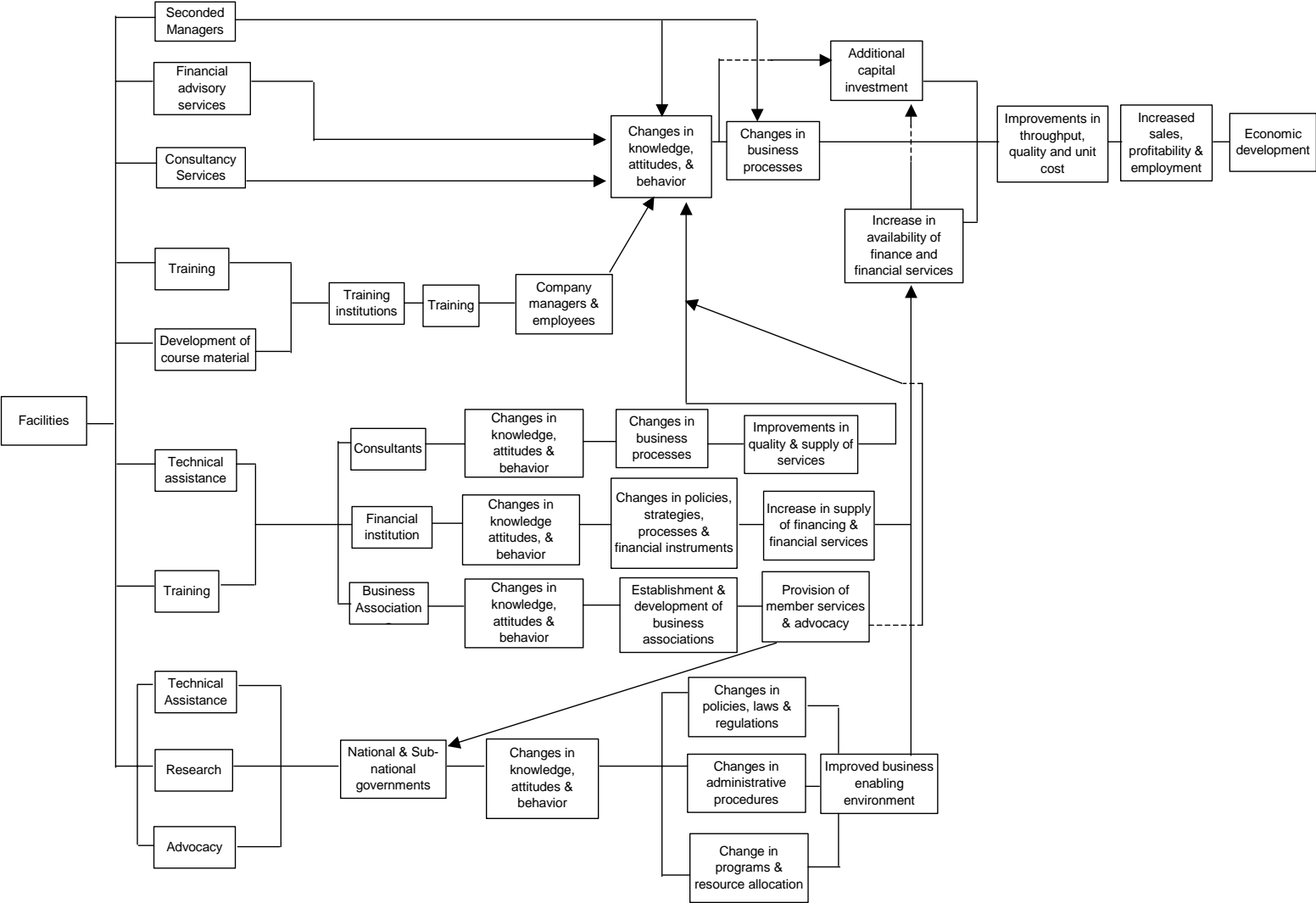


Program Logic Model



IFC-SUPPORTED SME FACILITIES & SIMILAR PROGRAMS

Facilities or Similar Programs	Geographic Region	Mandates	IFC Managed	FY03 Budget (\$ millions)	FY03 Staff	Most Recent Evaluation	Comments
Caribbean & Central American Business Advisory Service (CCBAS)	Caribbean & Central America	To render project preparation & financing assistance for smaller projects	1981-94	Nil	Nil	1995 OEU	Originally Caribbean Project Development Facility. No longer in existence.
African Project Development Facility (APDF) & Enterprise Support Services (ESSA)	Sub-Saharan Africa	To support the development of competitive African SMEs, with services that are needed & affordable, working mainly through local institutions & consultants	1986-	6.9	55	2003 OEG-directed	IFC established ESSA in 1994 and closed it in 1/02. APDF integrated ESSA into its own operations in 7/00.
African Management Services Company (AMSCO)	Sub-Saharan Africa	To assist private sector companies, particularly SMEs, to become globally competitive & sustainable	1989-	9.6	55	2003 OEG-directed	
Pacific Enterprises Development Facility (PEDF)	South Pacific islands	To assist & accelerate the development of productive, self-sustaining small- and medium-sized private sector enterprises in Pacific island countries.	1991-	1.5	12	2000 Hardin & Assoc.	Until recently, known as South Pacific Project Facility (SPPF).
Polish Business Advisory Service (PBAS)	Poland	To provide financial and technical advisory services to SMEs in Poland	1991-96	Nil	Nil	1995 KPMG	No longer in existence.

Facilities or Similar Programs	Geographic Region	Mandates	IFC Managed	FY03 Budget (\$ millions)	FY03 Staff	Most Recent Evaluation	Comments
Business Development Project (UBDP) – Ukraine Consulting Network	Ukraine	To deliver business development services to Ukraine’s emerging private sector, in particular to SMEs.	1994-2001	Nil	Nil	7/01 Self-evaluation	Part of IFC’s Private Enterprise Partnership (PEP) from 5/00. IFC withdrew its support in 2001.
Mekong Private Sector Development Facility (MPDF)	Vietnam, Cambodia, Laos	To foster growth in the number and size of domestic private firms in Vietnam, Lao PDR & Cambodia	1997-	4.2	82	2002 OEG-directed	Until recently, known as Mekong Project Development Facility
Belarus SME development efforts (not a separate facility)	Belarus	To boost the capacity of Belarusian business associations and NGOs involved in SME development through joint implementation of informational and educational programs for entrepreneurs and the population.	2000-	0.4	n.a.	Not evaluated	Part of IFC’s Private Enterprise Partnership (PEP) from 5/00.
Southeast Europe Enterprises Development (SEED)	Albania, Bosnia & Herzegovina, FYR of Macedonia, & Serbia, Montenegro & Kosovo	To support SME development & improve the overall environment for SME growth & competitiveness in the region	2000-	5.5	83	2003 OEG-directed	

Facilities or Similar Programs	Geographic Region	Mandates	IFC Managed	FY03 Budget (\$ millions)	FY03 Staff	Most Recent Evaluation	Comments
China Project Development Facility (CPDF)	Sichuan Province, China	To help support the development of private SMEs in the interior of China, with an initial focus on Sichuan Province	2001-	2.5	27	Too early	
South Asia Enterprise Development Facility (SEDF)	Bangladesh, Nepal, Bhutan, Northeast India	To alleviate poverty through promotion of robust SME sectors that will employ many more people than is now the case	2002-	6.0	26	Too early	
North Africa Enterprise Development (NAED)	Algeria, Egypt, Morocco	To support the development of markets and institutions that are key to SME growth	2003-	3.0	n.a.	Too early	
Program for Eastern Indonesia SME Assistance (PENSA)	Eastern Indonesia	To promote and support the development of the SME sector in Indonesia	2003-	3.5	26	Too early	
Latin America SME Program	Initially Bolivia, Honduras, Nicaragua, Peru	To promote private sector growth through support to SMEs	2004-	n.a.	n.a.	Too early	Not in operation during FY03.

SERVICES PROVIDED BY IFC SME FACILITIES (& PRIVATE ENTERPRISE PARTNERSHIP)¹
(X = major activity; + = minor activity; * = activity added after facility established)

	Traditional Facilities											AMSCO	Private Enterprise Partnership (PEP)	
	CCBAS	APDF	PEDF	PBAS	MPDF	SEED	CPDF	SEDF	NAED	IEDF	LAC			
Firm-level services	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Assisting companies in raising financing	X	X	X	+	X	X	X	X	x	X				X
Promoting business ideas & seeking promoters for them	+	+	+											X
Providing, arranging or funding consulting services	+	X	+	X	X	X	X	X	X					X
Providing temporary managers		+											X	
Providing company-specific training													X	
Providing training that is not company-specific														
• Training courses run by facility			+	X		X								X
• Training courses run by others		X			X		X			X			+	X
• Books & computer programs for self-education					X									X
Developing linkages to suppliers and distributors		+						X	X	X	X			X
Support to clusters of businesses											X			
Improving corporate governance												X*		X
Networking among clients												X*		X
Access to information (incl. computer based)														X
Capacity building	+	X	+	+	X	X	X	X	X	X	X			
Financial institutions	+		+		X	X	X	X	X	X	X			X
Consultants	+	X*	+	+	X	X	X	X	X	X				X
Training institutions		+			X	X	X	X	X					
Business associations		+			+	X	X	X	X					X
Local economic dev. organizations						X								
E-commerce platform														+
Seeking to improve business enabling environment					X	X	X	X	X	X	X			
Research & issuance of reports					X	X	X					X* ²		X
Drafting legislation and regulations						X								X
Lobbying						X	X	X	X		X			X
Help with implementation						X								X

¹ Includes services previously or currently provided.

² Corporate governance manuals only.

Summary of Research Findings Related to Arguments on Subsidizing SMEs

While programs assisting SMEs are widely supported and endorsed, the issue of whether *subsidized* assistance to SMEs is justified is more controversial. The research literature on justifying subsidies to SMEs centers on three basic lines of reasoning: First, SMEs make particularly important contributions to private sector development and poverty reduction when compared with larger firms, therefore subsidies are needed to foster their development. Second, if one wants to work with the private sector in developing countries, that means working with SMEs as there are few large established firms to work with in these countries; assisting the private sector in developing countries means assisting and subsidizing SMEs. Third, subsidizing SMEs is justified because of market failures. The literature review commissioned for this study, summarized below and in the following table, shows that sometimes the findings differ for SMEs in developed countries versus those in developing countries. But for SMEs in developing countries as well as developed countries, the literature supports the last argument *as a reason for subsidizing SMEs*. The complete literature review can be obtained at www.ifc.org/oeg.

Under conventional wisdom, subsidies to SME programs are justified because small businesses make particularly important contributions to poverty reduction, job creation, entrepreneurship development, innovation, export development, competition, dynamism and flexibility in the economy, and social and political objectives. A review of the literature, summarized in the following table, indicates SMEs in developing countries clearly do contribute to many of these ends, but their ability to do so appears to be no greater than that of larger enterprises.

Another argument for subsidies is that the emerging private sector in many poor countries consists essentially of SMEs and, therefore, assisting the private sector calls for assisting SMEs. It is again true that in many developing countries, the private sector consists largely of SMEs. However, as indicated by the literature review, this argument does not suggest that SMEs are more desirable than large firms. Therefore it is not a rationale for directing subsidies specifically to SMEs.

The third argument does justify specific targeting of SMEs in some situations. The argument, supported by the evidence in the literature, is that devoting subsidized resources specifically to fostering SME development or targeting programs specifically to SMEs may be warranted on economic grounds because of market or institutional failures.ⁱ Efforts to address such failures can help remove barriers to the development of SMEs and, hence, allow them to contribute to growth and poverty reduction.

The following table summarizes the arguments made and considers the evidence available in the literature with respect to these arguments.

Arguments Made	Evidence & Comments
SMEs are a powerful force for poverty reduction. ⁱⁱ	A cross-country study using data for 76 countries found no evidence that SMEs differentially reduce poverty. ⁱⁱⁱ Moreover, SME owners and workers are unlikely to be the poorest of the poor, and SME promotion may not be the most effective poverty reduction instrument. ^{iv} Also, see evidence on other arguments, below.

SMEs create jobs.^v

Of course SMEs create jobs and the research literature finds that they create more jobs than do larger firms. But the research also finds one must distinguish between gross and net job creation. Small firms are disproportionate creators of new jobs, but they also lose them disproportionately, given their greater instability and much higher observed failure rates. The research evidence finds no systematic relationship between rates of *net* job creation and firm size that would justify subsidizing SMEs. *Gross* job creation is indeed higher for SMEs than for large enterprises, but *net* job creation (after allowing for jobs lost due to companies' going out of business) is not. These findings are based on data for U.S. and 5 countries in Africa.^{vi}

Even if SMEs were more effective than large enterprises in net job creation, subsidizing SME development could shift capital towards firms with lower productivity, lower growth prospects, or both, which would adversely affect longer-term output and sustainable employment.^{vii}

SMEs are less capital intensive than large-scale enterprises.^{viii}

This assertion is not supported by evidence. Firm size has not been found a reliable predictor of labor intensity.^{ix}

SMEs create good jobs.^x

Evidence from developed and developing countries indicates large firms generally provide higher wages, better benefits, better working conditions, and greater security than SMEs.^{xi}

SMEs serve as seedbeds for innovation.^{xii}

The available evidence for developed countries supports higher innovation rates for small firms for some industries that are high-technology and skill intensive industries, such as computers and for companies following niche strategies. Large firms appear to be more active in funding university-based research, but SMEs are apparently better able to exploit the research findings to generate marketable innovations. These findings are not, however, transferable to the developing world. In developing countries, while there are exceptions, the research finds technology transfers from abroad into larger firms generally drive technological progress.^{xiii}

SMEs serve as seedbeds for entrepreneurship.

A study in the U.K. found that new firm formation was greater on the part of employees of smaller firms. But this finding may reflect differences in the capacity of different industries to generate new firm formation. Moreover, no information is available on other countries.^{xiv}

SMEs serve as seedbeds for export development.

The literature review finds that the seedbed function of small firms does not extend to exports in most countries. The propensity of small firms to export is low, particularly in developing countries. There are exceptions in Hong Kong, Taiwan, northern Italy, and a few other regions, but even in these cases, large trading companies generally facilitate the exports of small firms and the SMEs are indirect exporters, supplying intermediate inputs or subcontracting to larger export firms.^{xv}

SMEs add dynamism and flexibility to business activity because of their suppleness in substituting factors of production and their quicker, less costly adjustment to economic shocks.^{xvi}

The research finds SMEs can add dynamism and flexibility to business activity and improve economic performance. The research shows evidence that size-related irregularities in the distribution of firms can influence the health of the economy. Evidence from transition economies suggests heavy reliance on large enterprises weakened dynamism and flexibility. But excess reliance on SMEs can interfere with economies of scale. Moreover, excessively skewed firm-size distributions are usually due to policy-imposed distortions, and removing these policy distortions is the best way to deal with such problems.^{xvii}

SMEs contribute to social or political objectives, e.g. serving specific ethnic groups or political constituencies, contributing to regional development, social stability, political stability, or democracy.^{xviii}

The research shows no systematic evidence on this issue. Moreover, assisting SMEs may not be the most effective way to address these objectives.^{xix}

The emerging private sector in many poor countries consists essentially of SMEs.^{xx}

This argument does not suggest that SMEs have any benefits over large enterprises and, hence, does not call for giving any preference or subsidy to SMEs.

Healthy, competitive, sustainable SME sectors rarely evolve on their own.^{xxi}

The research finds no systematic evidence on this issue, but the experience of many countries contradicts this argument.

Devoting subsidized resources specifically to fostering SME development or targeting programs specifically to SMEs may be warranted on economic grounds because of market or institutional failures. Markets may fail to

A significant body of literature indicates that markets can fail to yield socially appropriate prices, in terms of their rationing function and in terms of the incentive signals provided to enterprises, and that institutional failures can constrain private sector development, the more so in the case of SMEs.^{xxiii}

allocate resources efficiently because, among other things, decision-makers may have only imperfect information, firms cannot capture the external benefits that may arise from some types of expenditures, or individual firms have inadequate incentives to spend money on public goods.^{xxii}

Notes

ⁱ Use of donor resources may also be justified by equity concerns. Persons with capital or skills are better able to benefit from market opportunities. Donors may wish to use the facilities to improve opportunities for disadvantaged segments of the population.

ⁱⁱ WBG, *World Bank Group Review of Small Business Activities, 2001*, p. 6. WBG, *Annual Review: Small Business Activities, 2003*, p. 2. K. Hallberg, *A Market-Oriented Strategy for Small and Medium Scale Enterprises*, IFC Discussion Paper No. 40, 2000, p. 5.

ⁱⁱⁱ T. Beck, A. Demircuc-Kunt, and R. Levine, "SME's Growth and Poverty: Cross-Country Evidence, Nov. 5, 2003, draft, p. 4.

^{iv} K. Hallberg, *op. cit.*, p. 5.

^v WBG, *op. cit.*, p. 6; WBG, 2003, *op. cit.*, pp. 2 and 4; IFC Strategic Directions (IFC/R2004-0052), April 1, 2004, pp. 5 and 6; Hallberg, *op. cit.*, p. 2; D. Birch, *The Job Generation Process*, Final Report to Economic Development Administration, Cambridge, MA 1979; D. Birch, "Who Creates Jobs," *The Public Interest*, No. 65, 1981; D. Birch, *Job Creation in America: How Our Smallest Companies Put the Most People to Work*, New York, 1987 (citations of Birch taken from Biggs, *op. cit.*).

^{vi} T. Biggs, "Is Small Beautiful and Worthy of Subsidy? Literature Review," prepared as working paper for this study, pp. 3-5 and 18; Hallberg, *op. cit.*, pp. 3-4; Beck, *et al.*, *op. cit.*, p. 7; C. Armington and M. Odle, "Small Business: How Many Jobs?" *Brookings Review*, 20 (Winter, 1982); Dunne, Roberts and Samuelson (1987); J. Leonard (1986); C. Brown, J. Medoff and J. Hamilton, *Employers: Large and Small*, Cambridge, MA, 1990; Davis, Haltiwanger and U Schuh (1993); T. Biggs and M. Shah, *The Determinants of Enterprise Growth in Sub-Saharan Africa: Evidence from the Regional Program on Enterprise Development*, World Bank Discussion Paper, 1998. Some of these sources cited in Biggs, *op. cit.* without further information.

^{vii} Biggs, *op. cit.*, p 19; Bendick and Egan (1987), cited in Biggs, *ibid.*

^{viii} Beck, *et al.*, *op. cit.*, p. 1.

^{ix} Biggs, *op. cit.*, p. 6; Hallberg, *op.cit.*, p. 3; Beck *et al.*, *op. cit.*, p. 7; and works cited by Biggs, *viz.*, I.M.D. Little, D. Mazumdar and J. Page, *Small Manufacturing Enterprises: A Comparative Analysis of India and Other Economies*, Oxford Univ. Press, 1997, and D. Snodgrass and T. Biggs, *Industrialization and the Small Firm*, *International Center for Economic Growth*, 1996.

^x Beck, *et al.*, *op.cit.*, p. 8.

^{xi} Biggs, *op. cit.*, pp. 5-6 and 18-19; Hallberg, *op. cit.*, pp. 4-5; Beck et al., *op. cit.*, pp. 7-8; and sources cited by Biggs, *viz.* Brown, *et al.*, *op. cit.*, Mazumdar, 1999, World Bank, *World Development Report: Works in an Integrating World*, 1995, and M. Rosenzweig, "Labor Markets in Low-income Countries," in Chenery and Srinivasan, *Handbook of Development Economics*, North Holland, 1988.

^{xii} Biggs, *op. cit.*, p. 6, citing UK, Bolton Report, "Committee of Inquiry on Small Firms," CMND 4811, London, HMSO; and Hallberg, *op. cit.*, p. 4.

^{xiii} Biggs, *op. cit.*, pp. 6-8; Hallberg, *op. cit.*, p. 4; and works cited by Biggs, *viz.*, Z. Acs and D. Audretsch, "Innovation, Market Structure and Firm Size," *Review of Economics and Statistics*, No. 69, Nov. 1987; Link and Rees (1990); Z. Acs, D. Audretsch, (1992, 1994); N. Rosenberg, *Perspectives on Technology*, Cambridge. U. Press, 1976; N. Rosenberg and L. Birdzell, *How the West Grew Rich*, Cambridge U. Press, 1986; and W. Baumol, *Entrepreneurship, Management and the Structure of Payoffs*, MIT Press, 1993; T. Biggs, M. Shah and P. Srivastava, "Technological Capability and Learning in African Firms, World Bank Technical Paper, 1996; A. Rodriguez-Clark, "Multinationals, Linkages and Economic Development, *American Economic Review*, No. 86, 1996; H. Pack, "Learning and Productivity Change in Developing Countries," in *Trade Policy, Industrialization and Development*, Oxford, 1992; and Pack and Westphal, 1986.

^{xiv} Biggs, *op. cit.*, pp. 12-13, and papers cited by Biggs, *viz.*, P. Johnson and D. Cathcart, "The Founders of New Manufacturing Firms: A Note on the Size of Their 'Incubator's Plants," *The Journal of Industrial Economics*, Vol. CCVIII, 1979; P. O'Farrell and R. Crouchley, "An Industrial and Spatial Analysis of New Firm Formation," *Regional Studies*, Vol. 18, 1983, and D. Audretsch, *Innovation and Industry Evolution*, MIT Press, 1995.

^{xv} Biggs, *op. cit.*, pp. 8-9, and works cited by Biggs, *viz.*, Bigsten, et al., 1998; Biggs, et al., 1995; Regnier, 1993; Cortes, Berry and Ishaq, 1987; B. Nooteboom, "Firm Size Effects on Transaction Costs," *Small Business Economics*, Vol. 5, No. 4, 1993.

^{xvi} Biggs, *op. cit.*, p. 12, citing Carlsson (1996).

^{xvii} Biggs, *op. cit.*, pp. 13-17 and 19-21, and works cited by Biggs, *viz.*, Carlsson, 1996; Acs and Andretsch, 1993; Invernizzi and Revelli, 1993; S. Nguyen and A. Reznak, "Factor Substitution in Large and Small U.S. Manufacturing Establishments: 177-1982" *Small Business Economics*, 1991; A. Thurik, "Between Economics of Scale and Entrepreneurship, Research Report 9494, EIM, 1994; D. Snodgrass and T. Biggs, *Industrialization and the Small Firm*, International Center for Economic Growth, 1996; Acs, Carlsson and Thurk, 1996; Hallberg, *op. cit.*; Acs, 1996; J. Tybout, "Manufacturing Firms in Developing Countries: How Well Do They Do and Why?" World Bank, Policy Research Working Paper, No. 1965; Ho, 1980; Cortes, *op. cit.*; Little, Mazumdar and Page, *op. cit.*; Leidholm and Mead, 1987; Fikkert and Hassan, 1996; Tybout and Westbrook, 1995; Aitken and Harrison, 1994, Aw and Hwang, 1995; Biggs, *et al.*, 1995; M. Bendrick and M. Egan, "Transfer Payment Diversion for Small Business Development: British and French Experience," *Industrial and Labor Relations Review*, July 1987; Biggs, Oppenheim and Schmitz, 1986.

^{xviii} Hallberg, *op. cit.*, p. 5; WBG, 2001, *op. cit.*, p. 6; WBG, 2001, *op. cit.*, p. 2.

^{xix} Biggs, *op. cit.*, pp. 28-29 and Brown, *et al.*, cited by Biggs.

^{xx} Hallberg, *op. cit.*, p. 5, and (cited by Hallberg) I.M.D. Little, D. Mazumdar and J.M. Page, Jr., *Small Manufacturing Enterprises: A Comparative Analysis of India and Other Economies*, New York, 1987.

^{xxi} WBG, *op. cit.*, p. 6.

^{xxii} Public goods have two unique properties. First, consumption of a public good by one consumer does not affect the ability of others to benefit from it. Second, no one can be prevented from benefiting from the good, even if unwilling to pay for it. To the extent that people are expected not to be willing to pay, private supply of the public good may not be profitable and, thus, the market may not supply it. An improved business climate is one example of a public good.

^{xxiii} See T. Biggs, "Is Small Beautiful and Worthy of Subsidy? Literature Review," prepared as working paper for this study; M. Schiffer and B. Weder, *Firm Size and the Business Environment: Worldwide Survey Results*, IFC Discussion Paper No. 43; T. Beck, A. Demirguc-Kunt, and V. Maksimovic, "Financial and Legal Constraints to Firm Growth: Does Size Matter?" Jan. 2002. draft. (http://rru.worldbank.org/Hot_Topics.asp); and A. Brunetti, G. Kisunko, B. Weder, "Note on an Institutional Bias Against Small, Local Firms in Less Developed Countries," April 1999.

FIRM-LEVEL SERVICES

Facility	Services	Facility's Role
APDF	<p><i>Business Advisory Services.</i> APDF (a) prepares a business plan, which serves as a prospectus, for submission to financial institutions, (b) identifies financial institutions that may be interested in the proposal, & (c) meets with bank officials to review project documents, discuss loan applications, and help move the application towards a commitment. Studies conducted by consultants or investment officers frequently contain recommendations on how the enterprise might improve its operations.</p>	<p>APDF Business Development Officer typically works in concert with one or more consultants retained by APDF to prepare the business plan. Consultants are called on to analyze particular aspects of the business or prepare the entire plan. The Business Development Officer typically conducts the financial analysis and is responsible for the final product.</p>
	<p><i>Enterprise Support Services.</i> 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.</p>	<p>Typically, Business Development Officers work in a project management capacity, linking clients to qualified third-party service providers. The APDF Business Development Officer helps define the company's needs, formulates an appropriate course of action, marshals resources, and oversees the provision of services.</p>
	<p><i>Secondment.</i> At times, APDF provides managers to work with client companies on a short-term basis.</p>	
MPDF	<p><i>Financial Advisory Services.</i> Same as for APDF Business Advisory Services.</p>	<p>MPDF investment officers typically work in concert with outside consultants retained by MPDF. Consultants are called on to undertake specific analyses of particular aspects of the business (especially market assessments) that are subsequently summarized in the project document. In all cases, MPDF's investment officers are responsible for the final product.</p>
	<p><i>Technical Assistance.</i> Assistance, not directly tied to raising financing, dealing with marketing, business operations, management information systems, ISO 9000 certification, or other issues of importance to business.</p>	<p>Although MPDF investment officers sometimes provide direct assistance, based on their own expertise and experience, the typical approach is for investment officers to serve in a project management capacity, linking clients to qualified third-party service providers. The investment officer helps define the company's needs, formulates an appropriate course of action, marshal resources, and oversees the provision of services.</p>

Facility	Services	Facility's Role
SEED	<p><i>Internal Enhancement Plans.</i> SEED typically begins by conducting an assessment of a client's current operations to identify critical needs and determine prospects for growth. SEED's reports typically contain recommendations on improving production, marketing and sales, financial controls, and management information systems and on the nature and scale of proposed investments.</p>	<p>Although SEED business development analysts sometimes provide direct assistance, based on their own expertise and experience, the typical approach is for them to serve in a project management capacity, linking clients to qualified third-party service providers. The business development analyst helps define the company's needs, formulates an appropriate course of action, marshal resources, and oversees the provision of services.</p>
	<p><i>Investment Plans.</i> Same as for APDF Business Advisory Services.</p>	
	<p><i>Consulting Services.</i> Companies can call on SEED for assistance related to marketing and sales, financial management, information systems, or other issues.</p>	<p>Consultants are called on to undertake specific analyses of particular aspects of the business (especially market assessments) that are subsequently summarized in the project document. In all cases, SEED staff are responsible for the final product.</p>
AMSCO	<p><i>Recruitment of Expatriate Managers.</i></p>	<p>AMSCO staff recruits expatriate managers or specialized staff for some of clients. In most cases, client does own recruitment.</p>
	<p><i>Secondment of Expatriate Managers.</i> AMSCO hires managers and assigns them to client companies in Africa. In some cases, it subsidizes cost.</p>	<p>Handled entirely by AMSCO staff.</p>
	<p><i>Company-Specific Training.</i> AMSCO assesses client companies' training needs, assists the companies in preparing training plans and selecting trainers, and subsidizes training.</p>	<p>AMSCO staff prepares some needs assessments and selects trainers. Others need assessments and all training plans and training done by outside consultants.</p>

**SIZE OF COMPANIES RECEIVING FIRM-LEVEL SERVICES
WHEN FACILITIES BEGAN TO PROVIDE SERVICES
BASED ON SURVEYS CARRIED OUT FOR EVALUATION**

	APDF		MPDF ³	SEED ⁴	AMSCO
Annual sales (millions of \$)	<u>BAS</u>	<u>ESS</u>			
• Mean	1.6	0.7	1.6	4.3	11.0
• Median	0.7	0.3	0.6	1.8	2.7
Employment					
• Mean	82	65	198	117	290
• Median	50	49	118	43	106
Companies not meeting criteria ⁵	None had sales of > \$15 m., but 3 clients out of 87 providing data had > 300 employees, all within the range of 350-500.		None had sales of > \$15 m., but 11 out of 80 providing data had > 300 employees, including 2 with 1,000-1,500 employees.	2 clients out of 25 had annual sales of > \$15 m. & 2 out of 27 had > 300 employees, including 1 with > 1,000.	17 of 68 clients providing data had > 300 employees, including 5 with > 1000 employees and 2 with > 2000 employees. Many companies were affiliated with large business groups. 36 groups had > 300 employees, including 25 with > 1,000, 10 with > 5,000 & 3 with > 3,000.

³ MPDF has been given conflicting guidelines. The original feasibility study defined an SME as an enterprise with annual sales of less than \$15 million. The 1996 IFC Board Report indicated that “MPDF would provide assistance to projects with annual revenues of less than US\$10 million,” but later indicated that MPDF’s principal target would be “companies with total assets of less than \$2.5 million and annual revenues less than \$5 million.”

⁴ Using figures in euros, assuming that US\$ = €1 when facility had first contact with company (during period covered by evaluation).

⁵ The WBG defines small enterprises as enterprises with up to 50 employees, total assets of up to \$3 million and total annual sales of up to \$3 million, and it defines medium enterprises as enterprises with up to 300 employees, total assets of up to \$15 million and total annual sales of up to \$15 million. Until the establishment of the SME Department some facilities had used different broad definitions for SMEs, but none had a narrower focus for its efforts.

**OWNERSHIP AT TIME OF FIRST CONTACT
OF FIRM-LEVEL CLIENTS RESPONDING TO SURVEY**

	APDF		MPDF	SEED	AMSCO
	BAS	ESS			
Wholly owned by local private investors	75%	71%	85%	73%	36%
Foreign ownership					
• Some	16%	20%	11%	15%	53%
• Majority	5%	11%	9%	9%	37%
• 100%	2%	4%	4%	1%	18%
Government ownership					
• Some	2%	3%	<7%	9%	9%
• Majority	0%	2%	0%	0%	1%
• 100%	0%	1%	0%	0%	1%

RESULTS OF EFFORTS TO RAISE FINANCING

	APDF	MPDF	SEED	Totals	%
Periods covered	1/1/99-6/30/02	1/1/97-12/31/01	1/1/01-9/30/02		
Years covered	3.5	5	2.75		
Number of projects reported as "completed"					
Total for period shown	136	96	20	252	100%
Average per year	39	19	7	65	
Amounts reported as raised					
Total for period shown	\$69	\$58	n.a.	n.a.	
Average per year	\$20	\$12	n.a.	n.a.	
Projects that actually raised financing					
Total for period shown	77	68	10	155	62%
Average per year	22	14	4	40	
Financing actually arranged					
Total for period shown	\$32	\$46	\$2	\$89	
Average per year	\$9	\$9	\$1	\$19	
Projects that have gone ahead or are to go ahead					
Total for period shown	59	82	9	150	59%
Average per year	17	16	3	36	
Total investment in projects that have gone ahead or are to go ahead					
Total for period shown	\$100	\$51	\$10	\$161	
Average per year	\$29	\$10	\$4	\$43	
Projects that raised financing & that would not have been able to obtain financing under the same terms & conditions & in the same time frame without the facility					
Total for period shown	69	44	6	119	47%
Average per year	20	9	2	31	
Projects that have gone ahead or are to go ahead & that would not have gone ahead without facility					
Total for period shown	21	31	4	56	22%
Average per year	6	6	1	13	
Average investment per project that has gone ahead	\$1.70	\$0.63	\$1.09	\$1.08	
Reported as raised/Number of projects completed	\$0.50	\$0.61	n.a.	n.a.	

N.B. The facilities record projects as "completed" when a financial institution has indicated that it is willing to provide financing under specified terms and conditions.

IMPACT OF FIRM-LEVEL SERVICES

	APDF			AMSCO	MPDF	SEED
	All clients	BAS	ESS			
Number of firms in population	232	134	98	255	311	70
Number of firms surveyed	142	113	49	107	103	33
% of companies that reported at least one change in their business as a direct result of the facilities' services	88 (n=105)	88 (n=49)	96 (n=44)	84 (n=107)	81 (n=94)	82 (n=33)
% of companies that reported improvements in at least one area. ⁶	83 (n=103)	81 (n=48)	93 (n=43)	73 (n=100)	68 (n=84)	59 (n=33)
% of companies responding that the facility assistance increased to a moderate or great extent the establishment's ability to compete	66 (n=104)	64 (n=50)	74 (n=42)	69 ⁷ (n=107)	78 (n=88)	41 (n=32)
Without facility assistance, the company could not have survived and would have been forced to cease operations. (% responding "Yes")	21 (n=113)	22% (n=105)	13 (n=8)	12 (n=107)	5 (n=75)	6 (n=33)
Are the establishment's annual sales better than they would have been without the facility's assistance? (% responding "Yes")	53 (n=102)	54 (n=48)	62 (n=42)	52 (n=100)	58 (n=84)	30 (n=33)
Are the establishment's net profits (% responding "Yes") better than they would have been without the facility's assistance?	53 (n=102)	54 (n=48)	60 (n=42)	51 (n=100)	59 (n=83)	36 (n=33)
Incremental sales attributable to facility (for companies surveyed) (\$ millions)						
• Total		24.7		24.4*	9.8	3.3
• Mean		0.9		0.5	0.2	0.14
• Median		0.03		0.1	0	0
• n		27 (19%)		51 (48%)	30 (29%)	23 (70%)
Incremental employment attributable to facility (for companies surveyed)						
• Total		1042		788	1040	89
• Mean		22		16*	20	3
• Median		5		2	0	0
• n		48 (34%)		49 (46%)	51 (50%)	29 (88%)
Statistically significant results of regression analysis		None		<ul style="list-style-type: none"> • Sales of companies with AMSCO mgr. 36% higher.** • Sales 5.7% higher per \$1000 of management subsidies.** 	Sales 10% higher per \$1000 spent on consultants.*	None

* Statistically significant at a 5% significance level.

** Statistically significant at a 1% significance level.

⁶ Capacity utilization, direct labor productivity, order-to-delivery time, on-time delivery rate, compliance with local and/or international quality management regulations and standards related to products and services, customer complaints or rejects, defect rate, employee absenteeism, number of workplace accidents, employee turnover rate, air, water, or ground pollution, energy usage, recycling or resource recovery.

⁷ Percentage of AMSCO respondents saying that facility had increased the company's ability to compete (yes/no, rather than to what extent).

Benefits and Costs of Firm-level Services

Traditional SME Facilities

Benefits

The individual evaluations estimated the incremental sales for the traditional SME facilities using two approaches. First, using a counterfactual approach, they asked clients what their sales would have been without the facility's services and what they actually were. Second, using regression analysis, they compared the sales of companies that became facility clients at different times. These approaches yielded the following estimates:

Table 2.6–1 Incremental Sales – For Companies Providing Information
(millions of dollars & number of companies providing information)

	APDF (For 2002)			MPDF (For 2001)			SEED (For 2002)		
	Total	Mean	n	Total	Mean	n	Total	Mean	n
Based on counterfactual questions (companies providing information on sales and, where relevant, investments)									
• Investment projects that have been completed	12.8	1.4	9	8.4	0.3	29	0.15	0.05	3
• Investment project clients without completed projects	1.9	0.2	9	*	*	*	3.03	0.38	8
• All investment projects	14.7	0.8	18	n.a.	n.a.	n.a.	3.18	0.29	11
• Consultancy clients with no investment project	9.0	1.3	7	negl.	negl.	13	0.09	0.01	12
• Total for companies providing information on both sales & (where relevant) investments	23.7	0.9	25	8.4	0.2	42	3.27	0.15	22
Total for all companies providing information on sales	24.7	0.9	26	9.8	0.2	52	3.27	0.14	23
Based on regression analysis (investment projects that have been completed, investment project clients without completed projects, and consultancy clients with no investment project)	n.s.s.			23.5	0.6**	37	n.s.s.		

"n.s.s." = Not statistically significant.

* Included in consultancy clients with no investment project, since could not separate data on two groups of companies.

** Statistically significant at the 5% level of significance.

For purposes of comparing benefits and costs, four adjustments were needed. First, some of the companies that have carried out investment projects said that they would have gone ahead even if they had not received assistance from the facility. These statements may or may not be accurate. Among other things, these statements do not take into consideration the time required to raise financing or the terms of the financing. In the case of APDF, for example, 21% of the companies saying that they would have gone ahead even without assistance from APDF also said that, absent APDF, it would have taken longer to raise the financing, the terms would have been worse, or both. To be conservative, however, OEG has excluded the incremental sales for all companies saying that they would have gone ahead with their investments without the facilities.

Second, some other companies may not have needed facility services. This analysis assumes that companies owned 25% or more by foreigners did not need facility assistance.

Third, companies that received services too short a time before the survey cannot be expected to report meaningful increases in sales. Since the MPDF survey asked for actual and counterfactual sales for 2001, the benefits and related facility costs taken into consideration for this analysis exclude projects that did not begin to generate sales from the project assisted before the beginning of 2001. Similarly, since the APDF and SEED surveys asked for actual and counterfactual sales for 2002, the benefits and

related facility costs taken into consideration for this analysis exclude projects the facilities did not begin to serve before the beginning of 2002. (The APDF and SEED surveys did not ask for the year the projects assisted began to generate sales.)

Fourth, some companies provided information on incremental sales, but not incremental investments. Others provided information on incremental investments but not incremental sales. To match benefits and costs, companies that did not provide information on both have been excluded.

The adjusted incremental sales are as follows:

**Table 2.6–2 Incremental Sales Based on Counterfactual Questions
For Companies Providing Required Information on both Incremental Sales & Incremental Investments
But Excluding Companies Not Needing Facility Assistance
& Companies that Received Services Recently**
(millions of dollars & number of companies providing information)

	APDF			MPDF			SEED		
	Total	Mean	n	Total	Mean	n	Total	Mean	n
Investment projects that have been completed	7.47	3.74	2	5.17	1.72	3	0.00	0.00	0
Investment project clients without completed projects	0.07	0.02	4	*	*	*	3.03	0.76	4
All investment projects	7.54	1.26	6	n.a.	n.a.	n.a.	3.03	0.76	4
Consultancy clients with no investment project	8.97	2.24	4	negl.	negl.	13	0.05	0.01	6
Total for companies providing information on both sales & (where relevant) investments	16.51	1.65	10	5.17	1.72	16	3.08	0.31	10
Total for all companies providing information on sales	24.67	0.95	26	9.79	0.19	52	3.27	0.14	23

* Included in consultancy clients with no investment project, since could not separate data on two groups of companies.

OEG could not exclude from the regression analysis the types of companies mentioned in the previous paragraphs because the number of companies remaining would be too small to show any relationship. Thus, the results from the regression analysis are not comparable with the adjusted results from the counterfactual questions.

The estimates came from a small proportion of the companies served and surveyed:

Table 2.6–3 Proportion of Companies Providing Data

	APDF	MPDF	SEED
Number of completed assignments in population			
• Investment project clients	134	96	20
• Consultancy clients with no investment project	98	13	30
• Total	232	109	50
Number of started assignments in population			
• Investment project clients	n.a.	169	25
• Consultancy clients with no investment project	n.a.	142	45
• Total	n.a.	311	70
Number of firms surveyed			
• Investment project clients	64	n.a.	17
• Consultancy clients with no investment project	49	n.a.	16
• Total	113	103	33
Number of firms providing counterfactual sales estimates and (if relevant) information on investments			
• Investment project clients	18	n.a.	11

	APDF	MPDF	SEED
<ul style="list-style-type: none"> Consultancy clients with no investment project Total 	7 25	n.a. 42	12 23
Number of firms providing data for regression analysis	n.a.	37	n.a.
Number of firms surveyed/Number of completed assignments (APDF) or number of projects started (MPDF & SEED)			
<ul style="list-style-type: none"> Investment project clients Consultancy clients with no investment project Total 	48% 50% 49%	n.a. n.a. 33%	68% 36% 47%
Number of firms providing counterfactual sales estimates and (if relevant) information on investments/Number of firms surveyed			
<ul style="list-style-type: none"> Investment project clients Consultancy clients with no investment project Total 	28% 14% 22%	n.a. n.a. 41%	65% 75% 70%
Number of firms providing counterfactual sales estimates and (if relevant) information on investments/Number completed assignments (APDF) or number of projects started (MPDF & SEED)			
<ul style="list-style-type: none"> Investment project clients Consultancy clients with no investment project Total 	13% 7% 11%	n.a. n.a. 14%	44% 27% 33%
Number of firms providing data for regression analysis/Number of firms surveyed	n.a.	36%	n.a.
Number of firms providing data for regression analysis/Number of completed assignments in population	n.a.	34%	n.a.

n.a. = not applicable or not available

N.B. APDF evaluation drew sample from companies with at least one completed assignment. MPDF and SEED evaluations drew samples from companies that had received assistance, i.e., from assignments started.

Assuming that the companies not covered by the survey are similar to the surveyed companies, the incremental sales can be estimated roughly as follows:

Table 2.6–4 Incremental Sales – Extrapolated
(millions of dollars)

	APDF			MPDF			SEED		
	Sample Total	% Surveyed	Pop. Total	Sample Total	% Surveyed	Pop. Total	Sample Total	% Surveyed	Pop. Total
Based on counterfactual questions (for companies providing information on both sales and investments)									
<ul style="list-style-type: none"> All investment projects Consultancy clients with no investment project 	7.54 8.97	48% 50%	15.71 17.94	5.17 Negl.	33% 33%	15.66 Negl.	3.03 0.05	68% 36%	4.46 0.14
Based on regression analysis (investment projects that have been completed, investment project clients without completed projects, and consultancy clients with no investment project)	n.s.s.			23.5	36%	65.3	n.s.s.		

"n.s.s." = Not statistically significant.

N.B. For MPDF, the amounts shown for investment projects relate only to projects that have been implemented, and the amounts shown for consultancy projects include investment project clients without implemented projects.

To relate benefits and costs, this analysis assumes that incremental pre-tax profits would be equivalent to 10% of incremental sales for investment projects and 20% of incremental sales for pure consultancy assignments. These estimates would be inappropriate for the relationship between *average* profits before interest and taxes and *average* sales. They may be conservative, however, for the relationship between *incremental* profits and *incremental* sales. Indeed, the mean incremental profits for the AMSCO clients providing information on both incremental profits and incremental sales were

equivalent to 53% of incremental sales and the median was 16%. On a similar basis in a study of a non-IFC TA program private firms, mean profits were equivalent to 27% of sales and median profits 25%. OEG has used a lower rate of incremental profit for investment projects because more costs are likely to change in conjunction with an investment project than in conjunction with a pure consultancy project.

Applying these percentages to the figures in Table 2.6-3 yields the following estimates of incremental profits attributable to the facilities:

Table 2.6-5 Incremental Profits

Assuming Incremental Profits Equivalent to 10% of Incremental Sales for Investment Projects & 20% of Incremental Sales for Pure Consultancy Projects
(Millions of dollars)

	APDF	MPDF	SEED
Based on counterfactual questions (for companies providing information on both sales and investments)			
• All investment projects	1.57	1.57	0.45
• Technical assistance clients with no investment project	3.58	Negl.	0.03

N.B. "n.s.s." = Not statistically significant.

N.B. For MPDF, the amounts shown for investment projects relate only to projects that have been implemented, and the amounts shown for consultancy projects include investment project clients without implemented projects.

Costs

Two types of costs need to be related to these benefits. First are the costs incurred by the facilities themselves. Second are the costs incurred by clients that carried out investment projects.

Facility costs. Two preliminary comments are necessary on the facility cost estimates. First, since the purpose of this exercise is to assess whether the facilities can generate adequate returns in the future, the cost estimates are based on average unit costs for the most recent year, reflecting reductions due to increased volume and increased productivity. Second, as in the case of the benefits, the facility costs exclude the costs for projects too immature to provide benefits.

Table 2.6-6 Fully-loaded Costs

Facility & Service Provided	\$ millions
APDF	
• BAS	5.39
• ESS	<u>2.00</u>
• Total	7.39.
MPDF	
• Financial advisory	4.03
• Consultancy	<u>0.07</u>
• Total	4.10
SEED	
• IEP & IP	0.71
• IEP only	<u>0.79</u>
• Total	1.50

Costs incurred by clients for investment projects. For the counterfactual approach, OEG can take the amounts invested by the specific companies that carried out investment projects that were not excluded because of having said that they would have gone ahead without the facility and that provided information on both the amounts invested and on incremental sales. As in the case of the facility costs, OEG excluded assignments too recent to offer prospects of a meaningful increase in sales for the year covered by the counterfactual question. (We included, however, one SEED project that had not yet been 100% completed but was already in operation and generating substantial incremental sales.) The resulting estimates of incremental investments are \$1.6 million for APDF, \$8.8 million for MPDF, and \$2.1 million for SEED.

For the regression analysis (MPDF only), the number of respondents was too small to allow separation of the incremental sales attributable to investment projects that have been completed, financial advisory service clients without completed projects, and consultancy clients without investment projects. Hence, estimating the costs incurred by clients for investment projects would not contribute to an analysis of the benefits and costs of these activities.

Benefits and costs

The incremental profits and costs based on the counterfactual approach are summarized as follows:

Table 2.6-7 Incremental Profits and Costs - Based on Counterfactual Approach
(millions of \$)

	APDF	MPDF*	SEED
Incremental profits			
• Investment projects	1.57	1.57	0.45
• Consultancy clients without investment projects	<u>3.58</u>	<u>Negl.</u>	<u>0.03</u>
• Overall	5.15	1.57	0.48
Incremental Costs			
• Investment projects			
○ Investment costs for projects for which sales estimates available	1.65	7.09	2.14
○ Facility Costs	<u>5.39</u>	<u>4.03</u>	<u>0.71</u>
○ Total incremental costs for investment projects	7.04	11.12	2.85
• Consultancy clients without investment projects (facility costs)	<u>2.00</u>	<u>0.07</u>	<u>0.79</u>
• Overall	9.04	11.19	3.64
Incremental profits/Incremental costs (not time-adjusted) **			
• Investment projects	22%	14%	16%
• Consultancy clients without investment projects	179%	Negl.*	4%
• Overall	57%	14%	13%

* For MPDF, the incremental projects shown for investment projects relate only to projects that have been implemented, and the amounts shown for consultancy assignments include investment assignments without completed projects. Thus, the returns on its investment assignments are likely to be overstated, and the returns on its consultancy assignments understated.

** The available data do not permit estimates of time-adjusted returns. Since (based on the data provided) gestation periods are unlikely to exceed 1-2 years, however, non-time-adjusted returns of 16-18% or more are likely to yield satisfactory internal rates of return.

These result calls for several qualifications:

- The estimates for the counterfactual approach assume zero incremental sales for all clients surveyed that did not provide information both on incremental sales and, for completed investment projects, on incremental investments.
- The estimates for the counterfactual approach exclude the incremental sales and profits for companies that said that they would have gone ahead with their investments even if they had received no services from the facility. As indicated earlier, 21% of these companies acknowledged that, without the facility, they would have required additional time to raise the financing or would have had to accept more onerous terms.
- The estimates exclude the incremental sales of companies owned 25% or more by foreigners.
- The estimates assume that incremental profits before interest and taxes are equivalent to only 10% of incremental sales for investment projects and 20% of incremental sales for consultancy assignments.
- The estimates ignore the linkages, externalities and other economic benefits that typically increase the economic returns above the financial returns.⁸
- A small number of companies account for the bulk of the benefits. Had these companies not provided information, the results would have appeared worse. But some companies with good results may not have provided information. Had they done so, the results would have looked better.

Nevertheless, some tentative conclusions are possible.

First, the estimates vary greatly from facility to facility. It is not clear to what extent the differences can be attributed to country conditions, the way the facilities deliver services, experience and timing, the assumptions adopted for this analysis, or chance.

Second, financial advisory services might possibly generate satisfactory economic returns, but the returns are unlikely to be outstanding.

Third, straight consultancy services can generate outstanding economic returns, well above the returns available from financial advisory services. This finding is not surprising, since straight consultancy assignments do not call for material incremental investments.

AMSCO

Benefits

The AMSCO evaluation estimated the incremental sales and profits using two approaches. First, using a counterfactual approach, it asked clients how much sales and profits would have been without AMSCO's services and how much they actually were. Second, it used regression analysis, comparing the sales and profits of companies that became AMSCO clients at different times. These approaches yielded the following estimates:

⁸ OEG's Annual Reviews have consistently found that economic returns typically exceed the financial returns.

Table 2.6–8 Incremental Sales & Profits – For Companies Providing Information

(millions of dollars & number of companies providing basis for estimates)

	Total	Mean	n
Incremental sales			
• Counterfactual question	24.4	0.5	51
• Regression analysis	260.0	3.3	80
Incremental profits			
• Counterfactual questions	9.5	0.3	32

For purposes of comparing benefits and costs, using the counterfactual approach, OEG has excluded the incremental sales and profits for:

- Companies that may not have needed AMSCO’s assistance. OEG has looked at two alternatives:
 - Alternative A. AMSCO’s assistance was not needed by companies owned 25% or more by private foreign investors and companies that *already employed* any of the AMSCO-seconded managers before initially seeking assistance from AMSCO.
 - Alternative B. AMSCO’s assistance was not needed by companies covered by the first alternative and by companies that had *already identified* any of the AMSCO-seconded managers before initially seeking assistance from AMSCO.
- Companies unlikely to be sustainable once the expatriate managers leave. The core evaluation team assigned 38% of the companies visited to this category. It was unable to rate companies visited by outside survey firms.
- Companies that first received assistance in 2001 or 2002. Expecting these companies to report improved sales and profits for 2001 would be unrealistic. Indeed, in the aggregate, these companies reported that sales were lower by \$2.2 million and profits lower by \$0.3 million than they would have been without AMSCO.

OEG could not exclude from the regression analysis the companies in these categories because the number of companies remaining would be too small to show any relationship. Thus, the results from the regression analysis are not comparable with the adjusted results from the counterfactual questions.

For the companies remaining after these adjustments, the incremental sales and profits, based on the responses to the counterfactual questions, were as follows:

**Table 2.6–9 - Incremental Sales & Profits for 2001
For Companies Responding to Counterfactual Questions
After Excluding Companies Not Needing AMSCO Assistance,
Companies Unlikely to be Sustainable, and Clients that Received Assistance Recently**
(millions of dollars & number of companies providing basis for estimates)

	Total	Mean	n
Incremental sales			
• Alternative A	5.3	0.7	8
• Alternative B	1.0	0.5	2
Incremental profits			
• Alternative A	4.0	0.5	8
• Alternative B	0.4	0.2	2

The various estimates came from a small proportion of the companies served and visited:

Table 2.6–10 Proportion of Companies Providing Data for AMSCO

Number of clients	255
Number of firms surveyed	107
Number of firms providing counterfactual sales estimates	45
Number of firms providing counterfactual profits estimates	28
Number of firms retained for analysis (Table 2.6-9)	8
Number of firms providing data for regression analysis	80
Number of firms surveyed/Number of clients	42%
Number of firms providing counterfactual sales estimates/Number of firms surveyed	42%
Number of firms providing counterfactual sales estimates/Cumulative number of clients	18%
Number of firms providing counterfactual profit estimates/Number of firms surveyed	26%
Number of firms providing counterfactual profit estimates/Cumulative number of clients	11%
Number of firms retained for analysis (Table 2.6-9)/Number of firms surveyed	
• Alternative A	7%
• Alternative B	2%
Number of firms retained for analysis (Table 2.6-9)/Cumulative number of clients	
• Alternative A	3%
• Alternative B	1%
Number of firms providing data for regression analysis/Number of firms surveyed	75%
Number of firms providing data for regression analysis/Number of firms assisted	31%

Assuming that the companies not covered by the survey are similar to the surveyed companies, incremental sales and profits can be estimated roughly as follows:

Table 2.6–11 Incremental Sales & Profits - Extrapolated

(millions of dollars)

	Sample Total	% Surveyed	Population Total
Incremental sales			
• Counterfactual question			
○ Alternative A	5.3	42%	12.6
○ Alternative B	1.0	42%	2.4
• Regression analysis	260.0	42%	619.0
Incremental profits			
• Counterfactual questions			
○ Alternative A	4.0	42%	9.5
○ Alternative B	0.4	42%	1.0

To be able to relate benefits and costs, this analysis assumes that incremental profits before interest and taxes would be equivalent to 20% of incremental sales. This estimate would be inappropriate for the relationship between *average* profits before interest and taxes and *average* sales. It is likely to be conservative, however, for the relationship between *incremental* profits and *incremental* sales. Indeed, for the AMSCO clients providing information on incremental profits and incremental sales, the mean incremental profits/incremental sales was 35% and the median was 16%. A study of a non-IFC SME TA program found that mean incremental profits/incremental sales were 27% and the median 25%. In addition, since OEG is looking at the economic return, it has adjusted the estimated incremental profits using the counterfactual approach to put them on a pre-tax basis assuming a 35% corporate tax rate. Applying these adjustments to the figures in Table 2.6-11 yields the following estimates of incremental pre-tax profits attributable to the facilities:

Table 2.6-12 Incremental Pre-tax Profits
(millions of dollars)

Based on 20% of incremental sales	
• Counterfactual questions	
○ Alternative A	2.5
○ Alternative B	0.5
• Regression analysis	123.8
Based on counterfactual questions on incremental profits	
• Alternative A	14.6
• Alternative B	1.0

Costs

The AMSCO program involves three types of costs—the costs (including AMSCO’s costs) borne by the clients, the costs (including AMSCO’s costs) borne by the donors, i.e., the donor subsidies, and the income taxes foregone by the host governments because of the tax exemption for AMSCO-seconded managers. Typically, AMSCO provides services for three-year periods. For purposes of simplification, OEG has taken the total subsidies for the most recent three-year period:

Table 2.6-13 Costs of AMSCO Program
(millions of \$)

	1999	2000	2001	Total
Costs borne by clients	Already deducted in calculating incremental profits			
Costs borne by donors	3.2	4.1	3.8	11.1
Income taxes foregone	3.0	3.1	4.2	10.3
Total	6.2	7.2	8.0	21.4

Benefits and costs

The benefits and costs can be summarized as follows:

Table 2.6-14 Incremental benefits and costs - AMSCO
(millions of \$)

Incremental profits	
• Based on 20% of incremental sales	
○ Counterfactual questions on sales	
▪ Alternative A	2.5
▪ Alternative B	0.5
○ Regression analysis	123.8
• Based on counterfactual questions on incremental profits	
▪ Alternative A	14.6
▪ Alternative B	1.0

Incremental costs	21.4
Incremental profits/Incremental costs (not time-adjusted)*	
<ul style="list-style-type: none"> • Based on 20% of incremental sales <ul style="list-style-type: none"> ○ Counterfactual questions on sales <ul style="list-style-type: none"> ▪ Alternative A ▪ Alternative B ○ Regression analysis • Based on counterfactual questions on incremental profits <ul style="list-style-type: none"> ▪ Alternative A ▪ Alternative B 	<p>12%</p> <p>2%</p> <p>579%</p> <p>68%</p> <p>5%</p>

* The available data do not permit estimates of time-adjusted returns. Since (based on the data provided) gestation periods are unlikely to exceed 1-2 years, however, non-time-adjusted returns of 16-18% or more are likely to yield satisfactory internal rates of return

This analysis calls for several qualifications:

- The estimates assume zero incremental sales for all clients surveyed that did not provide information on incremental sales or incremental profits (58% of firms surveyed for sales and 74% for profits).
- The estimates assume zero incremental sales for companies that may not have needed AMSCO’s services and for companies judged by the evaluation team to be unlikely to be sustainable once the AMSCO-seconded managers leave.
- They assume that incremental pre-tax profits are equivalent to only 20% of incremental sales.
- They ignore the linkages, externalities, and other economic benefits that typically increase the economic returns above the financial returns.
- The estimated returns based on the regression analysis are undoubtedly too high, since they include companies that did not need AMSCO assistance and companies unlikely to be sustainable after the AMSCO-seconded managers leave.
- A small number of companies account for the bulk of the benefits. Had these companies not provided information, the results would have appeared worse. But some companies with good results may not have provided information. Had they done so, the results would have looked better.

Nevertheless, it seems reasonable to conclude that the program appears to yield good returns based on the incremental sales of all respondents but yields unsatisfactory returns after dropping the companies that probably did not need AMSCO assistance and the companies unlikely to be sustainable after the departure of the AMSCO-seconded managers.

TRAINING SERVICES

Facility (& year 1 st courses offered)	Courses (or Material) Offered	Identification of Topics	Development of Materials and Delivery of Training	Costs
APDF (2000)	<p>Business planning, general management, marketing and sales, production and quality, information technology & finance. Most important programs (based on participant-hours):</p> <ul style="list-style-type: none"> • Training in construction management to help SMEs qualify for sub-contracting opportunities under Chad-Cameroon Pipeline Project. • Financial management, governance & control for private schools in Ghana. • Information and communications technology for women entrepreneurs in South Africa. 	Identifies subjects that may be of interest to SME owners or managers. Done informally, based mainly on suggestions from clients & APDF staff.	Uses consultants and training institutions to develop curricula and deliver training. Provides support, including drawing on materials developed by IFC, particularly for credit analysis and portfolio management.	Subsidizes costs.
MPDF (1998)	<p><i>Management Training Program.</i> Marketing, human resources, production and operation management, finance and accounting. Initial courses modified to meet needs of specific business sectors and to reflect views of training institutions. Most important programs (based on # of participants)</p> <ul style="list-style-type: none"> • Production & operation management • Human resource management • Marketing management 	Identifies needs.	Engages international consultants to work with local universities to develop course materials, including instructors' notes, participant exercises, case studies, and textbook references. Selects and trains local training institutions to deliver training.	Funded curricula development, training of trainers, and part of advertising costs.

Facility (& year 1 st courses offered)	Courses (or Material) Offered	Identification of Topics	Development of Materials and Delivery of Training	Costs
	<p><i>Flexible (Distance) Learning Program.</i> Self-study workbooks based on existing classroom-based curricula. 7 deal with marketing; 5 with human resource management.</p>	<p>Drew on material developed for Management Training Program.</p>	<p>Retained international consulting firm to produce workbooks based on existing curricula, selected publishers, provided digital masters.</p>	<p>Subsidized because did not charge for digital masters.</p>
	<p><i>Bank Training Programs.</i></p> <ul style="list-style-type: none"> • Loan Analysis Training Package. • Courses added under aegis of Bank Training Center: strategic planning, marketing, customer relations, bank operations, human resources, loan appraisal, SME lending. Heavy emphasis on customer relations. 	<p>Identified needs.</p>	<p>Helped develop training package in collaboration with a foreign university and 2 local banks.</p>	<p>Raised financing for and manages Bank Training Center.</p>
<p>SEED (2000)</p>	<p>General management, financial management, strategic planning and marketing. Most important programs (based on participant-hours):</p> <ul style="list-style-type: none"> • Chief Financial Officer Development Program. • Entrepreneurship Project Development & Trainings • General Management Development Program. 	<p>Identifies subjects that may be of interest to SME owners or managers. In doing so, has drawn on sector studies commissioned by IFC and SEED as well as informal feedback from clients.</p>	<p>SEED staff and outside consultants have shared responsibility for developing curricula and providing course instruction. In one instance, SEED drew on materials developed by MPDF.</p>	<p>Subsidizes costs.</p>
<p>AMSCO (1989)</p>	<p>Company-Specific Training, based on training plans developed for individual enterprises.</p>	<p>AMSCO staff prepares some needs assessments. Others done by outside consultants.</p>	<p>All training plans and training done by outside consultants, selected by AMSCO.</p>	<p>Subsidizes costs.</p>

**SIZE OF COMPANIES RECEIVING TRAINING SERVICES ONLY⁹
BASED ON SURVEYS FOR EVALUATIONS**

	APDF (For 2002)	MPDF¹⁰ (For Year When Companies First Participated in Training)	SEED¹¹ For Year When Companies First Participated in Training)
Annual sales (millions of \$) • Mean • Median	1.7 0.3	8.6 2.0	2.4 0.2
Employment • Mean • Median	67 25	586 100	49 15
Companies not meeting criteria ¹²	2% of companies had > 300 employees.	29% of companies had > 300 employees, including 12% with 1000- 4000. 14% had sales > \$15 m., including 9% with sales of > \$50 m.	3% of companies did not qualify as SMEs.

⁹ AMSCO has been covered in Annex 2.2, since it provides training in conjunction with its secondment of managers to individual companies.

¹⁰ MPDF has been given conflicting guidelines. The original feasibility study defined an SME as an enterprise with annual sales of less than \$15 million. A later report indicated that “MPDF would provide assistance to projects with annual revenues of less than US\$10 million,” but then indicated that MPDF’s principal target would be “companies with total assets of less than \$2.5 million and annual revenues less than \$5 million.”

¹¹ Using figures in euros, assuming that US\$ = €1 when facility had first contact with company (during period covered by evaluation).

¹² The WBG defines small enterprises as enterprises with up to 50 employees, total assets of up to \$3 million and total annual sales of up to \$3 million, and it defines medium enterprises as enterprises with up to 300 employees, total assets of up to \$15 million and total annual sales of up to \$15 million. Until the establishment of the SME Department some facilities had used different broad definitions for SMEs, but none had a narrower focus for its efforts.

**OWNERSHIP AT TIME OF FIRST CONTACT
OF TRAINING CLIENT ENTERPRISES RESPONDING TO SURVEY**

	APDF	MPDF	SEED	AMSCO
Wholly owned by local private investors	75%	48%	77%	36%
Foreign ownership				
• Some	15%	3%	9%	53%
• Majority	8%	3%	8%	37%
• 100%	8%	3%	8%	18%
Government ownership				
• Some	2%	41%	8%	9%
• Majority	2%	36%	3%	1%
• 100%	2%	34%	0%	1%

IMPACT OF FACILITY TRAINING SERVICES

	APDF	AMSCO ¹³	MPDF	SEED
% of companies that reported at least one change in their business as a direct result of the facilities' services	82% (n=27)	84%	98% (n=59)	88% (n=96)
% of companies that reported improvements in at least one area ¹⁴	83% (n=27)	73%	83% (n=50)	46% (n=94)
Facility assistance increased to a moderate or great extent the establishment's ability to compete	55% (n=27)	69% ¹⁵	79% (n=52)	77% (n=94)
Without facility assistance, the company could not have survived and would have been forced to cease operations. (% responding "Yes")	10% (n=27)	12%	2% (n=52)	5% (n=94)
Are the establishment's annual sales better than they would have been without the facility's assistance? (% responding "Yes")	52% (n=27)	52%	82% (n=49)	22% (n=94)
Are the establishment's net profits (% responding "Yes") better than they would have been without the facility's assistance?	41% (n=27)	51%	78% (n=49)	18% (n=94)
Incremental sales attributable to facility (for companies covered by survey) <ul style="list-style-type: none"> • Mean (\$'000) • Median (\$'000) • Total (\$ millions) • n 	68 2 0.8 11	479 76 24.4 51	0.4 0 6.8 16	6 0 0.3 53
Incremental employment attributable to facility (for companies covered by survey) <ul style="list-style-type: none"> • Mean • Median • Total • n 	2.5 0 33 13	16 3 788 49	2.9 0 67 23	6 0 516 86
Statistically significant results of regression analysis	None	<ul style="list-style-type: none"> • Sales of companies that received training 	Export sales 128% higher for companies whose workers received training.	None

¹³ Includes combined impact of firm-level and training services.

¹⁴ Capacity utilization, direct labor productivity, order-to-delivery time, on-time delivery rate, compliance with local and/or international quality management regulations and standards related to products and services, customer complaints or rejects, defect rate, employee absenteeism, number of workplace accidents, employee turnover rate, air, water, or ground pollution, energy usage, recycling or resource recovery.

¹⁵ Percentage of AMSCO respondents saying that facility had increased the company's ability to compete (yes/no, rather than to what extent).

	APDF	AMSCO¹³	MPDF	SEED
		43% higher. <ul style="list-style-type: none">• Sales 2.3% higher per \$1000 of training subsidies		

Benefits and Costs of Training Programs¹⁶

Training Programs

Benefits

The individual evaluations estimated incremental sales using two approaches. First, using a counterfactual approach, they asked clients how much sales would have been without the facility's services and how much they actually were. Second, using regression analysis, they compared the sales of companies that began to receive facility training services at different times. The regression analysis did not yield useful results (other than for AMSCO, which has already been covered in Annex 2.6), but the counterfactual approach yielded the following rough estimates of incremental sales attributable to facility training programs:

Table 3.5-1 – Incremental Sales - for Companies Providing Information
(\$'000)

	APDF (2002)	MPDF (2001)
Mean	68	375
Median	2	0
Total	748	6,757
n	11	18

This analysis does not cover SEED because the survey generated estimates from only one company that had received training services from SEED prior to 2002, the year for which actual and counterfactual estimates of sales were requested.

For purposes of comparing benefits and costs, this analysis assumes that companies that selected the facility for training because it was less expensive, companies that previously used outside training services, and companies owned 25% or more by foreigners may not have needed facility assistance and, therefore, does not take into consideration the incremental sales and profits of these companies.

The adjusted incremental sales are as follows:

¹⁶ AMSCO's training services are an integral part of its overall services and have been considered in Chapter 2 and in Annex 2.6

**Table 3.5-2 – Incremental Sales - for Companies Providing Information
Excluding Companies that May Not Have Needed Facility Assistance
(\$'000)**

	APDF (2002)	MPDF (2001)
Mean	108	520
Median	16	0
Total	433	6,757
n	4	13

The estimates came from a small portion of the companies visited and served:

Table 3.5-3 Proportion of Companies Providing Data

	APDF	MPDF
Number of firms involved in training programs	1394	1054
Number of firms surveyed	29	65
Number of firms providing counterfactual sales estimates	11	16
Number of firms surveyed/Number of firms involved in training programs	2.1%	6.2%
Number of firms providing counterfactual sales estimates/Number of firms surveyed	38%	25%
Number of firms providing counterfactual sales estimates/Number of companies involved in training programs	0.8%	1.5%

N.B. MPDF could not provide data on the total number of companies participating in its training programs, since some partner training institutions failed to provide attendance sheets (calling for company names) for 39% of the courses offered.

Assuming that the companies not covered by the survey are similar to the surveyed companies, incremental sales can be estimated roughly as follows:

Table 3.5-4 – Estimated Impact of Training Programs on Sales – Extrapolated

	APDF	MPDF
Sample total (\$'000)	433	6,757
% surveyed	2.1	6.2
Population total (\$ millions)	16.0	109.0

To relate benefits and costs, this analysis assumes that incremental pre-tax profits would be equivalent to 20% of incremental sales. This estimate may or may not be appropriate for the relationship between *average* profits before interest and taxes and *average* sales. It is likely to be conservative, however, for the relationship between *incremental* profits and *incremental* sales. Indeed, the median incremental profits for the AMSCO clients providing information on both incremental profits and incremental sales were equivalent to 53% of incremental sales and median 16%. On a similar basis, in a study of a non-IFC TA program private firms, mean profits were equivalent to 27% of sales and median profits 25%.

Applying this percentage to the figures in Table 3.4-3 yields the following rough estimates of incremental profits attributable to the facilities:

Table 3.5-5 Incremental Profits
(Millions of dollars)

APDF	MPDF
3.2	21.8

Costs

In principle, two types of costs should be related to these benefits. First are the costs incurred by the facilities themselves. Second are the costs borne by the trainees and their employers. (The costs incurred by consultants participating in course development and by the training institutions providing the training are presumably borne either by the facilities or by the trainees and their employers.) OEG has no information on the costs incurred by the trainees and their employers. Hence, OEG considers here only the costs borne by the facilities.

We have calculated the fully loaded facility costs as follows:

Table 3.5 -6 Fully Loaded Costs for Training Programs

Facility	\$ millions	Comments
APDF	0.9	Includes costs for 3 years through 6/02 since the evaluation covered companies receiving services through 6//02. Many companies served during the first half of 2002 would have been unlikely to report incremental sales for 2002.
MPDF	1.6	Includes costs for 5 years through 12/01 even though many companies served during 2001 would have been unlikely to report incremental sales for 2001

Benefits and costs

The benefits and costs are summarized as follows:

Table 3.5 - 7 Incremental Benefits and Costs
(millions of \$)

	APDF	MPDF
Incremental profits	3.2	21.8
Incremental costs to facilities	0.9	1.6
Incremental profits/Incremental costs (not time-adjusted)	356%	1363%

This analysis calls for several qualifications:

- The estimates charge all the front-end costs against the benefits of just the first few years. The investments made in developing courses are likely to allow the facilities to serve additional companies in future years.
- The estimates assume that incremental profits before interest and taxes are equivalent to only 20% of incremental sales.
- The estimates ignore the linkages, externalities and other economic benefits that typically increase the economic rate of return above the financial rate of return. Included among these externalities would be the benefits to subsequent employers of facility trainees, which would not be captured by the initial employers' estimates of incremental sales.
- The costs for MPDF include not only training for company managers and employees but also capacity building expenditures (covered in Chapter 4).
- The estimates ignore costs borne by trainees and their employers.

Some tentative conclusions are possible.

First, training services have the potential of generating excellent returns—substantially higher than the returns from financial advisory services and consultancy services. Even if the costs borne by trainees and their employers are several times higher than the costs borne by the facilities, the returns should still be excellent.

Second, MPDF's extraordinarily high returns may reflect its reliance on existing training institutions, its introduction of the case study method (using case material drawn from local business situations), the greater maturity of its training programs, the assumptions adopted for this analysis, or chance.

MPDF's Workbook Program

Benefits

Retail prices have ranged from \$1.80 to \$3.15 per workbook. These prices do not fully reflect the potential value to the purchasers. Among other things, the purchasers undoubtedly find it difficult to estimate the benefits they may realize from the workbooks.

Costs

MDPF's costs of converting material from its training courses into workbooks, translating the workbooks into Vietnamese and Khmer, promoting the workbooks, and covering its own costs averaged \$12.70 per workbook sold through February 2002. Further sales will reduce the unit cost.

In addition, the publishers have incurred costs to produce and distribute the workbooks. For one publisher, these costs are somewhat lower than \$1.60 per workbook.

The total costs incurred by MPDF and the publishers would, thus, be roughly \$14 per workbook sold.

Benefits and costs

With direct benefits somewhat in excess of \$1.80 to \$3.15 per workbook and total costs of roughly \$14 per workbook, this program appears unlikely to generate adequate direct returns unless the volume of sales can be substantially increased. The program, however, may generate good overall returns if the buyers are able to use what they learn from the workbooks to increase the profitability of their companies. No information is available on what readers have done with what they learned from the workbooks and to what extent the actions they may have taken have increased their sales and profits.

IMPACT OF EFFORTS TO IMPROVE ENABLING ENVIRONMENT

	Program or Project	Substance of Efforts	Impact
MPDF	Discussion reports	MPDF published 12 reports written by its staff, international consultants, or both. Reports distributed to government officials, business associations, the press, and others. Titles issued: The Emerging Private Sector & the Industrialization of Vietnam; A Survey of Medium and Large Private Companies in Lao PDR; Equitization of State Enterprises in Vietnam; Establishing a Venture Capital Firm in Vietnam; Computer Literacy Survey; Garment Study in Vietnam; Vietnam's Undersized Engine: A Survey of 95 Larger Private Manufacturers; Private Companies in Vietnam: A Survey of Public Perception; SMEs in Vietnam: On the Road to Prosperity; The Private Manufacturing Sector in Cambodia; Doing Business Under the New Enterprise Law.	The reports appear to have contributed to the policy debate by providing various people with information that they have used in their own deliberations and discussions with policymakers. While the evaluation found it difficult to trace any direct impact on policies, one World Bank manager...stated that the reports provide "grist to the mill" and "help to change attitudes." Subsequent to the evaluation, IFC's 2003 Annual Review: Small Business Activities reported that MPDF's efforts had led to streamlining of licenses and approvals, reduced taxes and fees, and other reforms in Vietnam.
SEED	Leasing in FYR Macedonia	SEED (a) engaged consulting firm to review materials prepared by government and suggest improvements in draft legislation and (b) made available consultant's recommendations during process of drafting legislation.	Law passed, but no data on impact. A brief web search in May 2004 failed to identify any leasing activity in FYR Macedonia.
		SEED sought to interest potential investors in leasing companies. SEED organized seminar attended by 22 institutions.	Government issued 3 licenses "for operations which are peripheral to the priority needs of SMEs." It is not clear if SEED played a role in attracting these leasing companies.
SEED	Leasing in Republic of Serbia	SEED (a) engaged consulting firm to review existing laws & materials prepared by government and (b) provide report to government, including detailed comments and suggested revisions in draft legislation. SEED also organized roundtables to discuss the legislation participated in government-organized working group.	Law passed. Government officials said that roundtables and meetings were instrumental in advancing the legislation.
		SEED has conducted workshops and seminars targeted potential investors in leasing companies and potential customers.	No data on impact. A brief web search in May 2004 showed that several European financial institutions had started leasing activities in Serbia.

	Program or Project	Substance of Efforts	Impact
SEED	SME strategy development in Serbian Rep.	SEED worked with a parliamentary committee to develop a strategy for SME development. It engaged a consulting firm to collect and analyze data on SME sector, organize public meetings, make presentations and prepare a report highlighting factors constraining development of SMEs, delineating strategic goals and offering recommendations. SEED provided support as needed & disseminated report through business publications.	Parliamentary committee endorsed report, but Ministry of Economy & Privatization independently began work on an SME strategy with the support of IBRD & the European Agency for Reconstruction. Ministry started from scratch in formulating its strategy, but co-chair of parliamentary committee believes SEED efforts helped in “educating and preparing members of the parliament to take action.” Some elements of the SEED report are found in the strategy issued by Ministry.
SEED	Legal & regulatory reform in Bosnia & Herzegovina	SEED participated in WB mission for preparation of Business Environment Adjustment Credit and, as part of process, organized & supported a working group to consider steps to simplify the business registration process.	Accomplishments of working group minimal. Few concrete recommendations. Little change in business registration process. Still, chair of working group considered SEED had played important role by being able to convene meetings of ministers from both parts of Bosnia and Herzegovina.

EHS performance of projects assisted

	Compliance with				Made improvements in EHS practices due to Facility advice
	IFC Environmental Requirements	Local Environmental Requirements	IFC Social Requirements	Local Social Requirements	
APDF	3/9=33%	4/9=44%	8/9=89%	8/9=89%	0/9 = 0%
AMSCO¹⁷	10/22 = 46%	10/22 = 46%	10/22 = 46%	10/22 = 46%	At least 3/22 = 14%, including steps to rehabilitate areas already mined, rebuild settling ponds, recycle sludge, & recycle used lubricating oils; introduced downstream processing of waste wood to produce furniture & use of sawdust as fuel; re-circulate used boiler water, implement stricter health & safety procedures, & improve working environment.
MPDF	4/13 = 31% would meet IFC guidelines.	7/13 = 54% (especially, due to health & safety issues). 2 non-compliant companies present significant reputational risk. In 1 case, employees working in atmosphere with high solvent levels & no personal protection equipment. 5 of 6 non-compliant companies could implement fairly simple & cost-effective actions to meet regulations. 2 of 6 non-compliant companies also non-compliant on other environmental issues.	Presumably compliant, except for health & safety. See column on local environmental requirements.	Complying, except for health & safety. See column on local environmental requirements.	8/15 = 53%, including Improvements in wastewater treatment, improved lighting, dust reduction measures, reduction in energy use, and increased wages & benefits. But 4 still don't comply with some local EHS regulations, including 2 unlikely to be able to comply based on actions being taken & 2 that would need to undertake additional improvements.
SEED	4/7 = 57% would meet IFC guidelines. Shortfalls minor.	4/7 = 57% would meet local regulations. Shortfalls minor.	3/7 = 43% would meet IFC guidelines. Shortfalls minor.	3/7 = 43% would meet local regulations. Shortfalls minor.	4/7 = 57%, incl. tidying waste materials to improve working conditions, recycling waste raw materials, purchase of fire extinguishers & related equipment, purchase of personal protection equipment, removal of lightning conductors that contain radioactive material, replacement of diesel forklifts with LPG and electric ones, inclusion of drainage and wastewater treatment in design of new factory, improved ventilation & lighting.

¹⁷ Consultants did not distinguish between environmental and social requirements and between IFC and local requirements.

OEG's Synthesis Evaluation of Four IFC-Supported Small and Medium Enterprise Facilities

Management Response

Management is pleased to provide the following comments on the Operations Evaluation Group's (OEG) Synthesis Evaluation of Four IFC-Sponsored Small and Medium Enterprise (SME) Facilities.

Management welcomes the recommendations in this report as they are congruent with the ever evolving and improving models of our SME facility work. SME work has been a major focus for Management, and a continuing challenge. Management has continued to improve our approach to SMEs and to experiment with various business models, in many cases through Facilities, but it has not to date found a single business model that it could call "the solution" in the field of SME development. Thus, there has been the need for continued experimentation and learning in search of more effective approaches to SMEs. In this regard, Management has learned lessons through these experiments, and has adjusted the facilities' operations accordingly over time. The present state of the four facilities, and the design of the newer six facilities that have been launched after them, reflects such learning and evolution. In fact, most of the recommendations in this report have already been adopted or are in the process of adoption.

Management would also like to note that IFC is not independent in the management of these facilities. The majority of funding for this work comes from a broad set of donors who are active in setting strategy and priorities for the facilities, and Management must continue to closely consult with these donors. Each facility covered in this synthesis report had an individual evaluation completed. Those findings and recommendations and their follow-up actions already have been shared and agreed with their respective donors.

The four facilities covered in this OEG synthesis report represent three different, evolving philosophies of IFC's structuring and intent for SME facility work.

- The African Project Development Facility (APDF) was created in 1986 with a focus on preparation of business plans designed to help individual SME clients raise needed financing. By 2000, APDF began providing capacity building and training services reflecting a shift in its initial business model.
- In 1989, the African Management Services Company (AMSCO) was created to second professional, expatriate managers to firms with substantial African ownership. The original model was not focused on SMEs and only in 1997 did AMSCO commit to changing the target of its services toward SMEs. No other SME facility shares AMSCO's business model.
- The Mekong Project Development Facility (MPDF) was launched in 1996 followed by the Southeast Europe Enterprise Development (SEED) in 2000. MPDF represented a new philosophy in SME support services as it was the first facility to have an explicit mandate that included both direct service to SMEs *and*

programs to strengthen local capacity to support the private sector. Similarly, SEED was launched with three main components emphasizing a shift away from direct intervention, although still allowing for some direct assistance to SMEs, focusing heavily on capacity building of local service providers *and* providing inputs to address continuing constraints in the business enabling environment.

Before responding to the specific recommendations Management would like to address briefly two of the larger themes of the report.

Facilities have lacked adequate strategic focus and not clearly articulated what market failures the facilities should address.

While Management agrees that the facilities can and should continue to enhance their strategic focus, it believes the facilities and their respective donors did, in fact, identify specific market failures which the facilities were designed to address. From the board paper which gained approval for each facility to the annual (sometimes semi-annual) donor board meetings, each facility and its board have identified market failures and designed programs to address them. Also, before Board papers were prepared, there was very substantive analytical and feasibility work undertaken to identify key SME constraints and opportunities, review existing donor and related activities and develop programs consistent with this analysis.

As an example, the lack of adequate capital flows to SMEs in these markets was identified as a ubiquitous constraint to SME growth. This failure was due to the lack of skills and knowledge both by local entrepreneurs and local financial institutions. In response, facilities provided assistance to SME in preparing quality business plans and financial forecasts required by lenders, as well as providing capacity building and training for financial institutions. Similarly, the identified dearth of service providers such as training institutions or consultants for SMEs and/or the relatively narrow and low quality offered by such local providers prompted the facilities to offer capacity building programs to these local players.

Management agrees that there could have been more focused approaches in terms of resource allocations across activities. However, as noted earlier, the facilities do play an important role in innovating business models in the area of SMEs development and are by their nature designed to experiment, to take risks, to conceive and implement new programs ‘outside of the box.’ It is through such an experimentation and learning process that greater focus is now being achieved in these facilities.

Facilities devote a substantial portion of resources to firm-level services reaching relatively few companies.

Management agrees that this was a relevant observation for the period covered by the review. Today’s facilities allocate much less resources to firm-level services, and when providing firm-level services, they are very focused and aligned with donor objectives. Upon analysis of the facilities spending through FY03 (post the evaluation periods)

Management finds a cumulative 18% reduction for APDF, MPDF and SEED in firm-level spending including financial advisory services and consultancy services. Further reduction in firm-level spending is reported by the three facilities in FY04. According to their own numbers, individual spending on firm-level activities in FY04 was less than 50% of the total for APDF, 18% of the total for MPDF and 10% of the total for SEED. Looking at other program spending including training, capacity building and business enabling environment work, these three facilities increased their spending from \$1.8 million in FY00 to \$6.2 million in FY03, an increase of 244%.

The six new facilities launched subsequent to SEED all have specific mandates to focus on the facilitation of services to SMEs through local service providers and institutions with limited if any direct, firm-level intervention. The remaining firm-level activities are not expensive business planning exercises but rather 'light touch' interventions such as company diagnostics and focused consulting projects to help improve client operations. These projects allow the facilities to stay close to the most challenging operational issues facing local SMEs, to pilot training and consulting tools for wider rollouts, and to continue to have some demonstration effect on the broader marketplace. It is important to note that donors have endorsed some continued, targeted firm-level assistance.

Regarding the specific report recommendations, Management notes that while they are based on the findings on the four facilities for the periods under review, they are intended for extending lessons for a broader, newer set of SME facilities as well. Management's comments are as follows:

- 1. The facilities should improve the strategic focus of their efforts with respect to approaches, programs and client subsidies:**
 - a) Identifying the market failures they seek to address in the region or countries served and specifying why they have selected the specific approaches and program proposed to address these issues rather than others.**
 - b) Reallocating their resources:**
 - i. Continuing to reduce the share of their resources devoted to financial advisory services;**
 - ii. Expanding their consultancy services and their training services;**
 - iii. Continuing the AMSCO program for a limited period to see whether it can achieve financial sustainability without straying from its development mandate;**
 - iv. Focusing their capacity building programs on the specific issues responsible for market failures and on financial institutions that serve SMEs;**
 - v. Focusing their SME business climate programs on the most critical issues.**
 - c) Issuing explicit guidelines on subsidies to improve the efficiency of their targeting, conform to IFC's non-displacement principle, ensure**

transparency and fairness, and make clients aware of what they would have to pay for non-subsidized services.

Management agrees with these recommendations. Continued and sharper strategic focus is necessary as is a clear rationale for the selection of a given approach to address a specific market failure. As stated above, Management believes the facilities have been engaged in identifying and responding to market failures already. To make this more explicit, Management suggests that documents used for approval of facilities and their work programs (board papers, annual work plans shared with donor boards, and project approval documents) include sections where specific market failures and their implications are identified. Similarly, these documents should then propose programmatic responses including specific design elements and rationale for their selection.

Changes already have taken place in this regard. In particular, all PDFs began reporting directly to the regional investment departments as of January 1, 2004. This closer alignment with the regions allows for increased focus and improved selection of programs and projects in line with the commonly agreed priorities stemming from existing market gaps and identified market failures. Also underway is the pilot of a common Project Data Sheet for all technical assistance projects (PDS-TA) which requires descriptions of project design, rationale, fit with regional strategies and expected benefits and impacts. TA project proposals will be reviewed by the regional director or his/her designee and others as appropriate to provide the necessary technical, economic and other relevant input.

Management also agrees with the recommendation to reallocate facilities' resources. SEED and MPDF already have reached a mix of programs and delivery methods consistent with the report and as agreed with their donors, and APDF has made significant strides forward. Similarly, AMSCO undertook a one-year retooling period as agreed with its board and has become more focused and cost effective. Also with the ongoing input from the regional departments and donors, the facilities are increasing the focus of these programs and their business environment interventions on the most critical issues and gaps. For example, SEED is working closely with FIAS on implementing a program to address key administrative barriers in Bosnia and Herzegovina. MPDF actively participated in the investment climate assessment (ICA) in Cambodia and is part of the WBG PSD team. The South Asia facility is participating in the ICA work in Bangladesh.

As for subsidies, Management agrees that a set of guidelines should be developed and consistently applied across IFCs' SME facility operations, and technical assistance operation in general. Working closely with the Private Sector Development Vice Presidency and donors, the SME Department will develop such guidelines for internal review, revision, piloting and implementation.

- 2. IFC and the facilities should take advantage of the opportunities that may arise from the facilities' January 2004 integration into IFC's regional**

investment departments but should maintain and expand the SME Department's role in encouraging cross-facility collaboration, knowledge sharing, and good-practice standards and should ensure that the donors' concerns are adequately reflected in the facilities' policies and strategies. To this end, consideration should be given:

- a) By IFC, to encourage the regional investment departments to treat the facilities as an integral instrument in their work and, by the facilities, to contributing to the development of an IFC-wide strategy in support of the local private sector;**
- b) By the SME Department and the Financial Controller's Department to continuing their efforts to improve the facilities' systems and processes for project selection, planning, monitoring, and evaluation, and for management information, internal control, and reporting;**
- c) By IFC and the facilities to ensuring that they take adequately into consideration the views, concerns, and interests of the donors.**

Management agrees with these recommendations. The regional investment departments have a good opportunity to leverage the SME facilities and their extensive local presence to effect important and strategic enhancements. To ensure the fullest synergy from these resources IFC's senior management has instructed the regions to prepare regional TA strategies for discussion in early October of this year. Such discussions will highlight opportunities for leverage and sharing of good practice and common solutions to common challenges. These TA strategy discussions will become part of the annual planning process. Autumn TA meetings will allow sufficient lead time for feedback and reflection of these TA priorities into the FY06 strategy and business planning cycle.

Management has already noted its current pilot of a common project proposal form (PDS-TA) at a project level, for which system improvements are supported by Board-approved capital budget. This will enhance project selection and planning and facilitate the sharing of good practice across facilities. It also will help record the strategic fit of projects with IFC regional priorities. The PDS-TA is only the beginning of the process that will culminate in a Project Completion Report (PCR-TA) similar to the ones used for self-evaluation of IFC investment operations. The PCR-TA template is in a draft form and its validation stage will begin in the second quarter of FY05.

To further enhance the quality of our TA projects, especially in the SME facilities, the SME Department is currently recruiting a senior monitoring and evaluation officer to provide leadership on the operational side of TA project design and impact evaluation. More than 100 applications for this position were received from internal and external candidates. The SME Department plans to finalize its selection in September 2004.

The Controller's Department also continues its efforts to enhance internal controls and system support to the facilities. The Controller's Department has created a facilities start-up handbook. It is currently undertaking enhancements to the existing financial management and reporting systems while analyzing longer term, more comprehensive system improvements. And it is continuing with its internal controls compliance training

and reviews with COSO visits planned to Africa and SEED before the end of the calendar year.

Finally with regard to ensuring adequate consideration of donor concerns and interests, the facilities will continue to hold annual or semi-annual donor board meetings. Representatives of the regional investment departments as well as facility managers will attend these meetings. On-going local interaction between facility staff and donors is also key to this goal. In addition, in its role as facilitator and support provider to the facilities and the regions, the SME Department will invite two to three key donor representatives shared by many SME facilities to serve as advisors. This will allow donors to have a single point of input on common policy and operational issues vis-à-vis IFC-managed SME facilities. Management expects members would rotate every two to three years. The group would also include a representative from IFC's Trust Funds Department.

- 3. IFC should continue its efforts to encourage collaboration between the facilities and the rest of the WBG. To this end, IFC should consider:**
 - a) Calling for the facilities to access WBG expertise;**
 - b) Requiring the facilities to consult with IFC and the Bank before undertaking business climate activities; before expressing, directly or indirectly, views on legislative or regulatory issues; and on the rules of engagement for supporting business associations;**
 - c) Encouraging the facilities to locate their offices at the same site as the World Bank and IFC offices (subject to taking into account the facilities' own needs and constraints).**

Management agrees with these recommendations. To help facilitate increased collaboration between facilities and the rest of the WBG, the SME Department has launched three 'knowledge networks.' These networks are thematic in nature, e.g. Access to Finance, Access to Business Services, and Business Enabling Environment, and have members from the SME facilities, the SME Department and various WBG departments on a self-selection basis. These knowledge networks facilitate personal networking of staff across unit boundaries, share good practice examples, and hold meetings and seminars to discuss areas of common program interest and to gain access to expertise from outside the network as well. As previously indicated, there are already numerous examples of PDF collaboration with the broader WBG.

While these networks are a start to improved collaboration, the PDS-TA process described above will help formalize this. The PDS-TA review and approval process not only requires the IFC regions to verify strategic fit with regional WBG priorities, including business climate issues, but also provides for industry/sector specialist input. This process is still in its infancy but its goals fully reflect the spirit of these recommendations.

As for co-location of facilities with World Bank and IFC offices, Management supports this as a general rule bearing in mind that some facilities may have a mandate to serve

specific regions where IFC or the Bank do not have offices, and that donors and Management are constantly looking for cost effectiveness.

- 4. The facilities should bring their handling of EHS issues in line with IFC's policies and should increase their ability to influence client behavior on these issues. To this end, the facilities should consider:**
- a) Issuing policy statements and operating guidelines, approved by IFC and the other donors, calling for compliance with IFC's EHS policies;**
 - b) Taking steps to improve the efficacy of their efforts on EHS issues in their firm-level activities;**
 - c) Taking steps to ensure that, contrary to current practice at two of the facilities, facility reports not say that projects assisted will be designed and operated to meet national environmental requirements unless the facility has an adequate basis for such an assertion.**

Management partially agrees with these recommendations. Management agrees that the facilities should adopt a common policy statement calling for compliance with Type 1 EHS Requirements as applicable to IFC's financial intermediary operations. Such policies should be disclosed to donors, host governments, and clients of the SME facilities. Type 1 Requirements mean that IFC expects its clients and beneficiaries of its services to meet local EHS standards. To that end, the facilities' efforts should focus on awareness-raising and education commensurate with the scale and industry type of clients they serve. This must be balanced against the reality that many of the clients served by the facilities have nascent skills in both business and EHS management. It would not serve our purpose or the greater good to cut off services to these clients when they are most in need of increased knowledge and skills for improved EHS performance.

To that end, Management also agrees that SME facilities should employ a local officer to champion EHS efforts. This person should receive training and support from IFC's Social and Environmental (CES) Department and in turn be able to train local facility staff and clients on EHS management and good practices.

Management agrees that facilities need to be clear about their policy requirements and monitor performance accordingly. Management suggests that in consultation with CES, an environmental and social management framework be established that sets out an appropriately scoped program of EHS outreach and awareness building. Given the diverse client base of the facilities, it would be both inappropriate and inefficient to adopt a compliance approach for sub-projects. Such a program must fit within the mandate and scope agreed with the donors as well. As for the preparation of an annual EHS performance report, Management agrees that the facilities should prepare a report on their achievements and shortfalls against established goals. This may be supplemented as appropriate with a case study when the facility undertakes more significant EHS training and capacity building with a particular client or group of clients.

Management agrees that facilities should be transparent in their reporting. They should distinguish between their own recommendations and the purported intent of the client from actions taken and results realized.

CHAIRMAN'S SUMMARY: COMMITTEE ON DEVELOPMENT EFFECTIVENESS

On August 30, 2004, the Committee on Development Effectiveness (CODE) discussed the Operations Evaluation Group (OEG) report entitled "*A Synthesis Evaluation of Four IFC-Supported Small and Medium Enterprise Facilities*" together with the *Draft Management Response to the OEG Review*. One Executive Director issued a written statement.

Background. The report synthesized evaluations by OEG-directed independent consultants of four of the Small and Medium Enterprise (SME) facilities sponsored and managed by IFC that were sufficiently mature for evaluation. It also drew on evidence from other programs that pursue similar objectives. The report examined five broad issues: (i) relevance, whether the facilities' efforts are justified by their likely impact on development; (ii) their efficacy and impact; (iii) their efficiency in providing services; (iv) the sustainability of the services that they provide and the business service providers they support; and (v) some structural and administrative issues; it also placed the findings of the four evaluations in a broader context, drew conclusions and made recommendations.

In setting the report context, the Director General, Operations Evaluation (DGO) noted that the study represents a relatively innovative evaluation in a difficult area, making an attempt to actually calculate rates of return on different kinds of interventions, a type and level of analysis seldom undertaken in evaluating technical assistance programs.

OEG Evaluation Findings. The evaluation found that although the facilities had served many SMEs, helping to boost their sales, profits, and employment, their strategic focus has been inadequate: the facilities pursued a range of approaches without (i) clearly articulating what market failures they sought to address; (ii) estimating the expected benefits and costs of their services; and (iii) identifying their own capabilities and disadvantages. Some approaches did not give adequate attention to strategic priorities and the most economic use of their resources, and in some cases, the facilities accepted clients and granted subsidies without due concern for crowding-out private service providers or for client needs for subsidies. The report acknowledged that the facilities' willingness to experiment accounted for some of these shortfalls, and that many Management corrective actions were already underway following delivery of the individual facility evaluations.

Based on the findings, the report recommended: (i) improving strategic and client targeting focus with respect to approaches, programs, and client subsidies; (ii) taking advantage of the facilities' recent integration into IFC's regional investment departments, while expanding the SME Department's role in cross-facility collaboration, good-practice standards and ensuring that the donors' concerns are adequately reflected in the facilities' policies and strategies; (iii) continuing efforts to encourage collaboration between the facilities' and the rest of the World Bank Group (WBG) by accessing training, coordinating on investment climate advice, and co-locating in field offices; and (iv) bringing the facilities' handling of environmental, health, safety and social issues (EHS) into line with IFC's policies.

Management Response. Management welcomed the OEG evaluation and generally agreed with its recommendations. Management noted that the report covers a certain period; that many of the recommendations are being currently implemented; and that in many cases the facilities did identify and address specific market failures (e.g. lack of adequate financing accessible for SMEs). Management stressed that IFC often must be responsive to other facility donors' concerns. It also noted the important role of experimentation and learning from experience in finding suitable models for SME development. Management underscored the importance of compliance with IFC's EHS requirements, as recommended in the OEG report, but emphasized that the rigor of application of these standards needs to be balanced against the reality that many clients have limited skills in both business and EHS management.

Conclusions and Next Steps. CODE members welcomed the OEG evaluation and the Draft Management Response. They agreed that SME development remains a major challenge for the WBG. Although there were concerns that some findings taken out of context might create a general negative perception of SME facilities, most CODE members appeared to broadly support the recommended directions for the future, informed by a clearer results framework and a deeper understanding of the inter-linkages with business climate. Analysis of the implications for the future, such as the possible shift in clientele for the services offered by SME facilities, would be useful. CODE members generally concurred that there is no single correct business model for SME development and noted the importance of experimentation and ability to learn from experience.

Among the specific issues raised by the Committee were:

Strategic focus. Speakers were generally supportive of the recommended shift away from a firm-level approach to more general capacity building activities (e.g. training and consultancy) for a range of SMEs and consultancy companies, but some cautionary questions were sounded both as to what exactly was the potential for IFC and the World Bank to scale up in this area, as well as how, by whom, and to what extent firm level services could be provided in developing countries. OEG replied that the intention of its recommendation was not to phase out, but reduce in relative importance the firm-level services in order to redirect resources towards more wholesale activities. One member cautioned against excessive use of foreign consultants. A speaker expressed concerns regarding some conclusions of the report that could be misinterpreted as painting a negative picture of the SME facilities in general, and encouraged management to develop communications strategy to mitigate possible negative reactions. OEG replied that in the disclosed edition of the report, referenced background information (literature review on the case for subsidized support for SMEs) would be accompanied by introductory material, thus putting the findings into proper context.

Subsidies. The issue of subsidies drew comments from several members, with most supportive of targeting based on clearly identified market failures as recommended in the report. Members welcomed the OEG recommendation on issuing explicit guidelines on subsidies to improve the efficiency of targeting. They noted that although the facilities are not expected to fully recover their costs, subsidy mechanisms should be carefully

designed to avoid market distortions. OEG noted that the need for subsidies is ongoing and the main thrust of its recommendation was to ensure fair and transparent targeting, since resources are finite, and also to make clients aware of what they would have to pay for unsubsidized services. Management agreed with the recommendation on issuing explicit guidelines on subsidies and noted that it is planning to put them together, including policies on the rationale for subsidies and the mechanisms to award and evaluate them.

Business climate. CODE members stressed the crucial importance of the business climate and regulatory framework for SME development and encouraged study of the linkages between investment climate and success of facilities in different regions. OEG agreed that investment climate is a critical area to be addressed by the facilities and noted that it will be delivering a study on investment climate that will look more closely at these issues. The DGO stressed the importance of distinguishing between the issues of improving business climate and finding remedies for the market failures, which may not be directly related. Management noted that issues related to improving the business environment are increasingly becoming an integral part of the SME-related work package.

Results. Speakers underlined the importance of a clearer results measurement framework and urged greater rigor in establishing specific benchmarks. They also asked for an update of the existing programs, including an evaluation of constraints to private sector development. A member stressed that proper analysis of development effectiveness of these facilities needed to go beyond their clients and include comparisons with enterprises that had not received the facilities' support. OEG replied that it had compared client firms that had received facility services with those of firms just accepted for services—providing a good test for attribution. OEG added that while it was able to quantify costs and benefits of some programs, it was unable to do so for the capacity building and business climate programs, which is likely also to be a challenge for future evaluations.

Coordination. Many CODE members underlined the importance of upstream coordination within the WBG, especially on regulatory and legislative issues related to business climate. Some members stressed the need to have a unified approach on reporting in all facilities, to better share the best-practice knowledge. One speaker was interested in how the facilities fit into the overall International Development Association (IDA)/IFC SME strategy. Management noted that recent structural changes are likely to have a positive impact on improving coordination within IFC, as well as with the rest of the WBG. Several speakers noted that coordination with other donors could be burdensome for the facilities, and stressed the need for more flexible approach in that regard.

EHS. Some speakers expressed concerns about non-compliance with and inadequate attention to the EHS standards. They stressed the need to employ a country-based approach, to be applied in a standardized way with a degree of flexibility and asked for more information on the size of companies to better assess possible impact on communities, and reputational risks. OEG had noted IFC had a reputational risk issue, and underscored the report's recommendation to require firm clients to comply with host country EHS laws and regulations. Management noted that new performance standards

are currently being discussed, and agreed with the need to look at the possible tradeoffs between compliance and the impact of excessive standards on the performance of firms, which are most in need of knowledge and skills for improved EHS performance.

Structure and content. Several speakers felt that the report would have benefited from more information on the history of establishment of each facility and the rationale behind the choice of design and staffing. OEG replied that more detailed background information on each facility is in the four individual facility reports that can be obtained from OEG. OEG also added that the study was more an impact evaluation than a management review and should be approached as such.

Chander Mohan Vasudev, Chairman

