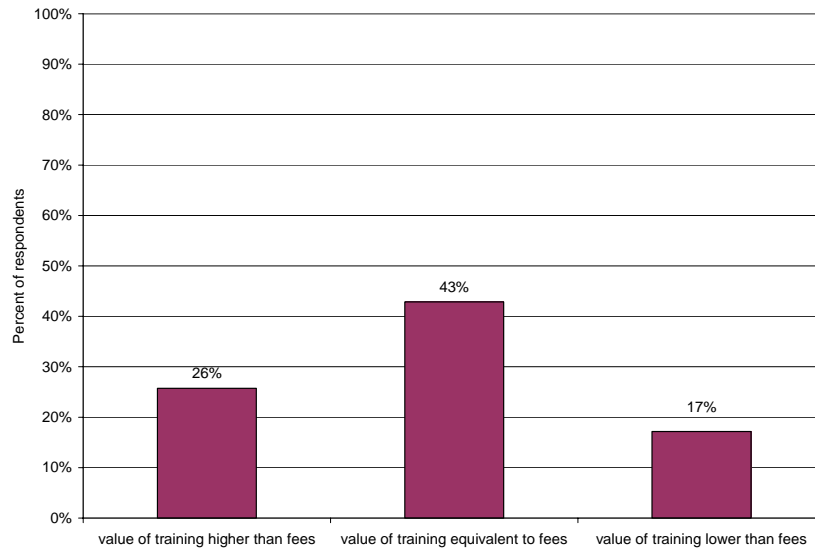
Note: (n=35). Two respondents (6 percent) answered "don't know" to the question regarding satisfaction with APDF training services and were excluded from this figure.

Source: Client survey

67. As shown in Figure 6, in terms of value for money, 69 percent of respondents stated that the value of the training was greater than or equal to the fees charged; the remaining 17 percent indicated that the value derived from training was less than the fees charged.

<sup>78</sup> See Figure C-1 in Appendix C.

**Figure 6. Perceived Value of APDF Training Services**



Note: (n=35) Five respondents (14 percent) answered “don’t know” to the question regarding value of APDF training services in comparison to fees charged and are not included in this figure.

Source: Client survey

## Impact

### ***Availability of alternative providers***

68. Approximately 24 percent of respondents reported that there were no other companies or organizations that could have provided similar training services at the time they sought assistance from APDF. Fifty-seven percent indicated that alternative training providers were available.<sup>79</sup> When asked to provide an explanation for selecting APDF rather than other training service providers, approximately 86 percent of respondents that were aware of other training providers reported that they believed that APDF could provide higher quality and/or less expensive services than available elsewhere. As shown in Table 8, approximately 67 percent believed that APDF would respond to their needs more rapidly than other training providers.<sup>80</sup>

<sup>79</sup> The remaining 19 percent answered that they did not know if there were other companies or organizations that could have provided similar training services at the time they sought assistance from APDF.

<sup>80</sup> On average, the nine respondents that provided information on the rates charged by APDF’s competitors reported that other providers typically charge approximately US\$155 per participant per day (eight hours) of training (median=\$104). In comparison, based on APDF operating and financial data, it appears that the organization charged roughly US\$25 per participant-training day in FY01-02.

**Table 9. Reasons for Selecting APDF for Training**

<b>Establishment selected APDF because...</b> (N=21, unless otherwise noted)	<b>Agree</b>	<b>Disagree</b>	<b>Don't know</b>
<b>Believed that APDF could provide higher quality services than available elsewhere</b>	71.4%	19.1%	9.5%
<b>Believed that APDF's services were less expensive than available elsewhere</b>	71.4%	9.5%	19.1%
<b>Believed that APDF would respond to our needs more rapidly than available elsewhere</b>	66.7%	14.3%	19.1%
<b>Other reasons (n=20)</b>	25.0%	55.0%	20.0%

Note: Percentages may not add to 100.0% due to rounding.  
Source: Client survey

***Improved performance***<sup>81</sup>

69. Approximately 82 percent of survey respondents indicated that they or their employees gained new knowledge or skills as a result of the training received. Of these, 96 percent reported that the new knowledge or skills had been put to use in their establishment.<sup>82</sup>
70. In turn, new knowledge and skills that have been obtained as a result of APDF-sponsored training have enabled companies to institute a variety of new practices. Eighty-two percent of clients stated that they had implemented changes in at least one aspect of their business as a direct result of the services provided by APDF.<sup>83</sup> In general, the most frequently reported changes are those that are directly associated with the training areas in which APDF focuses: production and quality, financial management, IT, and general management.
71. These changes in capabilities and practices led to improvements in business performance. Approximately 83 percent of respondents reported that their performance improved along one or more dimensions such as order-to-delivery time, compliance with standards, capacity utilization, labor productivity, and product quality.<sup>84</sup> More than 55 percent of respondents indicated that the assistance received from APDF increased the ability of the company to compete to a “great” or “moderate” extent.<sup>85</sup>
72. Ultimately, the aim of training is to boost sales and/or net profits of SMEs. As demonstrated in Table 10, more than half of the training clients that responded to the survey reported that APDF-sponsored training resulted in higher annual sales, while over 40 percent reported that it resulted in higher net profits.

<sup>81</sup> The discussion of impact is limited to companies that only received training. While an additional 21 companies received training and another APDF service (i.e., BAS and/or ESS), they are excluded from this section because it is not possible to break out the impact of training alone.

<sup>82</sup> See Table C-5 in Appendix C.

<sup>83</sup> See Table C-6 in Appendix C.

<sup>84</sup> See Table C-7 in Appendix C.

<sup>85</sup> Three respondents indicated that without APDF assistance the establishment would have gone out of business and/or could not have started up.

**Table 10. Impact of APDF Training on Enterprise Performance**

Are the following measures of your establishment's performance higher than they would be without APDF's assistance? (n=27)	Yes	No	Don't Know/Refused
Annual sales	51.9%	40.7%	7.4%
Net profit	40.7%	51.9%	7.4%

Source: Client survey

73. The survey also asked respondents to attempt to quantify the impact of APDF-sponsored training on sales and employment. Specifically, it asked companies to estimate what the level of sales and employment in 2002 would have been if they had not received training from APDF. The actual (observed) performance in 2002 was compared to the estimated performance in the absence of APDF services (i.e., the counterfactual) to gauge the impact of APDF's training services.<sup>86</sup> As shown in Table 11, clients that responded to the survey indicated that training boosted their sales in 2002 by an average of about US\$1.1 million (median = US\$2,123).<sup>87</sup> On average, respondents reported employment gains of 2.5 employees (median = 0).<sup>88</sup>

**Table 11. Estimated Impact of Training on 2002 Sales and Employment**

	N	Median	Mean	Std dev.	95% confidence interval
<b>Change in annual sales</b>	11	\$2,123	\$1,053,425	\$3,350,875	\$-1,197,723 to \$3,304,574
<b>Change in employment</b>	13	0.0	2.5	6.1	-1.20 to 6.13

Source: Client survey

### Viability

74. Approximately 85 percent of clients that responded to the survey reported that the company was profitable in 2002 and seven percent stated that the firm was not profitable (the remaining seven percent did not know).<sup>89</sup> Approximately 30 percent of respondents revealed that the company had difficulty paying suppliers and approximately 19 percent had significant problems servicing existing debt. As a result, roughly 23 percent of companies needed owners to inject additional cash into the firm to maintain operations and approximately 15 percent of respondents stated that the company's "survival" was dependent on continued cash contributions from owners.<sup>90</sup> However, most companies see better times ahead. All respondents expect that annual sales will be higher in three years and believe that the firm will be profitable in three years.<sup>91</sup>

<sup>86</sup> 11 out of 29 respondents provided estimates of sales impacts, while 13 respondents provided estimates of employment impacts.

<sup>87</sup> Given the small sample size and large standard deviation for sales impacts, drawing general conclusions is difficult since the mean is not statistically significantly different from zero. The P values for sales and employment exhibiting greater-than-zero impacts are 0.16 and 0.08, respectively.

<sup>88</sup> These results are also not statistically significant at the p=.05 level.

<sup>89</sup> Percentages do not add to 100% due to rounding.

<sup>90</sup> It is important to note that the survey was limited to companies that are still in business. Some of the companies that received training services from APDF may no longer be in operation.

<sup>91</sup> See Table C-8 in Appendix C.

## Development Impacts

75. Impacts on companies that have participated in training programs offered by APDF have implications for the broader economy:
- **Economic distortions.** About 48 percent of APDF training clients believe that their financial performance had been impeded to some degree as a result of government policies. Approximately 10 percent of clients expressed the view that the company's performance has been significantly harmed by tariffs, import restrictions, government subsidies or similar provisions, while approximately 14 percent report having benefited from government policies.
  - **Exports.** Three respondents provided information regarding export sales in 2002. On average, these clients had annual exports of approximately US\$595,327 (median = US\$469,803) in 2002.
  - **Competitors.** To the extent that companies compete with other local companies for a fixed share of the market, there is a chance for displacement, i.e., one firm may gain market share at the expense of another. Approximately three-quarters of respondents reported that the majority of their competitors were located in their own country. Seventeen percent of respondents reported that the majority of their competitors were located in other countries in Africa, while the remainder (6.9 percent) said the majority of their competitors were located outside of Africa.
  - **Backward linkages.** As companies expand, their demand for raw materials and components also expands leading to further economic impacts. Here it is important to note that companies source a significant percentage of purchased inputs from other companies within their respective countries. Sixty percent of training clients that responded to the survey purchased more than 75 percent of the raw materials – components and subassemblies used to produce their own goods or services – from other firms within the country where they are located.
  - **Demonstration value.** Approximately 41 percent of all training clients that responded to the survey indicated that they knew of other firms that had followed their lead in making changes in business strategies or operations, seeking assistance from outside providers of training and consulting, providing or arranging training for employees, and/or undertaking new investments in the country.<sup>92</sup>

## Summary of major findings

- While most of the companies that have participated in training programs offered by APDF have been SMEs, approximately 20 percent can be classified as microenterprises and four percent are large companies. Most clients are satisfied with these services and report benefits. However, only 52 percent of respondents reported that their annual sales increased as a result of the training provided and just 41 percent reported gains in profits.
- Few companies were able to quantify the impact of the training in terms of sales and employment and reported results seem modest. The median increase in 2002 sales reported by 11 clients was US\$2,123 and the median employment gain reported by 13 clients was zero.

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<sup>92</sup> See Table C-9 in Appendix C.

## V. Capacity Building for Organizations that Serve SMEs

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### Rationale and activities

76. With the encouragement of the SME Department and other donors, APDF has begun to focus more on building the capacity of intermediary organizations that work with SMEs. This new orientation is part of a strategy to expand the reach and impact of APDF throughout Sub-Saharan Africa and pave the way for APDF's eventual exit.<sup>93</sup>
77. APDF efforts in this arena have focused on developing the capacity of local consultants, business associations, and financial institutions. It is important to note that capacity building activities are carried out mainly through APDF's three core services: BAS, ESS, and training seminars.

### Development of Local Consultants

#### ***Rationale***

78. APDF is interested in fostering the development of local consultants to help meet the needs of SMEs in the countries in which it operates. On the one hand, the use of local consultants is seen as a means of expanding APDF's reach in a cost-effective manner: APDF sees advantages to providing services through local consultants, including better local knowledge and lower fees and expenses. On the other hand, APDF aims to generate new business opportunities for local consultants and spur the development of a sustainable market for consulting services.

#### ***Role of APDF***

79. There are three ways in which APDF interacts with local consultants:
  - **Use of consultants on APDF projects.** The organization has utilized numerous local consultants in carrying out its project activities. According to APDF records, the organization retained the services of 282 consultants that were based in Sub-Saharan countries between 1 July 1999 and 30 June 2002 (i.e., local consultants).<sup>94</sup> The local consultants ranged from independent consultants to branch offices of major international consulting firms such as Deloitte Touche Tohmatsu and PriceWaterhouseCoopers. The total value of contracts awarded to local consultants during this period was on the order of US\$6.5 million. While the average value of contracts per consultant was approximately US\$23,200, the top twenty consultants accounted for more than 45 percent of the total value of all contracts and one company accounted for 7 percent of the total contract value during this

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<sup>93</sup>To some extent, this effort grows out of a broader movement among donors to promote the development of business development services (BDS). The range of services that falls under the general rubric of BDS is quite broad. Generally, it includes services that address companies' needs related to planning, production, operations, and other business processes (e.g., legal, accounting, bookkeeping, information system design and installation, management consulting, market research, training, marketing, etc.) The BDS approach stresses the importance of the commercial orientation and financial sustainability of service providers. Interventions of donors are expected to be short term, with a clear exit strategy defined from the outset.

<sup>94</sup>Data were not available for January to June 1999.

period. Some consultants were called on repeatedly during the study period, while others only worked on one assignment.<sup>95</sup>

- **Provision of training to consultants.** During the evaluation period, APDF provided a handful of training seminars directed principally to local consultants.<sup>96</sup> These include a 64-hour training workshop for consultants held in Malawi (both in Blantyre and Lilongwe) in September 2001 and in Namibia in December 2001. The objectives of this workshop were to provide participants with a framework for strategic planning and performance management – skills needed to manage the change process in their organizations – and to assist participants in “improving their personal effectiveness.” APDF also offered a training course in consultancy skills in Kenya and another course in marketing in Cote d’Ivoire. APDF has also provided train-the-trainer courses. For example, APDF held a 10-day train-the-trainer workshop for the staff of Community Action for Development (CAD) during the summer of 2001 in Ghana. The course was developed and delivered by MEL Consulting Ltd., a local consulting firm. The objectives of the workshop were to develop the capacity of the CAD staff in order to enhance their performance and equip the staff with training skills to train their clients in micro-finance concepts, principles and methodologies. Course topics included: entrepreneurship and enterprise development; business plan preparation; record keeping; and gender and development issues. Finally, consultants have also attended courses directed principally to owners and managers of SMEs. According to APDF records, training was provided to participants from 30 consulting firms between September 2000 and June 2002.<sup>97</sup>
- **Development of network of Associated Experts.** APDF has recently begun to expand and formalize a program to build the capacity of local consultants through the Associated Expert Program (AEP). As proposed, APDF intends to establish a formal network of experts that can provide valued and affordable services to SMEs, improving product quality and stimulating demand for business development services in the SME sector. The new program builds on an initiative that the Abidjan Regional Office started in 1998. According to APDF, the initiative expanded to include 27 local consultants in 14 countries during the evaluation period.<sup>98</sup>

The AEP will be implemented across all regional offices. The new program will be made up of four components: capacity building (training and coaching), accreditation (competency based testing), quality control, and monitoring and evaluation. APDF business development officers (BDOs) will have primary responsibility for carrying out this program. They will act as team leaders, responsible for the following activities: developing products and services, recruiting and managing consultants, training and coaching consultants, and reporting to APDF management on performance. Consultants will have to demonstrate their ability to deliver Business Development Services to a substantial number of SMEs in accordance with APDF standards of quality and ethics in order to receive accreditation from APDF and be given the title of “Associated Expert”.<sup>99</sup> BDOs will then monitor consultant progress and performance using a point system. APDF is also planning to develop a standard suite of training

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<sup>95</sup> During the same period, APDF retained the services of 95 consultants that were based outside of Sub-Saharan Africa (i.e., international consultants). Here again, APDF drew on independent consultants as well as large international firms. The total value of these contracts was approximately US\$2.8 million with an average value per consultant of roughly US\$29,900. The top twenty international consultants accounted for almost 70% of the total value of all contracts.

<sup>96</sup> See Table C-2.

<sup>97</sup> It is important to note that more than one participant from each consulting firm may have attended training. Thus, the number of individual consultants that attended training during this period is likely higher. Moreover, the same consulting firm may have attended more than one training seminar. Finally, this number is likely an underestimate of unique consulting firms since it appears that APDF classified some consulting firms as SMEs.

<sup>98</sup> These countries are Benin, Burkina Faso, Cameroon, Cote d’Ivoire, Eritrea, Gambia, Ghana, Guinea, Mali, Nigeria, Rwanda, Senegal, Tanzania, and Uganda.

<sup>99</sup> APDF may want to consult with IFC’s Legal Department regarding issues pertaining to accreditation of consultants.

modules that will provide a comprehensive set of competencies for consultants to use when offering services to clients.

80. The remainder of this section focuses on an assessment of the initial efforts to establish an Associated Expert Program.

### ***Description of Associated Experts***

81. During the evaluation period, the 27 Associated Experts (AEs) served as marketing representatives in fourteen countries. They were asked to generate leads and provide “market intelligence” primarily in countries where APDF does not maintain an office. Some of the Associated Experts have worked with APDF on client projects and attended APDF-sponsored training programs. The evaluation team attempted to survey all 27 consultants that were designated as “Associated Experts” by APDF. Eighteen of these consultants completed the survey.
82. A brief profile follows:
  - Three-quarters of the consulting firms were established since the beginning of 1995. Two of these consulting firms have been in business for 3 years or less.<sup>100</sup>
  - As a group, Associated Experts tend to be quite small, with average annual revenues of approximately US\$243,905 (median = US\$106,168). The largest firm, in terms of revenues, reported annual sales of just under US\$750,000 in 2002. On average, companies that responded to the survey employed nine employees, (median = 6).<sup>101</sup>
  - While small, half of the firms that responded to the survey maintain some type of affiliation with an international counterpart. These affiliations tend to be informal. International firms have an equity interest in only three of these firms.<sup>102</sup>
  - Associated Experts tend to provide a mix of consulting and training services.<sup>103</sup> In addition, roughly 44 percent of the firms offer other services such as lobbying, auditing and project management.
  - In terms of clientele, 88 percent of the Associated Experts that responded to the survey reported that they provided services to SMEs prior to their interaction with APDF and that this segment of the market accounts for the bulk of their business.
  - On average, SMEs accounted for over 70 percent of the total revenue in 2002, while large firms accounted for about 18 percent of revenues.<sup>104</sup> Approximately 25 percent of respondents (three firms) indicated that all of their clients were SMEs.
  - Companies indicated that they typically charge US\$190 per hour (median) for consulting services and US\$130 (median) per participant-training day for training services.

### ***Satisfaction***

83. Almost 90 percent (all but two) of the Associated Experts that responded to the survey expressed satisfaction with the assistance provided by APDF.<sup>105</sup> In general, Associated Experts see APDF as a collaborator rather than a competitor. However, there were five firms (31 percent) that considered APDF

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<sup>100</sup> See Table D-1 in Appendix D.

<sup>101</sup> See Table D-2 in Appendix D.

<sup>102</sup> These three firms declined to indicate what percentage of the company's equity is owned by international firms.

<sup>103</sup> See Table D-3 in Appendix D for a breakdown of the types of training and consulting services offered by Associated Experts.

<sup>104</sup> See Table D-4 in Appendix D.

<sup>105</sup> See Figure D-1 in Appendix D.

as both. On the one hand, these companies serve as subcontractors on APDF projects; on the other hand, these companies perceive that they vie with APDF for business in their respective markets.

### ***Impact of APDF's assistance***

84. APDF has hired Associated Experts as subcontractors on projects for APDF clients. APDF has negotiated lower rates for services offered by Associated Experts. Approximately 76 percent of the Associated Experts indicated that the fees that APDF pays for services are lower than the fees that their companies receive from other clients – on average, 46 percent lower. Twelve percent (two firms) reported that fees were the same, while one reported that APDF pays higher fees (20 percent higher than other clients).<sup>106</sup> Moreover, 71 percent of the firms reported that profit margins were, on average, 39 percent lower on assignments with APDF compared to those for other clients.
85. So why do companies agree to participate in the Associated Expert program? First, while fees for APDF projects may be lower, companies may elect to work with APDF given excess capacity – the opportunity cost of working with APDF may be virtually nil. Second, since APDF serves as the prime contractor, the transaction costs and risks otherwise borne by consulting firms may be reduced. Finally, companies may believe that their involvement with APDF will lead to additional sales. This belief may stem from a variety of intermediate impacts. Associated Experts may believe that APDF will introduce them to new clients that will then hire the AE independent of APDF. Additionally, the firms may benefit from a certification effect due to their accreditation as an “APDF-approved expert”, which may improve their reputation or give them a competitive advantage over other consultants. Finally, the firms may be able to provide higher quality and/or a wider range of services due to the experience gained through their interactions with APDF. As discussed below, all of these statements appear to have some truth.
86. Consultants reported the following benefits from working with APDF:
- Associated Experts report that APDF has reduced the cost of doing business and associated risks. For example, almost 60 percent indicated that their interactions with APDF have led to reductions in the likelihood of nonpayment. Moreover, 40 percent indicated that APDF has reduced the cost of identifying new clients and has provided payments for services more quickly than other clients.<sup>107</sup>
  - Approximately 77 percent stated that they had implemented changes in at least one aspect of their business as a direct result of their interaction with APDF. In general, the most frequently reported changes carried out by companies were changing the approach to marketing or sales, developing new or improving existing services, changing the approach to internal planning, and changing the business strategy.<sup>108</sup>
  - Approximately 71 percent of respondents noted improved performance along at least one of the dimensions such as faster project completions, better on-time project delivery, stricter compliance with standards and regulations, and higher percentage of staff capacity utilization.<sup>109</sup>
  - Almost 50 percent of respondents reported that the assistance provided by APDF resulted in higher annual sales, while almost 60 percent reported higher profits due to their involvement with ADPF.<sup>110</sup>
  - The survey also asked respondents to attempt to quantify the impact of the assistance provided by APDF on sales and employment. As shown in Table 12, companies that responded to the survey indicated that APDF's assistance boosted their sales in 2002 by an average of roughly US\$12,600

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<sup>106</sup> One AE did not know how the fees APDF pays compares to those of other clients.

<sup>107</sup> See Table D-6 in Appendix D.

<sup>108</sup> See Table D-8 in Appendix D.

<sup>109</sup> See Table D-11 in Appendix D.

<sup>110</sup> See Table D-9 in Appendix D.

(median = US\$9,100).<sup>111</sup> On average, respondents reported employment gains of 2.3 employees (median = 1.0).<sup>112</sup>

**Table 12. Estimated Impact on 2002 Annual Sales and Employment**

	<b>N</b>	<b>Mean</b>	<b>Median</b>	<b>Std dev.</b>	<b>95% confidence interval</b>		
<b>Change in annual sales</b>	8	\$12,589	\$9,104	\$14,030	\$859	to	\$24,319
<b>Change in employment</b>	6	2.3	1.0	3.5	-1.3	to	6.0

Source: Associated Expert survey

- In interpreting the reported sales impacts, it is important to remember that at least some of these sales impacts may be attributable to payments that some Associated Experts have received directly from APDF for the services they delivered. In this regard, Associated Experts indicated that they earned roughly US\$11,155, on average, from assignments for APDF.<sup>113</sup> Correspondingly, the average share of APDF-generated revenue in 2001 for these firms was about 18 percent, while the median was about 11 percent.
  - Nine Associated Experts (53 percent) indicated that one or more of APDF's clients subsequently hired their firm to provide consulting and/or training services independent of APDF. These companies, on average, sold services to roughly 19 of APDF's clients – conceivably, the cost of sales in these instances was lower than it would have been given the familiarity that the customers gained by working with the consulting firm on previous assignments sponsored by APDF.
87. As noted above, most companies reported that they worked with SMEs prior to their interactions with APDF. Despite their previous work with SMEs, 81percent of respondents reported that they “gained greater knowledge of the needs of SMEs” through their interactions with APDF.<sup>114</sup> Moreover, 76 percent indicated that they introduced new products designed specifically for SMEs and/or increased their capacity to deliver quality services to SMEs as a direct result of working with APDF. In this regard, 63 percent of respondents reported that the company had provided services to their own clients based on the content and/or techniques taught by APDF. To date, 9 of the 10 companies that reported using APDF content and/or techniques with their own clients have used these materials with an average of roughly 52 clients.<sup>115</sup> However, the results are highly skewed. Five of these ten firms report using what they learned from APDF with ten or fewer clients. Some reported greater success – a few firms reported that they had delivered services developed under the auspices of APDF to 100 or more of their own clients.
88. In terms of sustainability, all of the companies that responded to the survey indicated that they plan to continue to offer consulting and/or training services to SMEs in the future, regardless of whether or not they offered services to SMEs prior to APDF's assistance.<sup>116</sup> Moreover, the vast majority indicated that they plan to use materials and/or techniques developed by APDF in future assignments with their own clients. However, 35 percent of respondents feel that the company's revenues would decrease if APDF were to cease operations.<sup>117</sup> This finding reinforces the previous discussion of how the Associated Experts view

<sup>111</sup> The p-value for sales impacts is p=0.02.

<sup>112</sup> The p-value for employment exhibiting greater-than-zero impacts are 0.08 and thus, are not statistically significant at the p=.05 level.

<sup>113</sup> The revenue figures are for 2001. Only two Associated Experts provided this data for 2002. In this case, the companies earned, on average, US\$22,008 on assignment for APDF.

<sup>114</sup> See Table D-7 in Appendix D.

<sup>115</sup> Median=10; Minimum=5; Maximum=200.

<sup>116</sup> See Table D-12 in Appendix D.

<sup>117</sup> Forty-seven percent feel that their company's revenues would remain the same and the remaining 18 percent feel that revenues would increase.

their relationship with APDF. It is clear that some Associated Experts feel that APDF provides a direct financial benefit to their company through the fees APDF pays them for services, as well as through lowering the company's cost of identifying and providing services to SME clients. On the other hand, 5 out of 16 Associated Experts that answered the question feel that APDF is a direct competitor, providing services to clients in the same market.<sup>118</sup>

89. That said, the Associated Experts pointed to several factors that limit the growth of consulting firms in the region, particularly with respect to the SME market. According to those surveyed, the overarching constraint on the development of the market is the price SMEs are willing or able to pay for services. Approximately 94 percent of Associated Experts responded that they believe that SMEs are not willing or able to pay for services at current prices. Of these respondents, over 90 percent suggested that this factor had limited the growth of their firms to a "great" or "moderate" extent. Not surprisingly, all Associated Expert respondents indicated that they earn higher returns for delivering services to large enterprises. Of these respondents, almost 90 percent indicated that this factor had limited the growth of the consulting or training services their company provides to SMEs to a "great" or "moderate" extent. Similarly, the growth of consulting firms also seems to be limited by difficulties in getting paid for services and the high costs of identifying potential clients.<sup>119</sup> This finding is related to the previously reported result that showed that almost 60 percent of respondents reported that working with APDF has reduced the likelihood of nonpayment of services.<sup>120</sup>
90. When asked to comment on the factors that contribute to the reluctance of SMEs to use consulting services, respondents most frequently pointed to the following issues with which SMEs have difficulty: affording services, negotiating with service providers, managing projects, and putting recommendations into action.<sup>121</sup> For each factor, more than 90 percent of respondents believed that the issue limited demand for services to either a moderate or great extent.<sup>122</sup>
91. Associated Experts believe that APDF has contributed to an improvement in the market for consulting and training services in the region. Approximately 53 percent and 41 percent of respondents reported that APDF's activities have played a "great" or "moderate" role in fostering a permanent expansion in the demand for services and in the supply of services, respectively.<sup>123</sup>

## Development of Business Associations

92. APDF aims to strengthen the capacity of business associations to provide direct services to SMEs as well as advocate for the interests of its members. This work, combined with the other capacity building strategies, is seen as a way for APDF "to reach many more entrepreneurs and to leave behind solid footprints."<sup>124</sup>
93. APDF reports that it has worked with numerous business associations. Most of the interactions are limited to using the association as a conduit for delivering APDF training services to association members. According to APDF records, between September 2000 and June 2002, APDF provided training to 28

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<sup>118</sup> See Table D-5 in Appendix D.

<sup>119</sup> See Table D-13 in Appendix D.

<sup>120</sup> See Table D-6 in Appendix D.

<sup>121</sup> For each of these factors, 94 percent of respondents indicated that the factor limited the demand for consulting and training services by SMEs.

<sup>122</sup> See Table D-14 in Appendix D.

<sup>123</sup> See Table D-10 in Appendix D.

<sup>124</sup> APDF originating documents.

business associations.<sup>125</sup> In a few cases, APDF has undertaken work with business associations over an extended period of time in order to strengthen the organizations and enhance their abilities to address the needs of member companies. The principal example of this approach is work conducted with the South African Women Entrepreneurs Network (SAWEN).

94. APDF has been working with the Department of Trade and Industry (DTI) and several women entrepreneurs to establish an association to promote the development of businesses owned by women in South Africa. APDF provided significant staff time, provided financial support for a consultant that assisted in drafting the organization's constitution, and underwrote some of the costs of various conferences, including the official launch of SAWEN. The organization has attracted considerable support among women's groups and the government. In fact, the government announced that it would allocate roughly US\$250,000 to SAWEN to cover its operating costs. However, several issues remain unresolved, most notably eligibility criteria for membership in SAWEN, its legal status, and "ownership" of the organization.

### Development of Local Financial Institutions

95. The operational plan for APDF 4 indicated that the organization would increase its efforts to build the capacity of financial institutions to provide financing to SMEs.<sup>126</sup> APDF's capacity building efforts in this arena have centered on the provision of training. Courses have focused on credit analysis and loan portfolio management.<sup>127</sup> According to APDF records, training was provided to 124 financial institutions between September 2000 and June 2002.<sup>128</sup> Representatives of six financial institutions in Uganda, Senegal and Ghana were interviewed as part of the evaluation to gauge their impressions of the services received, their interaction with APDF clients, and APDF's impact.
96. The interaction of three of the banks was limited to reviewing loan applications from APDF clients. The three other banks have participated in training programs sponsored by APDF. These institutions reported that they had sent employees to APDF training because it was relevant to their needs, was not available in-house, and because of APDF's "good reputation." Two of these bank stated that they were satisfied with the training services received and one did not express any feelings one way or the other. All three that received training services indicated that their employees had gained new knowledge or skills as a result of the training and all subsequently put this to use at the banks.
97. In general, all of the financial institutions interviewed seemed to be increasing their activities with regard to the SME sector. Moreover, four of the six banks indicated that the volume of loans made to SMEs has increased over the past five years. This trend seems to stem from a number of factors, including the growth of the SME sector, government policies, and overall bank strategy.

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<sup>125</sup> It is important to note that more than one participant from each business association may have attended training. Thus, the number of individual business association representatives that attended training during this period is likely higher. Moreover, the same business association may have attended more than one training seminar. Finally, this number is likely an underestimate of unique business associations since it appears that APDF misclassified some training clients – classifying them as the incorrect type of business/organization.

<sup>126</sup> APDF originating documents .

<sup>127</sup> See Table C-2 in Appendix C.

<sup>128</sup> It is important to note that more than one participant from each financial institution may have attended training. Thus, the number of individual financial institution employees that attended training during this period is likely higher. Moreover, the same financial institution may have attended more than one training seminar. Finally, this number is likely an underestimate of unique financial institutions since it appears that APDF misclassified some training clients – classifying them as the incorrect type of business/organization.

## Summary of major findings

- Efforts to work with business associations and financial institutions are in the early stage of development. As such, to date, most of the effort to build the capacity of intermediary organizations has focused on developing local consultants. During the evaluation period, the 27 Associated Experts (AEs) served as marketing representatives in fourteen countries, generating leads and providing “market intelligence.” Some AEs have worked with APDF on client projects and attended APDF-sponsored training programs. The organization has begun to expand and formalize these efforts through the establishment of the Associated Expert Program (AEP).
- AEs are generally satisfied with the interactions that they have had with APDF and report benefiting in terms of reductions in the cost of doing business and associated risks as well as the adoption of new business practices and new consulting services. Almost half of respondents reported that the assistance provided by APDF resulted in higher annual sales, while almost 60 percent reported higher profits due to their involvement with APDF. Roughly half of the respondents indicated that one or more of APDF’s clients subsequently hired their firm to provide consulting and/or training services independent of APDF. All of the companies that responded to the survey indicated that they plan to continue to offer consulting and/or training services to SMEs in the future.
- Still, AEs pointed to several factors that limit the growth of consulting firms in the region, particularly with respect to the SME market. The overarching constraint on the development of the market is the price SMEs are willing or able to pay for services. In addition, respondents most frequently pointed to the following issues with which SMEs have difficulty: negotiating with service providers, managing projects, and putting recommendations into action. For each factor, more than 90 percent of respondents believed that the issue limited demand for services to either a moderate or great extent.

## VI. Cost and Sustainability of APDF Service Delivery

### Overview

98. Table 13 presents a summary of APDF expenditures for the past four fiscal years.<sup>129</sup> Between FY00 and FY03 (estimated), the annual budget for APDF has fluctuated, with an average of roughly US\$7.3 million per year. Expenditures for the four-year period total US\$29.4 million.
99. APDF spend US\$10.5 million on direct program expenses for BAS, ESS and training (skills development), accounting for 35.8 percent of total expenditures. An additional US\$4.9 million was allocated to business development.<sup>130</sup> General and administrative expenses accounted for the remaining 47.4 percent of total expenditures over the four-year period.

**Table 13. Summary of APDF Expenditures (US\$'000s)**

	FY00 (Jul 1999- Jun 2000)	FY01 (Jul 2000- Jun 2001)	FY02 (Jul 2001- Jun 2002)	FY03 (Est.) (Jul 2002- Jun 2003)	Cumulative (FY00- FY03)	% of total expenditures
Expenditures						
Direct Program Expenses						
BAS	2,553	1,865	1,469	1,455	<b>7,342</b>	<b>25.0%</b>
ESS	681	608	648	633	<b>2,570</b>	<b>8.8%</b>
Skills Development	85	104	144	271	<b>604</b>	<b>2.1%</b>
Sub-Total	3,319	2,577	2,261	2,360	<b>10,516</b>	<b>35.8%</b>
Business Development	1,277	998	1,162	1,485	<b>4,922</b>	<b>16.8%</b>
General and Administrative	3,915	3,283	3,008	3,706	<b>13,913</b>	<b>47.4%</b>
Total APDF Expenditures	8,511	6,909	6,401	7,552	29,351	100.0%

Source: APDF records

100. On the receipt side, client-paid fees have been growing steadily, totaling US\$3.6 million over the four-year period, as shown in Table 14. Client-paid fees represent 12.3 percent of total expenditures. In comparison, at the time APDF 4 was approved, APDF projected that US\$7.5 million would have been generated by end of FY03 and a total of US\$11.8 million by the end of the funding cycle.<sup>131</sup> On a percentage basis, fee income was seen as reaching 23.0 percent of expenditures in FY03 and continuing to rise to 26.5 percent at the end of the cycle.

<sup>129</sup> Figures for FY99 were not available. Prior to FY03, APDF did not allocate expenses to different product lines. As a result, figures cited for FY00 through FY02 are based on estimates provided by APDF. In addition, it should be noted that the organization has not necessarily been consistent in allocating costs to these budget categories.

<sup>130</sup> According to APDF, expenditures on specific projects are recorded under "business development" until a Memorandum of Understanding (MOU) for the project has been executed.

<sup>131</sup> IFC originating documents.

**Table 14. Summary of APDF Client-paid Fees (US\$'000s)**

	FY00 (Jul 1999- Jun 2000)	FY01 (Jul 2000- Jun 2001)	FY02 (Jul 2001- Jun 2002)	FY03 (Est.) (Jul 2002- Jun 2003)	Cumulative (FY00- FY03)	% of total expenditures
Receipts						
Client-paid fees	522	708	983	1,393	<b>3,606</b>	<b>12.3%</b>

Source: APDF records

### Cost of services

101. Table 15 shows the costs associated with each program. Business development expenses and general administration expenses have been allocated to BAS, ESS and Training based on the program's proportion of total direct program expenses. Once expenses have been allocated to programs, the total cost of BAS, ESS and Training over the four year period is US\$20.3 million, US\$7.2 million and US\$1.8 million, respectively.

**Table 15. Breakdown of Expenditures by Program (US\$'000s)**

	FY00	FY01	FY02	FY03 (EST.)	CUMULATIVE (FY00-FY03)
<b>DIRECT BAS EXPENSES</b>	2,553	1,865	1,469	1,455	7,342
<b>ALLOCATED DEVELOPMENT AND ADMINISTRATIVE</b>	3,994	3,099	2,710	3,202	13,005
<b>TOTAL BAS EXPENDITURES</b>	<u>6,547</u>	<u>4,964</u>	<u>4,179</u>	<u>4,657</u>	<u>20,347</u>
<b>DIRECT ESS EXPENSES</b>	681	608	648	633	2,570
<b>ALLOCATED DEVELOPMENT AND ADMINISTRATIVE</b>	1,065	1,010	1,195	1,393	4,663
<b>TOTAL ESS EXPENDITURES</b>	<u>1,746</u>	<u>1,618</u>	<u>1,843</u>	<u>2,027</u>	<u>7,234</u>
<b>DIRECT TRAINING EXPENSES</b>	85	104	144	271	604
<b>ALLOCATED DEVELOPMENT AND ADMINISTRATIVE</b>	133	172	266	597	1,168
<b>TOTAL TRAINING SEMINAR EXPENDITURES</b>	<u>218</u>	<u>276</u>	<u>410</u>	<u>869</u>	<u>1,773</u>

Source: APDF records

102. Given these figures, it is possible to consider the cost to complete different types of projects as shown in Table 16. On average, the cost to complete a BAS project declined over the evaluation period from US\$83,000 to US\$49,000. Similarly, the cost to complete an ESS project declined from US\$41,000 to US\$23,000. The reduction in costs appears to be due, in part, to increased labor productivity. Staff workloads related to BAS and ESS projects have increased.<sup>132</sup> The number of active projects per staff member rose from 2.3 to 7.0 per quarter over the evaluation period.<sup>133</sup> For FY02 as a whole, the number of active BAS and ESS projects per staff member was 9.3. Similarly, the number of completed BAS and ESS projects per staff member has generally increased over the period, although the numbers have

<sup>132</sup> Individual project data, such as staff time allocated to a project, was not available. Thus, while workloads have increased, the evaluation team could not determine if there have been changes in the size or complexity of individual projects.

<sup>133</sup> See Table E-1 in Appendix E.

fluctuated across quarters. In FY02, the number of completed BAS and ESS projects per staff member was 3.6.<sup>134</sup>

103. On the training front, costs have also declined. The cost to provide a participant-training hour fell significantly from US\$66 in FY01 to US\$8 in FY02.<sup>135</sup> This is likely due to an increase in the number of training courses as well as the number of hours and participants in each course.<sup>136</sup> Similarly, many of the costs of providing group training are one-time expenditures associated with curriculum development. As such, the cost of training can be expected to be amortized over a larger base if APDF continues to provide the same, or at least similar, courses in the future.

**Table 16. Cost Per Completed Project (US\$'000s)**

	FY00	FY01	FY02	FY03 (EST.) <sup>1</sup>
<b><u>BAS PROJECTS</u></b>				
COST PER COMPLETED PROJECT (UNADJUSTED)	146	118	97	NA
COST PER COMPLETED PROJECT (ADJUSTED <sup>2</sup> )	83	56	49	NA
<b><u>ESS PROJECTS</u></b>				
COST PER COMPLETED PROJECT (UNADJUSTED)	60	51	32	NA
COST PER COMPLETED PROJECT (ADJUSTED <sup>2</sup> )	41	28	23	NA
<b><u>TRAINING</u></b>				
COST PER PARTICIPANT-TRAINING HOUR (\$)	NA	66	8	NA

Notes: <sup>1</sup>Number of completed projects for FY03 was not available at the time of evaluation. Thus, cost per completed project could not be calculated for FY03. <sup>2</sup>"Adjusted" costs allocate a share of expenditures to work-in-progress.  
Source: APDF records

### Sustainability of APDF services

104. APDF has generated a total of US\$2.0 million in client-paid fees for BAS services since July 1999 (beginning of FY00). During the same time period, APDF generated US\$1.2 million in client-paid fees for ESS services and US\$375,000 for training services. As shown in Table 17, although fees have increased over the past four years, fees continue to account for a fraction of the total cost of service delivery.

<sup>134</sup> See Table E-2 in Appendix E.

<sup>135</sup> APDF was not able to provide information on training seminars offered in FY00, including number of participants and duration (in hours) of training courses.

<sup>136</sup> APDF provided 4,145 participant-training hours in FY01 and 52,077 in FY02.

**Table 17. Cost Recovery**

	FY00	FY01	FY02	FY03 (EST.)
<b>BAS</b>				
CLIENT-PAID FEES FOR BAS PROJECTS (US\$'000S)	402	528	461	653
CLIENT-PAID FEES AS A PERCENT OF <i>DIRECT</i> BAS PROJECT EXPENSES	15.7%	28.3%	31.4%	44.9%
CLIENT-PAID FEES AS A PERCENT OF <i>TOTAL</i> BAS PROJECT EXPENSES	6.1%	10.6%	11.0%	14.0%
<b>ESS</b>				
CLIENT-PAID FEES FOR ESS PROJECTS (US\$'000S)	107	125	395	560
CLIENT-PAID FEES AS A PERCENT OF <i>DIRECT</i> ESS PROJECT EXPENSES	15.7%	20.6%	61.0%	88.4%
CLIENT-PAID FEES AS A PERCENT OF <i>TOTAL</i> ESS PROJECT EXPENSES	6.1%	7.7%	21.4%	27.6%
<b>TRAINING</b>				
CLIENT-PAID FEES FOR APDF TRAINING SEMINARS (US\$'000S)	13	55	127	180
CLIENT-PAID FEES AS A PERCENT OF <i>DIRECT</i> TRAINING EXPENSES	15.7%	52.6%	88.0%	66.1%
CLIENT-PAID FEES AS A PERCENT OF <i>TOTAL</i> TRAINING EXPENSES	6.1%	19.8%	30.9%	20.7%

Source: APDF records

105. The APDF cost-sharing arrangement for BAS projects has three components:<sup>137</sup> front-end fees equivalent to 0.75 percent of the total investment or US\$3,000 (whichever is higher); project document delivery fees equivalent to at least one percent of the total investment; and a success fee equivalent to 0.5 percent of the project financing arranged by APDF, payable only if the financing is mobilized. Policies with respect to the fees charged for ESS and training seminars are not clearly specified. In any event, according to APDF management and staff, the policies are meant as a guide, with discretion to adjust fees depending on particular circumstances. While there are no indications that discretion has been misused, the risk of abuse is present.

#### Summary of major findings

- The cost of service delivery has been declining on a unit basis as APDF staff have taken on greater workloads – specifically, the cost to complete both BAS and ESS projects has dropped by more than 40 percent over the past few years.
- While fees-for-services have increased, APDF has not achieved its cost-recovery targets. At the time APDF 4 was approved, the organization projected that fee income would reach 23.0 percent of expenditures in FY03 and rise to 26.5 percent at the end of the five-year funding cycle. Preliminary estimates for FY03 suggest that APDF will earn US\$1.4 million, representing 18.4 percent of total expenditures in that year. BAS has the lowest rate of cost recovery.

<sup>137</sup> APDF established a cost-sharing policy in 1989 at the recommendation of the Advisory Board. The policy officially became effective in 1990 and was revised in 1994.

## VII. Organizational Issues

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### Strategy

106. With APDF 4, the scope of activities expanded to encompass efforts to roll-out ESS and launch training initiatives across the region, while also taking on new tasks associated with promoting the development of local consultants, business associations and financial institutions. This was to be accomplished while continuing to offer BAS. Although the scope expanded, APDF was expected to maintain staffing and budget at levels roughly comparable to previous funding cycles.
107. APDF has increased activities on all fronts. However, in some areas there does not appear to be a coherent strategy. APDF responds to opportunities as they arise, rather than follow a structured approach to meeting specified objectives. As a result, many activities are undertaken on an *ad hoc* basis. This is particularly apparent with respect to APDF's approach to working with business associations and financial institutions as well as instituting training programs. With respect to the latter, as noted above, the range of training programs offered by APDF is quite diverse within and across countries.<sup>138</sup> According to APDF, individual training programs have been "developed purely on an as-needed basis." APDF management has recognized that it needs to develop a strategy to guide the development and implementation of training programs throughout the region. To this end, in 2002 the organization commissioned a study to assess the training needs of SMEs, consultants, business associations and financial institutions.<sup>139</sup> The study included a review of existing training programs offered by APDF and the other PDFs as well as programs offered by FUNDES and other similar organizations.
108. With the introduction of ESS into multiple countries, the product has evolved. It appears that it now encompasses all services with the exception of activities designed to raise financing for companies. ESS projects have included consulting, training, system installation, and recruitment of managers. APDF is in the process of standardizing ESS projects, particularly with respect to those undertaken with SMEs. This includes an initial diagnosis of needs using a tool developed by FUNDES.
109. As noted above, APDF is intended to provide services to companies and organizations throughout Sub-Saharan Africa with particular emphasis on 14 countries classified as Category I. However, in practice, roughly 63 percent of all APDF activities have been undertaken in the six countries in which the organization has maintained offices. APDF continues to face difficulties delivering services in countries where it does not have an office due to logistics (scheduling, travel and communications), local knowledge and resource requirements. APDF is in the process of establishing an Associated Expert network to overcome these constraints and help expand APDF's reach into more countries.
110. APDF's current strategy is not designed to address the myriad needs of SMEs in particular countries in an integrated manner, rather it centers on the provision of discrete services. For example, training programs are not based on needs identified through the provision of consulting services (BAS and ESS). Similarly, the work with business associations such as SAWEN is undertaken independent of other APDF activities. Business associations are not used to identify the common needs of companies that might be addressed through APDF training, nor as a source of BAS and ESS clients. Conversely, APDF has not taken steps to assist in forming new associations drawing on their own client base. Additionally, efforts to address financial, regulatory and legal barriers to SME development have not drawn on knowledge gained from working with SMEs in a systematic manner. An integrated approach may need to be built on country-

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<sup>138</sup> See Table C-2 in Appendix C.

<sup>139</sup> *Training and Development Needs Analysis for SMEs*, prepared by Erling Petersen, Project Cycle Management Group SA, June to October 2002.

specific strategies and require a physical presence in the country to be effective given the need for substantial local knowledge and a critical mass of resources.

## Organization and management

111. To a great extent, each office operates as a semi-autonomous unit responsible for developing and providing services as deemed appropriate by regional managers and individual staff. On the one hand, this has allowed greater flexibility in responding to the needs that are particular to specific countries. On the other hand, opportunities for offering consistent products, capturing economies of scale, and sharing lessons learned may be foregone.
112. Staff are generalists. Each BDO tends to work on BAS, ESS, training and other types of projects with a broad range of clients. APDF has not assigned responsibility for the development of different services and client groups to particular members of the staff. In addition, staff appear to work on individual projects without a great deal of management supervision. While this may encourage individual initiative, in discussions with the evaluation team, APDF staff expressed a desire to have more extensive interactions with managers to discuss specific projects, including any problems that emerge in the course of implementation.
113. Greater management oversight would also help to avoid potential violations of policy. In this regard, during the course of its fieldwork, the evaluation team became aware of a situation where a consultant retained by APDF to work with a client subsequently become a paid executive and investor in that firm in violation of relevant agreements. Moreover, APDF continued to pay for consultant services, while this individual was on the client's payroll.

## Environmental and social issues

114. Two independent consultants were retained under separate contract by OEG to conduct an assessment of E&S issues at APDF.<sup>140</sup> According to their reports, donors expect APDF to follow the same environmental guidelines as the World Bank Group with respect to specific projects.<sup>141</sup> Donors also expect that APDF staff are kept informed of the current World Bank Group standards through briefings and distribution of guidelines.<sup>142</sup> It is understood that in no case will APDF support a project that is not environmentally sustainable.<sup>143</sup> Moreover, APDF is tasked with paying special attention to gender issues and promoting the development of women in SMEs.<sup>144</sup>
115. According to the reports prepared by the consultants, there is a difference between these expectations and what is being put into practice. Discussions with APDF staff suggest that the organization does not follow any formal E&S policy, including a process of categorizing prospective investment projects according to E&S risks. There is no single person that has overall responsibility for E&S issues. While all APDF staff members that were interviewed seem to understand that they are *expected* to follow the IFC E&S guidelines, they have differing opinions on what requirements *should* be considered and the specific role and responsibility of APDF staff in addressing particular issues. Some staff members consider that clients should comply with IFC requirements, while others consider that compliance with local requirements

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<sup>140</sup> This section of the report is based on separate reports by independent consultants. IIFC arranged to have another consultant examine E&S issues in Uganda, but the consultant was unable to complete the work as contracted.

<sup>141</sup> IFC originating documents.

<sup>142</sup> IFC originating documents.

<sup>143</sup> Bilateral Agreement with Sweden (from mid-1997, through June 2000)

<sup>144</sup> Agreements with Sweden and Norway

should suffice. Still others express the view that there was neither the need nor the obligation to raise or address E&S issues.

116. As noted above, APDF has started using a standard diagnostic tool as part of BAS and ESS assignments. There are sections on environmental, and health and safety performance included in the tool. A review of these sections by the E&S specialist highlights areas of concern:
- The questions do not relate to World Bank/ IFC Safeguard Policies and guidelines, nor to national regulatory requirements or practices. Therefore, it is possible that an analysis of a company could lead to the conclusion that performance is adequate in terms of what the tool evaluates, and yet, the operation could be in violation of IFC and/or local requirements.
  - Scoring of specific aspects relies heavily on responses supplied by the company representative which may lead to potential bias. Other questions demand value judgments on the part of the BDO without giving adequate guidelines. To be useful, BDOs would need to have substantial knowledge of E&S issues.
117. Discussions with staff revealed some concern about their own capacity, as well as the capacity of local consultants, to address E&S issues. APDF staff have received little, if any, training on IFC's E&S policies or any form of environmental management. Moreover, APDF has not provided training to consultants on E&S issues. Thus, E&S aspects are often missed in project documents. In addition, since APDF is assisting with securing financing rather than providing funds directly, many staff wonder what leverage they have to influence companies' behavior with regard to E&S issues.

#### Integration with the World Bank and other PDFs

118. While feedback was generally positive, interviews with representatives of APDF, IFC and the World Bank pointed to the need for closer integration among the organizations. At times, the organizations appear to be operating at cross purposes or missing opportunities to benefit from more coordinated strategies and activities.
119. For example, in June 2001, APDF started working on a program in Mozambique designed to enhance the performance of suppliers to Mozal and strengthen the capacity of the Center for Promotion of Investment (CPI) – a quasi-public agency – to enable it to render services to suppliers in the future.<sup>145</sup> In carrying out this project, APDF drew on the Capacity Building Facility (CBF) managed by the IFC/WB SME Department. Interviews with representatives of APDF and the World Bank office in Mozambique suggested that this initiative could have been better integrated with related projects being undertaken by the World Bank. Specifically, while the World Bank had been providing support to CPI since 1999, APDF's efforts to build capacity within CPI was not integrated into the ongoing World Bank-supported initiative. Moreover, the World Bank had been providing funding for technical assistance and matching grants for a different supplier linkage program housed within the Project for Economic Development (PODE) – a government agency that focuses on addressing the needs of small businesses in Mozambique. In effect, APDF and the World Bank were undertaking parallel efforts to develop supplier linkage programs without attempting to integrate these two projects.
120. APDF has exchanged ideas and materials with other PDFs. Interactions tend to revolve around periodic meetings. In August 2002, APDF staff attended a BDS workshop in Bangkok to discuss their respective activities and identify areas for collaboration, including SME training. A follow-up meeting was held in China in 2003. APDF is in the process of drawing on the experience of other PDFs in the design and development of their training programs.

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<sup>145</sup> See Appendix I.

## Information systems

121. APDF primarily relies on accounting and other information systems provided by the World Bank and IFC. The Time Recording System (TRS) was put in place in early 1999 with the full SAP system installed in July 2000 (i.e., FY01). Another system, known as the “KPMG system,” was fully implemented in APDF in July 2002 (i.e., FY03) to report on costs and revenues for projects according to WBS elements, Trust Funds and organization units (OU).
122. There have been several issues in implementing and using the various systems noted above:
- Installation of SAP took longer than expected and required significant staff training and time to clean and repost data. Some of the 26 Trust Funds used in APDF 3 were rolled into APDF 4. This posed a major challenge in terms of matching the codes used in the new system with those used in the original.
  - According to APDF staff, the system was designed primarily for pooled funding; it is not well structured to handle the number of Trust Funds on which APDF draws, each with different conditions tied to country, products, activity, expenses, and staffing.
  - Multiple Trust Funds also pose difficulties for staff who need to decide how to split their time and expenses among numerous accounts. Furthermore, financial and administrative staff indicate that the preparation of reports for each trust fund (including audited financial statements) consumes significant time and resources.<sup>146</sup>
  - The APDF 4 cycle started without an approved budget and financial commitments in place. In an effort to continue operations, the WB/IFC SME department made a decision to advance funding to APDF. One WBS element was created for each office. Expenses and revenues were not disaggregated and charged to other WBS elements until funding was in place.
  - When first established, the OU referred to the different APDF offices, rather than strategic objectives making it impossible to allocate costs and revenues to different product lines. This changed in FY03.
  - At times, APDF has used “internal orders” (rather than WBS elements) for some projects. As such, data from the KPMG system which relies solely on WBS elements does not match APDF annual financial statements which also include internal orders.
  - Detailed data on the status of projects, e.g. date opened, date closed, and date completed, is not collected and maintained in a systematic manner. Moreover, procedures for handling and storing hard copies of files are not explicit.
  - The system does not include cost accounting to enable the organization to track and report financial information at the level of individual projects in a straightforward manner. It also does not include other budgeting components like cash flow statements, nor an ability to run reports on the usage of tied funds.<sup>147</sup>
123. APDF feels that it has dealt with many of the problems cited above and continues to strengthen systems.<sup>148</sup>
124. Finally, it should be noted that contact information for clients and consultants is not updated on a regular basis. This poses problems for current marketing efforts as well as any future monitoring and evaluation

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<sup>146</sup> Management has signed letters of representation for APDF 3 audited financial statements. The reports will be sent to Donors by the end of November 2003. Audits for APDF 4 (FY01 & FY02) are in progress. APDF expects the auditors to complete their work in the next two to three months.

<sup>147</sup> APDF's income statements are prepared on a cash basis. However, income statements do not provide an indication of the sources and uses of funds for the organization as a whole or in relation to specific trust funds. It would be useful for the organization to prepare cash flow statements (or statement of changes in financial position) using information contained in income statements, balance sheets and the reports on the reconciliation of net worth. Cash flow statement would show changes in cash positions and factors contributing to these changes.

<sup>148</sup> A thorough assessment of the financial accounting system is well beyond the scope of the current evaluation.

(M&E) efforts. In regard to the latter, APDF, on its own, and in conjunction with the IFC/WB SME Department, is in the process of establishing M&E systems. However, these have not yet been implemented on a systematic basis.

### Summary of major findings

- While APDF is intended to provide services to companies and organizations throughout Sub-Saharan Africa, the organization continues to face difficulties delivering services in countries where it does not have an office due to logistics, lack of local knowledge and resource requirements. Roughly 63 percent of all APDF activities have been undertaken in the six countries in which the organization has maintained offices. Current operations center on the provision of discrete services provided on an *ad hoc* basis. APDF does not have country-specific strategies that are designed to address the needs of SMEs in an integrated manner.
- To a great extent, each office operates as a semi-autonomous unit responsible for developing and providing services as deemed appropriate by regional managers and individual staff. On the one hand, this has allowed greater flexibility in responding to the needs that are particular to specific countries. On the other hand, opportunities for offering consistent products, capturing economies of scale, and sharing lessons learned may be foregone. APDF has not assigned responsibility for the development of different services and client groups to particular members of the staff. In addition, staff appear to work on individual projects without a great deal of management supervision.
- Discussions with APDF staff suggest that the organization does not follow any formal E&S policy. Moreover, staff revealed some concern about their own capacity, as well as the capacity of local consultants, to address E&S issues. APDF staff have received little, if any, training on IFC's E&S policies or any form of environmental management.
- While feedback was generally positive, interviews with representatives of APDF, IFC and the World Bank pointed to the need for closer integration among the organizations. At times, the organizations appear to be operating at cross purposes or missing opportunities to benefit from more coordinated strategies and activities.
- Several issues emerged with respect to accounting and other information systems. Of particular note, systems are not well designed to handle multiple Trust Funds. Moreover, existing systems have not been managed adequately to ensure consistent data entry, storage and reporting.

## VIII. Conclusions

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Overall the rationale for APDF remains sound, but the arguments for continuing to focus on helping companies to secure financing and serving all of Sub-Saharan Africa should be questioned given resource constraints.

- In general, companies in Sub-Saharan Africa operate within a very difficult environment marked by political instability, poor physical and social infrastructure, undeveloped local markets for goods and services, and capital constraints. Moreover, many lack the management capabilities needed to build successful firms within this challenging environment.
- These issues persist and continue to provide the basic rationale for donor support of APDF. Survey results and interviews point to the limited availability of high-quality services at affordable prices. They also highlight the reluctance of companies to pay for services given uncertainties with respect to potential benefits. APDF has responded to needs in these markets, increasing both the level and quality of consulting and training services available to SMEs at prices that clients are willing to pay. As such, the justification for ESS and training programs appears well-founded, particularly given the degree of cost recovery.
- The original rationale for the establishment of APDF highlighted the importance of financing to the growth of companies and stated that firms need support in order to access debt and equity. The evaluation, however, found that 40 percent of the companies that secured financing through APDF believed that they could have obtained financing on their own. Moreover, more than 80 percent of the companies that did not receive financing through APDF indicated that they were able to secure financing on their own and/or draw on their own resources to undertake the investment project. In addition, interviews with banks suggested that while APDF's assistance to clients seeking financing may help to shorten the financial institution's appraisal time, it does not result in clients securing loans on terms that are better than they otherwise would receive. These findings call the relevance of APDF's current approach to addressing capital constraints through the provision of BAS into question.
- APDF has been encouraged by donors to serve companies, business associations, financial institutions and other organizations throughout Sub-Saharan Africa. While APDF has attempted to focus on selected countries, the geographical scope is still expansive. In many countries, APDF has only undertaken one or two projects over a four-year period. Even with the development of the Associated Expert Program, APDF will continue to be stretched and the effectiveness of developing and managing projects in countries where APDF does not maintain an office is likely to be compromised.

For the most part, APDF is providing services to companies and institutions in the target population; however, some resources are being devoted to micro and large enterprises.

- As directed by donors, APDF has provided services to SMEs, business associations, financial institutions, and consultants. It has expanded the scale and scope of its activities, rolling out new products to meet the needs of diverse clients.
- The companies that have received BAS, ESS and training services generally meet the WB/IFC SME Department's definition of SMEs. However, it should be noted that roughly four percent of BAS clients, 10 percent of ESS clients and 20 percent of training clients are microenterprises. Corresponding figures for large companies are eight percent, three percent and four percent. The extent of work with microenterprises and large companies may not be appropriate given the organization's stated target

population and limited resources. APDF has defined the target population as SMEs; as such, some resources are being devoted to companies for which services are not intended. Since there are costs associated with all services, any work with microenterprises and large companies consumes resources that could otherwise be used to meet the needs of firms in the target population.

- APDF has made an effort to work with female-owned enterprises and business organizations oriented toward women as well as provide training courses that deal with gender issues in the work place. These efforts have met with some success. For example, based on the survey, 37 percent of BAS clients, 30 percent of ESS clients, and 32 percent of training clients are headed by women.

APDF clients are generally satisfied with the services that they have received.

- Approximately 82 percent of BAS clients reported that they were "very satisfied" or "satisfied" with BAS services – suggesting that the services met or exceeded their expectations. Comparable figures for ESS clients, training participants, and Associated Experts are 90 percent, 97 percent, and 89 percent, respectively.

APDF services have resulted in positive outcomes, but gains are not always reflected in higher sales, profit or employment.

- The vast majority of SMEs that have completed BAS and ESS projects and/or participated in APDF-sponsored training report obtaining new skills and making changes in business practices that have resulted in improved operating performance. However, only 60 percent of BAS clients reported higher sales and/or profits as a direct result of APDF services. The figures for ESS are slightly higher at approximately 69 percent. Roughly 52 percent of training clients reported higher sales, while 41 percent reported higher net profits.
- All told, the BAS and ESS clients that were willing to quantify impacts reported additional sales in 2002 totaling US\$64.7 million (n=27) and 1,042 additional employees (n=48) as a direct result of APDF services. Companies that participated in training indicated that sales in 2002 were US\$11.6 million (n=11) higher than they would have been in the absence of APDF services with additional employment totaling 33 (n=13). In all cases, reported impacts were highly skewed with a few companies accounting for the bulk of aggregate benefits.
- According to APDF records, 118 firms that completed a BAS project received commitments from financial institutions, totaling US\$68.5 million. Based on the results of the client survey, 57 percent of the companies (30 of 53 respondents) that completed a BAS project were successful in obtaining debt or equity for the investment projects through APDF. Applying this percentage to the 118 BAS projects reported as completed by APDF would suggest that a total of 67 companies have been successful in raising capital. Again, using the same percentage, the results further suggest that a total of US\$39 million has been successfully raised directly for companies. The survey also revealed that 40 percent of respondents (12 of 30 respondents) that were successful in securing financing through APDF believed that they could have done so on their own. Applying this percentage to the US\$39 million suggest that APDF was responsible for helping companies to secure a total of US\$15.6 million over the evaluation period that they otherwise would not have been able to raise on their own.
- APDF has also had an impact on Associated Experts. These companies report that APDF has reduced the cost and associated risks of doing business with SMEs, while also contributing to the development of new products targeted at this sector of the market. Roughly 63 percent of the consultants (n=16) reported that they have used content or techniques obtained from APDF with their own clients. On average, these companies stated that they have used these materials with 52

companies (median=10). All AEP members that responded to the survey indicate that they plan to continue to offer services to SMEs.

- APDF has helped establish one business association in South Africa and has provided training services to numerous financial institutions. It is too early to judge the impact of these new capacity building initiatives either in terms of effects on the organizations or SMEs.

Overall, the benefit of APDF services appears to outweigh the cost.

- According to APDF records, the organization spent a total of US\$20.9 million on BAS and ESS projects, including allocated business development costs and overhead (BAS accounted for 75 percent of the total expenditure).<sup>149</sup> As noted above, the BAS and ESS clients that were willing to quantify impacts reported additional sales in 2002 totaling US\$64.7 million and 1,042 additional employees as a direct result of APDF services. The value of additional sales can be considered in terms of profit, employee compensation, and the value of purchased inputs. As noted above, companies tend to rely to a significant degree on locally sourced inputs. Therefore, additional sales can be viewed as additional income in the country.<sup>150</sup> The one-year benefits reported by clients indicate that program expenditures, as whole, are justified.
- Taking a closer look at BAS alone, as noted above, it is estimated that APDF was responsible for raising a total of US\$15.6 million over the evaluation period. In comparison, between FY00 and FY02, APDF spent a total of US\$15.7 million on BAS projects, including allocated business development costs and overhead (excluding BAS expenditures for January-June 1999, for which data were not available). Thus, this suggests that for every dollar expended on BAS, APDF helped companies secure one dollar in debt or equity. This analysis does not take into account any of the other benefits that the companies may have derived as a result of APDF assistance as described above. However, it does call into question whether activities directed toward helping companies secure financing are an efficient use of funds.
- Companies that participated in training indicated that sales in 2002 were US\$11.6 million higher than they would have been in the absence of APDF services with additional employment totaling 33. This compares to expenditures of US\$904,000 during the relevant time period (FY00-FY02).<sup>151</sup> Therefore, it appears that the additional income generated as a result of training programs is greater than the cost of service delivery.

The organization has increased revenue, but has not yet achieved goals for cost-recovery.

- APDF was not intended to be self-sufficient, relying on client fees as the sole source of income. An IFC originating document projected that fees would account for 22 percent of total expenditures over the five-year life of APDF 4.

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<sup>149</sup> Given current financial systems, it is difficult to identify the costs associated with specific capacity building efforts. These costs are incorporated in the three major service lines.

<sup>150</sup> This assumes that all intermediate goods are purchased locally and increased sales of client companies do not displace those of other firms in the country. Leakage through the purchase of intermediate goods from outside the country and displacement of sales from other domestic firms would need to exceed 68 percent for the additional income to be less than the program's costs.

<sup>151</sup> It is important to note that training expenditures include the cost of seminars conducted for financial institutions, business organizations, and consultants. APDF was not able to provide a separate estimate for the cost of SME training programs. As such, the actual costs are less than those shown.

- Client-paid fees have increased significantly over the past four years. Preliminary estimates for FY03 suggest that APDF will earn US\$1.4 million, representing 18.4 percent of total expenditures in that year. Further analysis of different product lines demonstrates that while the organization is meeting its cost-recovery goals with respect to ESS and training, BAS continues to require greater subsidy. In FY03 (est.), cost recovery for ESS was 27.6 percent, followed by training at 20.7 percent and BAS at 14 percent. To reach the cost-recovery target for BAS, APDF would need to reduce costs and/or raise prices dramatically without a significant decrease in volume. Given that roughly 70 percent of BAS clients indicated that the fees were equivalent or greater than the value derived, the potential to raise prices may be limited.

Various operating policies lack clarity and are inconsistently applied.

- Policies with respect to environment and social (E&S) requirements are not clearly specified, practices vary across the organization, and staff have not been adequately trained.
- While unlikely to be widespread, the evaluation team noted one instance of a potential conflict of interest with respect to a consultant receiving compensation from an APDF client.<sup>152</sup>
- Management supervision with respect to specific projects may be inadequate. Staff expressed a desire for more feedback from their managers on projects, as well as assistance in addressing concerns that arise during project development and implementation.
- Staff have discretion in setting prices for particular projects. This has allowed APDF to reach companies that otherwise would be unwilling or unable to pay for services at higher fees. However, while there are no indications that discretion has been misused, the risk of abuse is present.

APDF continues to face challenges with regard to accounting and related information systems.

- APDF primarily relies on accounting and other information systems provided by the World Bank and IFC. While improvements in these systems have been made in recent years, much is yet to be done. Systems are not designed to accommodate reporting requirements associated with multiple trust funds, procedures for opening projects in information systems (i.e., WBS elements) have not always been followed, and definitions of budget categories are not clearly defined or consistently applied (including general and administrative expenses).
- Moreover, files and internal databases are not systematically maintained. Operating data tends to be kept at regional offices in different formats, making it difficult to compile consistent data.

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<sup>152</sup> See Chapter VII for more information.

## IX. Recommendations<sup>153</sup>

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APDF should establish clear priorities, refine its strategy, and reallocate resources among programs.

125. APDF has begun to shift its strategy in light of changing conditions in the market and experience in the field. The results of the evaluation suggest that the strategy needs further refinement:

- APDF needs to establish an explicit definition of the target population based on need and available resources. As currently defined, APDF cannot expect to deliver services to a substantial percentage of the target population throughout Sub-Saharan Africa without a significant increase in resources. APDF needs to set clear priorities and refrain from expanding the scope of its activities. This will mean placing limits on the types of firms that are eligible for assistance, the countries in which APDF will provide services and the range of services that APDF will offer. In order to maximize economic impacts, APDF should consider placing greater emphasis on export-oriented companies, particularly those that source the bulk of their inputs locally.<sup>154</sup>
- Given the results of the evaluation, in terms of enterprise-level services, APDF should place greater emphasis on the provision of consulting and training services to SMEs to enable them to use existing assets more productively, rather than attempting to help companies secure financing for new investments. Given this focus, APDF should consider reallocating resources away from traditional BAS to ESS and SME training. Moreover, it should consider how best to provide more intensive follow-up services to help companies implement recommendations and address issues that constrain growth and profitability.
- In the near-term, APDF should continue to focus on delivering services where the organization maintains offices. This would enable the organization to reduce travel, communications and other transaction costs associated with operating in other countries. In addition, this focus would maximize the utility of local knowledge that the organization has obtained to date and enable it to develop and implement more integrated country-specific strategies. Close proximity to clients afforded by having a physical presence in the country would also enable APDF staff to manage projects more effectively and thus maintain quality standards. Given its mission and resources, APDF should consider whether it needs to add or reduce the number of offices in particular countries.
- The organization should extend its reach by entering into formal agreements with certified Associated Experts in selected countries. APDF should work with these Associated Experts to develop and implement a strategy for each country, taking full advantage of the range of services offered by APDF. In this regard, it will be important for APDF to develop a critical mass of experts *in each country* to pursue a more integrated approach to addressing the needs of SMEs. APDF will also need to develop systems to ensure the quality of services provided by Associated Experts.

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<sup>153</sup> See Table F-1 in Appendix F for a list of recommendations from the most recent evaluation of APDF conducted in February 2000 along with an assessment to the extent to which these recommendations have been implemented.

<sup>154</sup> As noted above, exporting provides opportunities to generate foreign exchange as well as afford companies in countries with relatively small markets an ability to benefit from economies of scale. Moreover, there is evidence that companies learn from exporting, leading to quality improvements and increased productivity. APDF may also consider focusing on working with companies that are able to compete effectively with imports, reducing the reliance on foreign goods and reducing outflows from the domestic economy.

APDF should consider reorganizing its operations based on regional offices *and* practices.

126. APDF should consider adopting a matrix management structure built around regions and practices. The latter could be defined by type of client (e.g., private business, financial institution, business association) or product (e.g., consulting services, training, supply chain development).
127. Matrix management would help promote cross-practice interactions within regions based on region-specific objectives, while also enabling staff to be part of peer groups with shared responsibility for accomplishing objectives related to particular practices. Staff would be responsible to their respective regional manager; however, staff would also report to designated practice leaders.
128. Regional managers would have responsibility for supervising staff in their office and achieving specific goals and objectives for the region. Practice leaders would oversee efforts to develop new products, train staff, and market services throughout Sub-Saharan Africa. To be effective, it will be imperative for all staff to have a clear understanding of the goals, objectives, and performance metrics for which they will be held accountable with respect to both regions and practices.

APDF should increase management supervision of staff.

129. Regional managers and practice leaders should work more closely with staff at all stages of project development, implementation and closure. Greater supervision would contribute to staff development, quality control and greater accountability.

APDF should clarify and implement E&S policies.

130. APDF needs to provide a written E&S policy to every staff member and take steps to ensure that it is followed. This will entail a fair amount of staff training with respect to developing a thorough understanding of APDF's requirements and the skills required for implementation. According to independent consultants retained for this evaluation, the sections on E&S issues included in the Project Diagnostic Tool should be redrafted. APDF may need to hire an E&S specialist to assist BDOs, consultants, and client companies to deal with E&S issues.

APDF should develop an explicit pricing policy, beginning with a clear articulation of objectives.

131. APDF needs to be able to generate revenues to defray a portion of its operating costs in keeping with cost-recovery targets. Before setting prices for particular services, APDF should specify the objectives of its pricing policy. These objectives could include one or more of the following: recovering the costs of providing the service; maximizing the use of the service among customers in the target population; exerting downward pressure on prevailing market prices for the service; or maximizing profits.
132. The development of an appropriate pricing policy revolves around questions concerning the degree of subsidy that APDF should be willing to extend in furtherance of its mission. The argument for APDF's intervention in markets through the provision of subsidized services is complex, revolving around market failures and equity concerns. The consulting and training services that APDF provides are essentially

*private* goods, rather than *public* goods.<sup>155</sup> However, the demand and supply of consulting and training services at prevailing market prices may be inadequate from a social perspective as a result of imperfect information, externalities and/or equity concerns.<sup>156</sup> By offering subsidized services, APDF can induce greater demand for services among companies and organizations in the target population, leading to the attainment of stated social and economic objectives. Prices and associated subsidies may vary according to the type of client, service, and nature of the market failure or equity concern that APDF is attempting to address.

133. With objectives defined, APDF should then take steps to determine the specific prices for particular services. As part of this process, it needs to consider how customers are likely to respond to different prices, prices charged by other organizations for similar services, and its own cost structure. The pricing policy should be written and shared with all APDF staff. As part of this process, the organization should tighten up the policy with respect to what it charges particular companies for services. The extent of the subsidy extended to specific companies should be based on explicit guidelines rather than left to ad hoc decisions to ensure fairness and transparency. The magnitude of the subsidy extended to particular firms should be made transparent so that clients understand the difference between the price and the cost of service delivery. This will be important for establishing sustainable markets for these services.

APDF should take immediate steps to strengthen accounting and information systems.

134. As part of this process, APDF should undertake the following:

- Reduce the number and complexity of restrictions associated with donor funding or design systems to accommodate associated reporting requirements,
- Clarify and apply procedures for opening projects in information systems (i.e., WBS elements) and eliminate the use of internal orders,
- Clarify and apply definitions of budget categories (including general and administrative expenses),
- Establish policies and procedures concerning file management and storage as well as the maintenance of client contact information,
- Establish central database for operating data, and
- Take steps to strengthen monitoring and evaluation systems based on client surveys and qualitative research.

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<sup>155</sup> Public goods have two unique properties. First, consumption of a public good by one consumer does not affect the ability of other consumers to benefit from it (*non-rivalry*). Another way of describing this characteristic is that the good can be provided to additional consumers at virtually no additional cost. Second, it is impossible to stop people from benefiting from the good even if they are unwilling to pay for it (*non-excludability*). Because of these properties, there is little economic incentive for private companies to provide public goods.

<sup>156</sup> *Imperfect information*. Efficient markets depend on people making informed decisions. However, people cannot make wise choices if information is unavailable, incomplete, overly complex or misleading. Particular problems arise if there are either significant transaction costs in obtaining the necessary information about the quality of a good, or if quality can only be judged after purchase and/or consumption as in the case of “experience” goods. While companies may be interested in maximizing profit, the lack of information and associated transaction costs constrain their purchases. *Externalities*. The argument can be made that the prevailing market price for the types of services offered by APDF does not reflect the additional value that *other* companies or society as a whole derives as a result of the provision of services to particular customers. Externalities arise when the production (or consumption) of a good or service affects parties other than those directly involved in the transaction. As a consequence, these spillover effects are not fully reflected in market prices. The issue of externalities is particularly important given ambiguous property rights and/or high transaction costs. *Equity concerns*. Imperfect information and externalities both deal with allocative efficiency. However, APDF may also be concerned with equity. To a great extent, the existing distribution of income and wealth is determined by initial endowments of land, capital and labor skills in the country. Those who possess resources benefit more from the operations of the market. APDF’s involvement in the provision of services can help ensure greater fairness by committing resources to under-served constituencies.

APDF should take steps to ensure closer coordination with IFC/World Bank.

135. The World Bank Group is in the process of implementing a new Africa strategy.<sup>157</sup> APDF needs to ensure that it is supporting this new approach. In addition, it should take steps to meet regularly with staff of country offices to discuss specific projects to identify opportunities for greater collaboration.

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<sup>157</sup> This evaluation does not consider any of the recommendations presented in the new Africa strategy since it was released subsequent to the evaluation.