



**International Finance Corporation**

**A Synthesis Evaluation of Four IFC-Supported  
Small and Medium Enterprise Facilities:**

**Africa Project Development Facility  
African Management Services Company  
Mekong Private Sector Development Facility  
Southeast Europe Enterprise Development**

**Operations Evaluation Group**

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## **OPERATIONS EVALUATION GROUP**

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# Acknowledgments

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# Foreword

The attached report reviews the operations of IFC's small- and medium-scale enterprise (SME) facilities, based largely on OEG-directed consultant evaluations of four facilities or similar programs still supported by IFC that are sufficiently mature for evaluation. OEG provided the individual evaluations to the facilities during 2002 and 2003, and the facilities report that they have already acted on some of their recommendations.

Since 1999, support for the development of SMEs has been one of the core objectives in IFC's corporate strategy. IFC relies heavily on SME facilities to provide technical assistance and advisory services (TAAS) designed to serve this objective. The \$0.4 billion that IFC and other donors committed to the facilities through mid-2003 accounted for nearly half of IFC's cumulative donor-supported TAAS spending and 80% of its TAAS spending for SMEs.

The report finds that notwithstanding the difficult context in which they operate, the facilities achieved a great deal. Nonetheless, while the facilities have energetically pursued their founding purposes, their strategic focus has been inadequate. The facilities have pursued a range of approaches without clearly articulating what market failures they sought to address, estimating the expected benefits and costs, or identifying their own capabilities and disadvantages. For some approaches, the facilities undertook a wide range of programs without giving adequate attention to priorities and the most economic use of their resources. In some cases, the facilities accepted clients and granted subsidies without due concern about displacing private service providers. The facilities' willingness to experiment accounts for some but not all of these shortfalls.

## Main Findings

- Helping individual entrepreneurs assess ideas for investment projects, prepare business plans, and raise financing reaches few companies, mobilizes only modest sums, is costly and, though it may possibly generate satisfactory economic returns, is unlikely to generate outstanding returns.
- The provision of consulting services reaches few companies and is costly but can generate outstanding economic returns—well over 100% per year—essentially by increasing client SME profits without the need for their making major new investments.
- A program that provides expatriate managers together with company-specific training in Africa generates poor economic returns because many of its clients do not really need its services, but accept them to benefit from tax exemptions and subsidies.
- Training programs for business owners and their employees reach larger numbers and can yield outstanding economic returns—well over 100% per year, exceeding even the returns on the consultancy services.
- Programs to build the capacity of local consultants, financial institutions, and business associations and to improve the business climate can indirectly reach larger numbers and

are conceptually quite attractive, but the available information provided no basis for judgments on whether the benefits justified the costs.

### **Recommendations**

- Improving the strategic focus of the facilities' efforts with respect to approaches, programs, and clients' subsidies;
- Taking advantage of the opportunities arising from the facilities' recent integration into IFC's regional investment departments, while expanding the SME Department's role in encouraging cross-facility collaboration and good-practice standards, and ensuring that the donors' concerns are adequately reflected in the facilities' policies and strategies;
- Continuing IFC's efforts to encourage collaboration between the facilities' and the rest of the WBG by accessing training, coordinating on investment climate advice, and co-locating in field offices; and
- Bringing the facilities handling of environmental, health/safety and social issues into line with IFC's policies.

Gregory K. Ingram  
Director-General, Operations Evaluation

## ABBREVIATIONS & ACRONYMS

AMSCO	African Management Services Company
APDF	African Project Development Facility
ATMS	UNDP's African Training and Management Services Project, a channel for donor funding for the AMSCO program
BAS	EBRD's Business Advisory Service
BEE	Business Enabling Environment, i.e. business climate
BTC	MPDF's Bank Training Center
CCBAS	Caribbean and Central American Business Advisory Service (formerly Caribbean Project Development Facility)
CBF	IFC's Capacity Building Facility
CPDF	China Project Development Facility
EBRD	European Bank for Reconstruction & Development
EHS	Environmental, health, safety, and social
FY	Financial year
FYR	Former Yugoslav Republic [of Macedonia]
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
ILO	International Labor Organization
MPDF	Mekong Private Sector Development Facility formerly Mekong Project Development Facility
NAED	North Africa Enterprise Development
NGOs	Non-governmental organizations
OEG	Operations Evaluation Group
OEU	Operations Evaluation Unit, (the predecessor to OEG)
PEDF	Pacific Enterprise Development Facility (formerly South Pacific Project Facility)
PEP	Private Enterprise Partnership
PENSA	Program for Eastern Indonesia SME Assistance
SEDF	South Asia Enterprise Development Facility
SEED	Southeast Europe Enterprise Development
SME	Small- and medium-scale enterprise
TA	Technical assistance
TAAS	Technical Assistance and Advisory Services
TAM	EBRD's TurnAround Management Program
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
WB	World Bank
WBG	World Bank Group



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## PREFACE

1. This report summarizes the findings of evaluations of four small- and medium-scale enterprise (SME) facilities sponsored and managed by IFC to support the development of small businesses. It examines five broad issues. First, it considers *relevance*, i.e., whether the facilities' efforts are justified by their likely impact on development. Second, it considers *efficacy and impact*, i.e., the extent to which the facilities are contributing to the development of sustainable SMEs and business service providers and to improvements in the business climate. Third, it considers *efficiency*, i.e., the facilities' own efficiency in providing services and the extent to which the benefits generated justify the overall costs and the subsidies provided. Fourth, it considers the *sustainability* of the services provided by the facilities and by the business service providers the facilities support. Fifth, it considers some *structural and administrative issues*, including collaboration among the facilities and with other parts of the World Bank Group; management information systems and reporting; and learning from experience.

2. The study is based primarily on OEG-directed evaluations of four facilities still supported by IFC that are sufficiently mature for evaluation—African Project Development Facility (APDF), African Management Services Company (AMSCO), Mekong Private Sector Development Facility (MPDF) and Southeast Europe Enterprise Development (SEED)—but draws also on evaluations and material regarding other programs that pursue similar objectives.<sup>1</sup> The study also draws on an OEG-commissioned literature review that investigates the rationales used to justify subsidies to support SME development and the empirical evidence supporting those rationales. (See Annex 1.5 for a summary of the literature review findings and attendant source references.) The study places the findings of the four evaluations in a broader context, draws general conclusions, and makes recommendations. OEG's predecessor unit (OEU) had issued a study on the facilities in 1995.

3. Independent consultants, working with consultant Walter Cohn (former head of OEG's predecessor and study Task Manager), prepared the four evaluations under the direction of OEG's Linda Morra-Imas, Head, Special Studies. The facilities, whose funding agreements require them to provide their donors with periodic independent evaluations, and the WBG's Small and Medium Enterprises Department, which until January 2004 had direct responsibility for the facilities, covered the bulk of the costs of the underlying evaluations. OEG, however, retained full control, and neither the facilities nor WBG staff were in a position to circumscribe the consultants' independence or control the work done or conclusions reached.

4. The operating periods covered (and the report dates) differed for the four facilities: January 1999-June 2002 (November 2003) for APDF, 1997-2001 (June 2002) for MPDF, September 2000-September 2002 (October 2003) for SEED, and 1995-2001 (January 2003) for AMSCO. This report does not cover developments since completion of these reports, including actions taken in line with their recommendations. As a result of supplementary analyses, comparisons among facilities, and review of additional material, this report's findings and conclusions differ from the individual reports on some issues.

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<sup>1</sup> AMSCO differs significantly from the other facilities. APDF, MPDF, and SEED all provide financial advisory services and consulting services and non-company-specific training, and all seek to develop the capabilities of business service providers and improve the business climate. In contrast, AMSCO provides temporary expatriate managers and company-specific training. APDF, MPDF, and SEED were designed to serve SMEs. AMSCO was not initially, but in response to evolving donor priorities, it redefined its mission and, in late 1997, articulated the objective that two-thirds of its future portfolio would consist of SMEs. OEG has not evaluated IFC's Private Enterprise Partnership or other technical assistance activities supporting SME development, but the report refers briefly to some of these other activities.

5. The evaluations were based on program documents; facility records; interviews with facility and other WBG staff, government officials, representatives of quasi-governmental organizations, business associations, training institutions, banks, and other business service providers; and facility client surveys and interviews. The individual evaluation reports, which outline the methodologies used, are available on OEG's website ([www.ifc.org/oeg](http://www.ifc.org/oeg)).<sup>2</sup>

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<sup>2</sup> Nexus Associates, Inc., "Evaluation of the Mekong Project Development Facility: Final Report," June 2002; DFC Ltd., "Evaluation of the African Management Services Company," Jan. 2003; Nexus Associates, Inc., "Evaluation of Southeast Europe Enterprise Development," Oct. 2003; Nexus Associates, Inc., "Evaluation of African Project Development Facility," Nov. 2003.

## EXECUTIVE SUMMARY

***IFC devotes substantial resources to its SME facilities***

1. Since 1999, the development of small- and medium-scale enterprises (SMEs) has been one of the core objectives in IFC's corporate strategy. IFC relies heavily on SME facilities to provide technical assistance (TA) designed to serve this objective. The \$0.4 billion that IFC and other donors committed to the facilities through mid-2003 accounted for nearly half of IFC's cumulative donor-supported TA spending and 80% of its TA spending for SMEs.

***The facilities' services have evolved based on the needs identified by the facilities ...***

2. Initially, based on its concern with its limited investment volume in certain regions, IFC set up facilities aimed mainly at providing locally based advisory services to help entrepreneurs develop project ideas into bankable investment proposals and raise financing; this traditionally primary activity is referred to hereinafter as "financial advisory services." IFC also developed at an early stage a program to provide a combination of temporary expatriate managers and company-specific training in Africa. Subsequently, as the facilities became aware of broader needs in the countries where they were operating, they began to arrange for consulting services and for training programs open to multiple companies. More recently, reflecting new thinking in the development community, the facilities have undertaken to develop the capabilities of local financial institutions, consultants, training institutions and business associations to serve the needs of SMEs and have sought to improve the business climate for SMEs. The range of services offered and the relative importance of these services have varied from facility to facility and over time. Among other things, as the facilities have expanded their range of services and recognized the limitations of their initial approach, they have cut back the importance of their financial advisory services.

***... and new thinking in the development community***

***This study is based on evaluations of four mature facilities***

3. This study is based primarily on OEG-directed evaluations of four facilities that were sufficiently mature for evaluation—African Project Development Facility (APDF), African Management Services Company (AMSCO), Mekong Private Sector Development Facility (MPDF) and Southeast Europe Enterprise Development (SEED)—but draws also on information available regarding other programs that pursue similar objectives. The study does not cover changes made since completion of the reports on the four facilities (June 2002 for MPDF, January 2003 for AMSCO, October 2003 for SEED, and November 2003 for APDF) and, thus, reflects the situation when these evaluations were completed. The four facilities accounted for 61% of the \$43 million combined FY03 budgets of all the facilities.

***The facilities can help overcome market failures that hinder development***

4. Devoting resources to fostering SME development can help overcome market failures that interfere with an efficient allocation of resources and, hence, hinder economic development. Market failures arise, e.g., when business owners have only imperfect information, businesses cannot capture the external benefits that arise from expenditures on training, or individual firms have inadequate incentives or capacity to spend money on encouraging improvements in the business climate.

***The facilities have lacked adequate strategic focus***

5. Although the facilities have been concerned with strategic issues, their choices of approaches, programs, and clients suggest an inadequate strategic focus. The facilities have adopted a range of approaches without clearly articulating what market failures they sought to address, estimating the expected benefits and costs to help guide priority-setting, or identifying their own capabilities (e.g. access to the WBG’s extensive experience in financial market development) and disadvantages (e.g., their high cost structure). For some approaches (e.g. training and capacity building), the facilities undertook a wide range of programs without giving 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 adequate concern about displacing private service providers. The facilities’ willingness to experiment accounts for some but not all of their shortfalls in strategic focus.

***Programs that provide firm-level services without requiring substantial investments reach relatively few companies but can provide outstanding returns***

6. The facilities devote a substantial though declining portion of their resources to serving individual companies, helping them to raise financing for investment projects, providing them with consultancy services, seconding managers, and providing company-specific training. The firm-level services provided by the four facilities evaluated for this study reach some 200 companies per year, a tiny percentage of the enterprises that may need assistance. Their financial advisory services have mobilized only modest sums. And firm-level services are costly.

7. These services, however, have contributed to incremental sales estimated at \$125 million per year and incremental employment for an estimated 7,400 workers. Comparisons of economic benefits and costs suggest:

- The facilities’ financial advisory services may possibly generate satisfactory economic returns, but are unlikely to generate outstanding returns;
- The AMSCO program, which provides expatriate managers together with company-specific training in Africa, generates poor economic returns because many of its clients do not really need its services but rather accept them to benefit from tax exemptions and subsidies;
- The facilities’ consultancy services can generate outstanding economic returns—well above 100% per year.

8. The high payoff from consulting services is not surprising. X-efficiency—the effectiveness with which a given set of inputs is used to produce outputs—is typically low in developing economies. Programs that successfully address the sources of these inefficiencies and increase profits without the need for major new investments can provide excellent returns.

***Training programs reach more companies and can generate even higher returns***

9. The facilities’ training programs for business owners and their employees absorb a small to modest share of the facilities’ resources, but reach substantially more SMEs—over 1,000 per year. Although the training programs generate lesser results per company, the total impacts are substantial because of reaching more companies. Leaving aside AMSCO (already covered by the previous paragraph), survey data indicate that the facilities’ training programs have contributed to incremental sales estimated at \$140 million per year, compared with \$80 million for the firm-level services, and

incremental employment for an estimated 3,400 workers, compared with 5,500 for the firm-level services. And, because the training programs generate benefits presumably without calling for additional investments, the estimated returns are outstanding—well over 100% per year, exceeding even the returns on the consultancy services.

***Programs for capacity building and improving the business climate can reach even more companies ...***

10. A new paradigm aims at the development of markets in which self-sustaining consultants, business associations, financial institutions, and other service providers can reach and have an impact on more enterprises than can be reached directly by donor-funded programs. The concept is quite appealing, and the facilities have devoted a small to modest—but increasing—share of their resources to this approach. Their programs for building the capacity of local service providers have strengthened many providers and through them have probably reached more than 2,000 SMEs per year.

***... but the available information does not permit cost-benefit comparisons***

11. Programs to improve the business climate for SMEs can potentially help even more companies. The facilities have devoted a small share of their resources to these programs. Their efforts have contributed to some changes in leasing regulations and, thus, to improved availability of leasing finance. Moreover, they may have had some influence on attitudes and, thus, may have indirectly contributed to broader improvements in the business climate. No information, however, is available on the number of SMEs benefiting from these efforts or the magnitude of the benefits.

12. Assessing the impact of the capacity building and business climate programs is difficult. The underlying ideas are attractive and have significant support in the development community, but the available information provides no basis for judgments on whether the benefits from these programs justify the costs.

***The facilities remain dependent on donor contributions***

13. The facilities charge fees for some of their services, but the fees cover only a small portion of their costs. Although the facilities should be able to increase some fees, pushing them towards high cost recovery can undermine the justification for their existence, since pressure for financial sustainability typically leads to facilities devoting their efforts to activities or clients that do not need subsidized assistance. As recognized at the outset for most of the facilities, continuing subsidies are needed for the facilities to carry out their mandates. The facilities have developed substantial knowledge about what is needed to foster SME development and how to carry out SME development efforts and, thus, provide a platform that can be used for a range of donor-supported SME programs.

***The restructuring of the facilities' reporting lines opens new opportunities....***

14. New reporting arrangements for the SME facilities, effective January 2004, seek to make IFC's regional investment departments recognize the facilities' potential for making IFC more effective and proactive in support of the private sector—particularly in frontier countries, where SMEs typically account for the largest share of private sector activity—and to have the facilities contribute to the development and execution of an IFC-wide strategy. The new arrangements call for the facilities to report to the regional investment department, but retain a dotted-line relationship with the SME Department,

*...but calls for a continuing role for the SME Department and continuing respect for donor interests*

which promotes cross-facility knowledge sharing and common management information, internal control, monitoring, evaluation, and reporting systems. The evaluations, carried out during 2002-03, identified several shortfalls and suggested that IFC and the SME Department could be more effective in dealing with these issues. Moreover, the SME Department could help the facilities draw on WBG experience, e.g. on IFC's financial market expertise for use in the facilities' capacity building and business climate efforts. And, regardless of the value that IFC sees in integration of the facilities with its core operations, IFC needs to ensure that the facilities respect the views, interests, and concerns of the donors.

*The facilities also face important structural issues*

15. Each facility operates in multiple countries and uses multiple approaches, and each, thus, has to grapple with the issue of organizing along regional or product lines. Similarly, each has to balance the costs and benefits of establishing and maintaining regional offices. And each has to decide on the location of its offices. Interestingly, where collaboration was good between the facility and the Bank, their offices were in the same location; where collaboration was poor, their offices were not in the same location.

*The facilities' handling of EHS issues has fallen short of expectations*

16. IFC and the other donors expected the facilities to bring to bear environmental, health, safety, and social (EHS) standards on their firm-level clients. Although some of the facilities had hired EHS advisors and called for improvements in EHS performance, all fell short in some respects in following their mandates, at least partly because they considered the standards to be unrealistic. Less than half of the facility SME clients visited were meeting acceptable standards.

*Recommendations*

17. OEG's recommendations are set out in chapter IX of the report and summarized here. They have four objectives.

*Improve strategic and client targeting focus*

18. First, to improve the strategic focus of the facilities' efforts with respect to approaches, programs, and client subsidies, the facilities should consider:<sup>3</sup>

- Identifying the market failures they seek to address in the region or countries served and specifying why they have selected the specific approaches and programs proposed to address these issues, rather than others;
- Continuing to reduce the share of their resource devoted to financial advisory services;
- Expanding their consultancy services and their training services;
- Continuing the AMSCO program for a limited period to see whether it can achieve financial sustainability without straying from its development mandate;
- Focusing their capacity building programs on the specific sources of market failures and on financial institutions that serve SMEs;
- Focusing their SME business climate programs on the most critical issues;

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<sup>3</sup> IFC's current strategic initiative on donor funded operations also calls for improved strategic management of IFC's TAAS activities.

- 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 unsubsidized services.

***Integrate facility activities with IFC regional departments' strategic priorities, but maintain central functional management***

19. Second, 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. At the same time, IFC 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.

- IFC should encourage the regional investment departments to treat the facilities as an integral instrument in their work and encouraging the facilities to contribute to the development of an IFC-wide strategy in support of the local private sector;
- The SME Department and the Financial Controller's Department should continue their efforts to improve the facilities' systems and processes for project selection, planning, monitoring, and evaluation, and for management information, internal control, and reporting; and
- The facilities should take adequately into consideration the views, concerns and interests of their donors.

***Integrate with WBG skills, policy guidance, and local presence***

20. Third, IFC should continue its efforts to encourage collaboration between the facilities and the rest of the WBG by:

- Calling on the facilities to access WBG expertise for strengthening their capacity building programs for financial institutions, their efforts to develop capital markets, and their methodologies for evaluating their training activities;
- 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 regarding the rules of engagement for supporting business associations;<sup>4</sup> and
- Locating facility offices at the same site as the Bank and IFC offices (subject to taking into account the facilities' own needs and constraints).

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<sup>4</sup> Since the facilities cannot control the views expressed by business associations they support, IFC should in each case have an opportunity to consider whether it is willing to bear the reputational risk of a facility-supported association's calling for government actions that would run counter to WBG views on appropriate economic policies.

***Bring to bear  
IFC's  
environmental  
and social  
sustainability  
standards***

21. Fourth, 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 by:

- Issuing policy statements and operating guidelines, approved by IFC and the other donors, calling for compliance with IFC's EHS safeguard policies;<sup>5</sup> and
- Taking steps to improve the efficacy of their efforts on EHS issues in their firm-level activities.

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<sup>5</sup> IFC's type 1 requirements, which should apply to the facilities (other than AMSCO), would call, among other things, for these facilities to require that clients comply with host country EHS laws and regulations. IFC's type 2 requirements, which should apply to AMSCO, would call for its clients to meet IFC's own EHS requirements, rather than just the host country requirements.

## I. THE FACILITIES, THEIR RATIONALE, & THEIR STRATEGIES

### **IFC devotes substantial resources to SMEs, and the facilities account for a major share**

*SME development is one of IFC's core objectives*

1. IFC assists SMEs by providing financing through intermediaries and by providing technical assistance (TA). In 1999, IFC made SME development one of the four core objectives of its corporate strategy.<sup>1</sup> In view of the importance of SMEs in developing countries, the WBG created a joint SME Department in 2000 to coordinate and spearhead their efforts.<sup>2</sup> The SME Department defines small enterprises as enterprises with 10 to 50 employees, total assets of \$100,000 to \$3 million, and total annual sales of \$100,000 to \$3 million; it defines medium enterprises as enterprises with 50 to 300 employees, total assets of \$3 million to \$15 million and total annual sales of \$3 million to \$15 million.<sup>3</sup>

2. Many others share the WBG's interest in SMEs. Other multilateral institutions—including all the multilateral development banks, UNDP (United Nations Development Programme), UNIDO (United Nations Industrial Development Organization), ILO (International Labor Organization), and the EU (European Union)—bilateral programs (including aid programs and development finance institutions), national governments (in developed as well as developing countries), and non-governmental organizations have programs to encourage SME development. These programs use a wide range of approaches (Chapter VI). Many of these donor agencies also fund IFC-managed TA programs.

*The facilities account for 80% of IFC's total donor-supported TA spending for SMEs*

3. IFC's primary approach for using TA to foster SME development has been to create and support donor-funded SME facilities (until recently known as project development facilities). Initially driven by its concern with its limited investment volume in certain regions, IFC set up facilities to help entrepreneurs develop project ideas into bankable investment proposals and raise financing (financial advisory services). IFC also developed at an early stage a program to provide a combination of temporary expatriate managers and company-specific training in Africa. Subsequently, as they recognized broader needs, the facilities began to arrange for consulting services and for training programs serving multiple companies. More recently, reflecting new thinking in the development community, the facilities have undertaken to develop the capabilities of local financial institutions, consultants, training institutions, and business associations to serve the needs of SMEs and have sought to improve the business climate. The range of services offered and the relative importance of these services have varied from facility to facility and over time. Among other things, as the facilities have expanded their range of services and recognized the limitations of their initial approach, they have cut back on the relative importance of their financial advisory services.<sup>4</sup> Annex 1.1 provides a program logic model showing what the facilities do and the expected results.

4. IFC, together with donors, has established 12 SME facilities, mostly serving frontier markets, where incomes are low and risks are high. The facilities serve not only manufacturing companies, but also agricultural, mining, and service enterprises. Annex 1.2 summarizes the mandates and other basic information on the facilities, and Annex 1.3 summarizes the services each provides. In addition to the facilities, IFC

uses its Private Enterprise Partnership to foster SME development in the former Soviet countries and assists SME development through a range of other TA activities.<sup>5</sup>

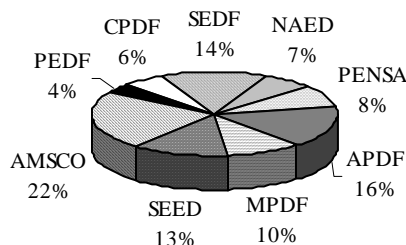
5. Between 1981, when IFC created the first facility, and mid-2003, IFC and other donors committed \$0.4 billion to the facilities. On a cumulative basis, the facilities have accounted for around 80% of IFC's TA spending for SMEs and nearly half of its total donor-supported TA spending.<sup>6</sup>

6. IFC has significantly expanded its support of SME facilities in recent years. It established six facilities during the 19 years through 1999 but then opened six new ones in the four years following the establishment of the WBG's SME Department in March 2000.

7. This report focuses primarily on the services provided by four IFC-supported facilities that were evaluated for this study—African Project Development Facility (APDF), Mekong Private Sector Development Facility (MPDF), Southeast Europe Enterprises Development (SEED), and African Management Services Company (AMSCO).<sup>7</sup> These four facilities were the only ones still active (aside from Pacific Enterprises Development Facility, a very small facility that had been subject to several recent evaluations) that had been operating sufficiently long to permit meaningful evaluations.<sup>8</sup> The four facilities accounted for 61% of the \$43 million combined FY03 budgets of all SME facilities. See Figure 1 and Annex 1.2.<sup>9</sup>

*This study examines IFC's experience with four facilities—APDF, MPDF, SEED and AMSCO*

**Figure 1 - Amounts Budgeted for FY03 (%)**



8. For the most recent years covered by the evaluations, donor funding covered 82% of APDF's total expenditures, about 95% of MPDF's and SEED's, and 77% of AMSCO's.

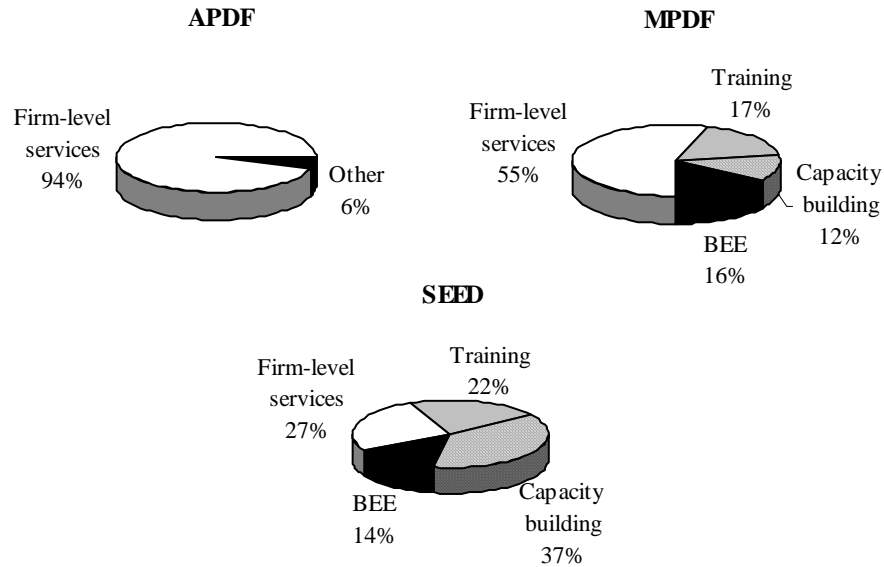
9. AMSCO differs significantly from the other facilities. APDF, MPDF, and SEED all provide financial advisory services and consulting services and non-company-specific training, and all seek to develop the capabilities of business service providers and improve the business climate. In contrast, AMSCO provides temporary expatriate managers and company-specific training. This report distinguishes APDF, MPDF, SEED, and similar facilities from AMSCO by referring to them as the traditional facilities.<sup>10</sup> The report refers to the traditional facilities' financial advisory services and consulting services and AMSCO's provision of temporary expatriate managers and company-specific training as firm-level services.<sup>11</sup> Box 1.1 (page 3) cites the mandates for the four facilities, and Figure 2 shows the allocation of the traditional facilities' spending for the years covered. (Annex 1.2 outlines the instruments used.) Both reflect the declining importance of firm-level services and the increased emphasis on

training, capacity building, and business climate activities in the newer facilities.<sup>12</sup>

**Box 1.1 – Mandates for Four Facilities Evaluated**

<b>APDF</b>	<p>“...to accelerate the development of productive enterprises sponsored by private African entrepreneurs, as a means of generating self sustained economic growth and productive employment...” Africa Project Development Facility, Nov., 1985.</p> <p>“...to work with entrepreneurs in an advisory capacity throughout the project preparation cycle until funding is secured and thereafter if post-financing support is needed to strengthen the project, and to help ensure the proper implementation of the project.” Proposed extension of the Africa Project Development Facility, Mar., 2000.</p>
<b>AMSCO</b>	<p>“...to provide qualified, experienced professional management and management services to selected indigenous African private companies and/or new joint ventures and commercially operated public enterprises, particularly those targeted for privatization...to leave behind locally managed businesses that are competitive, self-sufficient and integrated into the international business community.” Regional project document, African Training and Management Services Project, Apr. 1989.</p> <p>“The successful development and training of professional management teams at each client company...” UNDP, project document, African Training and Management Services, Phase II, Jan. 1999.</p>
<b>MPDF</b>	<p>“...to promote the establishment and expansion of commercially viable SMEs...by both working with individual SMEs, and by collaborating with and supporting domestic and donor agencies involved with this sector, with a view to strengthening local capacity to support the local private sector.” Proposed IFC participation in and contribution to the Mekong Project Development Facility, Apr. 1996.</p> <p>“...will shift from providing assistance to a select number of private enterprises and institutions, to generally developing the demand and supply of essential business support services...will focus on the following...(i) continue direct advisory assistance to private enterprises, but with a view to developing the capacity of and market for local providers of business development services...and gradually phasing out direct service delivery, except where clearly justified by ‘public good’ or external benefits; (ii) further expand the capacity building of essential local support institutions...and (iii) continue and expand its work in the area of private sector research and business enabling environment work...” Proposed IFC participation in and contribution to the extension of the Mekong Project Development Facility, Oct., 2002.</p>
<b>SEED</b>	<p>“...to help support the development of the private sector...which is predominantly comprised of small and medium sized enterprises...[SEED] would have several core...programs...(a) support for private sector companies to structure and implement investment projects and support for financial agencies to monitor and supervise private sector loans and investments; (b) inputs to address continuing constraints in the business enabling environment; (c) training and education programs aimed at upgrading the management and professional skills of personnel in companies, financial agencies and domestic consulting organizations; and (d) inputs to generate, collect analyze and disseminate information and knowledge relevant to the private sector.” Proposed IFC participation in and contribution to the Balkans Enterprise Facility, Dec., 1999.</p> <p>“SEED will support the development of Small and Medium Enterprises...as well as individuals and institutions that serve the needs of SMEs and will enhance the broader enabling environment in which all of these stakeholders operate. SEED will implement its mandate through tailored, enterprise- and organization-specific technical assistance, capacity building programs, training courses and research/policy interventions.” SEED, start-up report, Fall 2000.</p>

**Figure 2 - Allocation of Spending by Traditional Facilities (%)**



10. The report examines five broad issues. First, it considers *relevance*, i.e., whether the facilities' efforts are justified by their likely impact on development. Second, it considers *efficacy and impact*, i.e., the extent to which the facilities are contributing to the development of sustainable SMEs and business service providers and to improvements in the business climate. Third, it considers *efficiency*, i.e., the facilities' own efficiency in providing services and the extent to which the benefits generated justify the overall costs and the subsidies provided. Fourth, it considers the *sustainability* of the services provided by the facilities and by the business service providers the facilities support. Fifth, it considers some *structural and administrative issues*, including collaboration among the facilities and with other parts of the WBG, management information systems and reporting, and learning from experience.

**Market failures can provide a rationale for devoting targeted, subsidized resources to SME development**

***TAAS can help overcome market failures that hinder development***

11. While programs assisting SMEs are widely supported and endorsed, the issue of whether *subsidized* assistance to SMEs is justified has generated a research literature. The research centers on three lines of reasoning. The first is that among all private firms, SMEs make particularly or uniquely important contributions to private sector development and poverty reduction. The second is that assisting the private sector in developing countries means assisting and subsidizing SMEs. The third is that subsidizing SMEs is justified because of market failures. The literature review commissioned for this study (See Annex 1.5.) indicates 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 research supports the last argument for providing subsidies to SMEs. The research findings are briefly summarized below.

12. 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. The research literature 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 firms. Therefore the evidence does not support this line of reasoning as a basis for subsidized or targeted assistance to SMEs in developing countries.

13. The second line of reasoning is that the emerging private sector in many poor countries consists essentially of SMEs and, therefore, that assisting the private sector calls for assisting SMEs. It is true that in many developing countries, the private sector consists largely of SMEs. Still, this does not suggest that SMEs are more desirable in development impact reach and/or quality than larger enterprises and, hence, does not call for giving special preference to SMEs or directing subsidies specifically to SMEs.

14. The third line of reasoning does justify specific targeting of SMEs in developing as well as developed countries in some situations. The research evidence suggests that devoting resources specifically to fostering SME development may indeed be warranted where there are market or institutional failures.<sup>13,14</sup> Markets may fail to 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 or capacity to spend money on public goods.<sup>15</sup> As discussed in the following paragraphs, efforts to address such market failures can help remove barriers to the development of SMEs and, hence, allow them the opportunity to contribute to growth and poverty reduction.

*Donor assistance may be justified because imperfect information hinders use of business services*

15. Efficient markets depend, among other things, on firms' making informed decisions. Firms, however, cannot make informed decisions on securing assistance from consultants, training institutions, or other service providers if they lack the information and experience needed to identify their needs, locate potential sources of assistance, assess their capabilities, and evaluate the costs and potential benefits. Even in the best circumstances, judging the value of these services before purchasing them is difficult. Large companies and companies in well developed markets may be able to make judgments based on their own experience or the reputation of particular service providers. In developing countries, however, enterprises—particularly SMEs, which often lack prior experience with service providers—find it particularly difficult to cope with these challenges. Without donor-funded encouragement (e.g. by making available information on service providers, providing services backed by the reputation of an institution such as the WBG, or lowering costs through subsidies), they may not seek assistance to develop project ideas into bankable investment proposals, raise financing, or improve their on-going business operations.

*Donor assistance may be justified because of externalities*

16. Individual firms cannot count on retaining the benefits that result, e.g. from training expenditures. Even when the social benefits of training workers exceed the social costs, companies may not invest in training their employees (among other reasons) because of fearing that employees trained with portable skills would leave to join other companies. (In addition, workers may not invest their own time and money in training because they lack the resources, job security, or the necessary longer term perspective.) In these circumstances, the training carried out may be less than desirable based on the social costs and benefits. This observation applies particularly to SMEs, which are less able to absorb the costs of training employees who

subsequently leave and to developing countries, where employees are less able to invest in training.<sup>16</sup>

*Donor assistance may be justified to promote public goods*

17. The benefits of an improved business climate generally accrue to many firms. Individual firms can seldom expect sufficient benefits to justify their devoting resources to encourage improvements. Large enterprises, however, can more readily bear the costs of trying to influence the business climate or, alternatively, taking steps to protect their interests despite the continuing problems. Moreover, SMEs suffer to a greater extent from many business climate problems, e.g., with respect to legislation and regulations (biases in legislation or regulations, lesser access to information on changes under consideration), deficiencies in the legal system (unpredictability, corruption, crime), constraints on the availability of financing (collateral requirements, availability of information on credit records, the need for special connections, corruption, unavailability of leasing and export finance, paperwork, and bureaucracy), and anti-competitive practices.<sup>17</sup>

### **The facilities have lacked adequate strategic focus**

*The facilities' choices of approaches, programs, and clients suggest an inadequate strategic focus*

18. In launching the facilities and in subsequent strategic planning efforts, IFC has examined needs and constraints and has been concerned with strategic issues, but it has not clearly articulated what market failures the facilities should address, explained why the facilities selected the specific approaches and programs proposed (rather than others), identified the facilities' potential capabilities and disadvantages, and estimated the expected economic benefits and costs of the approaches and programs considered, as a guide in priority setting.<sup>18,19</sup> IFC's focus on the preparation of business plans and helping entrepreneurs raise financing in the earlier facilities reflected its own project finance orientation, rather than an effort to identify and deal with the crucial factors contributing to market failures. There are many ways to address market failures. For example, the facilities might, as they do now, try to improve the supply of business services through capacity building programs and to increase the demand by helping SMEs assess their needs, preparing terms of reference, identifying and supervising consultants, and covering the bulk of the costs. But, in some circumstances, the facilities might also consider, say, encouraging demand through publicity on how consultants can help SMEs, making information available on the experience and range of services offered by individual consulting firms, or offering subsidies for consultants without playing the active role required by their current approach. Moreover, by virtue of their relationship with the WBG, the facilities have certain advantages, e.g. access to the Bank Group's extensive experience in financial market development and in credit assessment and the possibility of linking TA with investments in financial institutions. But they also have certain disadvantages, e.g. a high cost structure, which makes it expensive to provide services to individual enterprises. The facilities' willingness to experiment accounts for some, but not all of their shortfalls in strategic focus. Because of not grounding their strategies on the underlying rationale, their own capabilities and limitations, and some estimate of the expected relative returns, the facilities have not had an adequate basis for deciding what approaches they should use, what programs they should undertake, what clients they should serve, and what clients they should subsidize.<sup>20</sup>

19. The *approaches* the facilities have used may not generate the maximum benefits from the resources applied. The facilities cannot do everything, and they cannot do

everything equally well. Nevertheless, they have undertaken a range of approaches. Over the years, they have added new approaches, based on suggestions by IFC, donors or others, but have seldom dropped any. For example, at the behest of some donors, AMSCO has undertaken a program aimed at improving corporate governance in certain countries despite this activity's not fitting its core strategy. The facilities may have taken on too much and may be using some approaches that are less effective and efficient than others they might use.<sup>21</sup>

20. The specific *programs* carried out in the context of these approaches may not generate the maximum benefits from the resources applied. APDF's training efforts, for example, may pursue a worthwhile objective, but in selecting specific training programs, APDF lacked an adequate strategic focus. In the first 21 months it provided training, it offered 51 different courses in 17 different countries, including courses in financial management and governance for high schools in Ghana, effective business writing, and food handling. Similarly, SEED's capacity building program had a desirable objective. But in selecting where to direct its efforts, it has, among other things, undertaken to assist a bee keepers' association and a mushroom growers' association. The activities cited may be useful, but they nonetheless raise questions about SEED's strategic focus.

21. Similarly, the facilities have had an inadequate strategic focus in *accepting some clients* for their firm-level services *and allocating subsidies* for these services. The facilities provide subsidies to some clients that do not really need them and, thus, do not have sufficient resources for subsidies to potential clients that would need them. Targeting subsidies is always difficult, but the facilities have not developed adequate strategies to focus their efforts on specific sets of clients where subsidies are truly needed. Without adequate selectivity and strategic focus, the facilities' efforts are likely to stray from their underlying rationale and are likely on occasion to conflict with IFC's displacement principle (crowding out private sector providers).<sup>22</sup>

**Outline of report**

22. The next four chapters—covering services provided directly to enterprises, training of business owners and their employees, capacity building for service providers, and efforts to improve the business climate—examine whether provision of the specific services offered by the facilities is in fact justified, what the facilities have actually done, the impact, the costs, the relationship between the costs and benefits, and sustainability. The report then devotes a chapter to alternative approaches for encouraging SME development, a chapter to structural issues and collaboration, and a chapter to environmental, health, safety and social issues. Based largely on the evaluations of the four facilities, the final chapter makes some suggestions for IFC and the facilities in connection with their efforts to assist SMEs.

**Caveats**

23. As in any evaluation, budgetary, and time constraints and constraints on the availability of information have limited the scope of work and, hence, have limited the study's ability to arrive at any conclusions on some issues and universally agreed conclusions on others. The budgetary constraints were particularly important in view of the number of facilities to be covered, the large number of approaches and programs used by the facilities, the large number of clients, and the wide geographic dispersion of the clients. Moreover, the evaluations reviewed some activities prematurely and consequently could not adequately identify impacts. And, even leaving aside shortfalls in the work done in each evaluation, this report does not cover developments since completion of the individual evaluations, including steps that IFC and the facilities

have taken in line with the suggestions in the individual reports.

## II. FIRM-LEVEL SERVICES

### The facilities devote substantial resources, but reach relatively few firms

*Firm-level services provided by facilities*

24. The traditional facilities provide two types of core firm-level services. First, they provide financial advisory services to help entrepreneurs assess ideas for investment projects, prepare business plans for presentation to potential investors and lenders, and raise financing. The facilities typically retain outside consultants for executing this work, but facility staff remain responsible for the overall product. Second, the facilities provide consulting services. Although facility staff sometimes provide direct assistance, the typical approach is for them to serve in a project management capacity, linking clients to qualified service providers. The facility staff helps define the company's needs, formulates an appropriate course of action, marshals resources, and oversees the provision of services.

25. AMSCO, which differs significantly from the others, provides a package of two types of services. First, it hires experienced expatriate managers (typically already identified by the client) and assigns them to companies in Africa. Second, it designs and subsidizes company-specific training programs for these companies.<sup>23</sup> Annex 2.1 describes in greater detail the firm-level services provided by APDF, MPDF, SEED, and AMSCO.

*The facilities devote a substantial portion of resources to firm-level services*

26. For the periods covered, firm-level services accounted for substantially all of AMSCO's spending, 94% of APDF's, 55% of MPDF's, and 27% of SEED's. The newer facilities, however, are spending relatively less on firm-level services than the older ones, and each of the traditional facilities reviewed has been reducing the share of these services in its overall spending. APDF cut firm-level services from 97% of FY00 spending to 89% of FY03 spending. MPDF cut firm-level spending from 70% for 1997 to 50% for 2001. And SEED cut firm-level spending from 38% in FY01 to 20% in the first half of FY03. For APDF, the only facility able to disaggregate the sums spent on firm-level services, spending on financial advisory services fell from 77% of the total for FY00 to 62% for FY03 while spending on consultancy services increased from 21% to 27%.

*These services reached relatively few companies*

27. For the periods covered, APDF averaged 115 new firm-level assignments per year, MPDF 34, SEED 42, and AMSCO 30, or a total of 221 per year. The facilities serve only a tiny percentage of the enterprises that may need assistance in the countries covered by their mandates (nearly 50 for APDF and AMSCO, three for MPDF and four for SEED). The high costs of these services and the limited availability of donor funding limit the number of companies the facilities can reach. Indeed, neither IFC nor the donors had expected that these services would reach a significant percentage of the enterprises that might need assistance.

## Market failures justify donor-funded services to some facility clients, but not others

*Some clients would have purchased similar services without the facilities, others not*

28. Some clients would have purchased similar services without the facilities. Indeed, 19% to 32% of the traditional facilities' clients responding to the surveys had previously used outside consulting services.

29. Not surprisingly, companies with substantial foreign shareholdings (25% or more) were more likely to have used outside consulting services. Between 30% and 59% of these firms had done so previously, compared with only 15% to 28% for the firms without significant foreign shareholdings.<sup>24</sup>

30. Not all facility clients, however, would have hired private consultants on their own. A substantial portion considered that this option was not available. More than 30% of APDF's financial advisory service clients and more than 40% of its consulting clients indicated that no other companies or organizations could have provided similar services. Close to 50% of SEED's clients expressed similar views. And 77% of MPDF's clients said that no other options were available.

31. Even where services are available, however, some SMEs may not draw on them because they cannot identify their needs, do not know that there may be consultants who could address their needs, or cannot assess the capabilities of particular firms. These problems definitely exist, but the evaluations did not provide a clear indication of their prevalence. Facility clients, who had already secured services through the facilities, attributed little importance to these problems. In contrast, consulting firms, that found it difficult to attract SMEs as clients considered these problems to be important.<sup>25</sup>

32. Some other companies may not have hired private consultants even in the absence of market failures because of being unwilling or unable to pay the fees. For a very small business, the potential benefits from using consulting services may be less than the cost, and use of donor subsidies to provide services to such companies would not be justified. The facilities' ability to direct their assistance to clients who truly need assistance and can benefit adequately from it depends on the adequacy of their targeting.

*The vast majority of the facilities' clients were SMEs...*

33. Median annual sales when the facilities accepted companies as clients ranged from \$0.3 million (APDF's Enterprise Support Services, i.e. its consultancy program) to \$2.7 million (AMSCO), in all cases well below the \$15 million ceiling set by the WBG guidelines, and median employment ranged from 43 (SEED) to 118 (MPDF), well below the limit of 300 set by the guidelines. (See Annex 2.2.)

*...but the large size of some raises questions about the justification for subsidies*

34. Nevertheless, some clients far exceeded the WBG guidelines.<sup>26</sup> For example, 15% of MPDF's clients had more than 300 employees, including 3% with 1,000-5,000. Similarly, 25% of AMSCO's clients had 300 or more employees, including 7% with more than 1,000 employees. Some clients, moreover, were affiliated with large business groups. Ten AMSCO clients were affiliated with groups that had more than 5,000 employees and three with groups that had more than 20,000 employees. AMSCO, in contrast, to the traditional SMEs was not initially designed to serve SMEs. In response to evolving donor priorities, however, it redefined its mission and, in late 1997, articulated the objective that two-thirds of its future portfolio would consist of SMEs. Nevertheless, the large size of some facility clients raises questions about the justification for providing subsidized services, i.e. about whether these companies would have engaged private

service providers or hired expatriate managers without donor-funded subsidies.

***Most clients were locally owned and managed but high foreign ownership in others raises questions about justification for subsidies***

35. Local investors owned the majority of the equity in most client companies, but foreign investors held significant, even majority, stakes in some. Local private investors owned all the equity in 70-85% of the APDF, MPDF, and SEED clients surveyed. Foreign investors held equity stakes in 10-20% and majority stakes in 5-10%. In contrast, local private investors owned all the equity in only 36% of AMSCO's clients. Foreign investors had some stake in over half its clients, a majority in 37%, and all the equity in 18% (Annex 2.3). Since companies with substantial foreign ownership are less likely to be hindered by market failure, e.g., because of being unable to identify their needs, unaware that there may be consultants who could address their needs, or unable to assess the capabilities of particular firms, the justification for subsidized services is weak.<sup>27</sup>

36. Almost all the chief executives of MPDF's and SEED's clients are local residents. The proportion falls to roughly 85% for APDF and 63% for AMSCO (where the study asked whether the chief executive was an African national, rather than a permanent resident). The lower percentages for the African facilities reflect a shortage of business managers and, in the case of AMSCO, the larger scale of its clients, the foreign control of many and, most importantly, AMSCO's secondment of managers to these companies.<sup>28</sup>

### **Financial advisory services have resulted in few additional projects and mobilized only modest sums**

***The number of projects and investments realized have fallen far short of the numbers reported***

37. Although APDF, MPDF, and SEED together reported that they had arranged financing for an average of 65 projects annually, the results on the ground were significantly lower.<sup>29</sup> Even if a financial institution has indicated that it may be willing to finance a project, the proposal may be dropped before funds are actually disbursed. For the clients surveyed, only 62% of the projects reported as financed actually obtained financing, or an average of 40 per year for the three institutions.<sup>30</sup> (See Annex 2.4.)

38. Moreover, the sponsors of 64% of the projects that actually obtained financing claimed that they could have raised the financing and carried out their projects without the facilities. If these claims are correct, only 13 projects per year can be attributed to the facilities. The projects attributable to the facilities would then be equivalent to between 15% (APDF) and 32% (MPDF) of the projects reported as financed.<sup>31</sup>

39. The three facilities reported having arranged more than \$30 million per year of financing but, after adjusting for plans that did not materialize, the facilities raised only \$19 million per year.<sup>32</sup> These funds helped to finance investments of about \$37 million per year. If only 12 of the 65 projects reported as financed can truly be attributable to the facilities, the facilities' record would be even weaker.

***Collateral requirements contributed to the shortfall***

40. Several factors contributed to the facilities' disappointing record in mobilizing financing, but one stands out—collateral. The APDF, MPDF, and SEED evaluations all attributed clients' unsuccessful efforts to raise financing to their inability to meet lenders' collateral requirements. The facilities could do little to raise financing for companies that could not meet these requirements.<sup>33</sup> None of the facilities, however, addressed one of the key underlying issues—improving the legal infrastructure for creating and enforcing security—in its business climate programs.

## But firm-level services have had a significant impact and may provide satisfactory returns

### *Financial advisory and consultancy services had a significant impact*

41. The bulk of the companies visited reported that they had made at least one change in their business as a result of the facilities' services, that these changes had resulted in improvements in their business, and that the facility assistance had increased their ability to compete. A small but notable portion (12% to 21% for the two African facilities and 5% to 6% for the two others) expressed the view that, without assistance from the facility, their company could not have survived (Box 2.1). And most clients responding indicated that sales and profits were higher than they would have been without the facility. Indeed, leaving aside SEED, which had very few clients that had

#### **Box 2.1 – A Company That Would Not Have Survived**

An AMSCO-seconded manager helped convert a fruit farm that was losing money into a profitable flower producer. The company, which now has a turnover of nearly \$5 million per year and employs around 800 workers, believes that it would not have survived without AMSCO.

sufficient time to increase their sales and profits after receiving services, 50 to 60% of the companies surveyed considered that their sales, profits or both were greater than they would have been without the facilities' assistance. Annex 2.5 provides the relevant survey findings for each facility, the number of companies in the population, the number surveyed, and the number responding for each of these questions.

42. Efforts to quantify the impacts yielded some significant results.<sup>34</sup> First, when asked to compare *actual* sales, profits and employment for the most recently completed year with *what they would have been without assistance* from the facilities (the counterfactual approach), the clients willing to make estimates provided figures indicating increases in sales in excess of \$60 million, increases in after-tax profits (AMSCO clients only) of \$9.5 million, and increases in employment of nearly 3,000. See Table 2.1.

**Table 2.1 – Estimated Impact of Firm-Level Services**

	APDF	MPDF	SEED	AMSCO
<u>Incremental sales (\$ millions)</u>				
Total	24.7	9.8	3.3	24.4
Mean	0.9	0.2	0.14	0.5
Median	0.03	0	0	0.1
Standard deviation	2.3	0.4	0.5	1.1
n	26	30	23	51
n/No. of firms surveyed	23%	29%	70%	48%
n/No. of firms in pop.	11%	10%	33%	20%
<u>Incremental profits (\$'000)</u>				
Total	n.a.	n.a.	n.a.	9,455
Mean	n.a.	n.a.	n.a.	295
Median	n.a.	n.a.	n.a.	51
Standard deviation	n.a.	n.a.	n.a.	35
n	n.a.	n.a.	n.a.	32
n/No. of firms surveyed	n.a.	n.a.	n.a.	30%
n/No. of firms in pop.	n.a.	n.a.	n.a.	13%
<u>Incremental employment</u>				
Total	1042	1040	89	788
Mean	22	20	3	16
Median	5	0	0	2
Standard deviation	49	43	10	3
n	48	51	29	49
n/No. of firms surveyed	42%	50%	88%	46%
n/No. of firms in pop.	21%	16%	41%	19%

N.B. Population from which samples drawn based on completed projects for APDF, assignments initiated for MPDF and SEED, and clients served by AMSCO. AMSCO impacts reflect combination of providing managers and training.

43. Assuming that the companies not covered by the survey are similar to the surveyed companies, incremental sales would be estimated roughly at \$125 million, incremental after-tax profits (AMSCO only) at \$32 million, and incremental employment at 7,400.

44. Second, regression analysis, comparing the actual performance of companies for years after they had begun receiving services with the performance of similar client companies that had not yet begun receiving services, found statistically significant impacts for MPDF and AMSCO but not APDF.<sup>35</sup> In the case of MPDF, the study found that each thousand dollars spent on consulting services boosted annual sales on average by 10%, or a total of \$23.5 million for the 37 companies providing data.<sup>36</sup> In the case of AMSCO, the study found, among other things, that the provision of expatriate managers and training boosted sales on average by about 40%, or a total of \$260 million for the 80 companies providing data.<sup>37</sup>

*As would be expected, benefits highly concentrated*

45. As would be expected of any program providing assistance to private firms, the benefits were highly concentrated.<sup>38</sup> Ten to 15 percent of the companies responding to the counterfactual questions accounted for 80 to 96% of the incremental sales for the firm-level clients of the three traditional facilities, and 25% of the companies responding accounted for 79% of the incremental sales of AMSCO's clients. At least half the companies responding reported no, or virtually no, incremental sales due to AMSCO.

46. This observation, however, does not mean that the programs simply helped successful companies become more successful. Ten of the 23 AMSCO clients that

reported incremental profits said that they would have lost money or broken even without AMSCO. These 10 companies accounted for 59% of the incremental profits attributed to AMSCO, and six of the 10 companies reported that AMSCO’s assistance had allowed them to reduce their losses or break even but not yet to generate profits.

**Important indirect impacts**

47. The facilities’ firm-level services have also made other contributions to development. They have generated backward linkages, as reflected in the client companies’ purchasing 37% to 66% of their raw materials, supplies and services locally and as reflected by the example in Box 2.2. They have contributed to the development of local business service markets. And, as shown in Table 2.2, they have exercised a demonstration effect on other firms.

**Box 2.2 – Backward Linkages**

An embroidery company in Vietnam relies on a network of rural women who do embroidery at home when not needed for farm work, using materials provided by a company assisted by MPDF. The consultancy services provided by MPDF enabled the company to broaden its product line and enter a new export market. As a result, the company increased the number of women working as independent contractors from 4,000 to 5,000.

**Table 2.2 – Demonstration Effect of Firm-Level Services**  
(% responding “Yes”)

Do you know other companies that have followed your lead with respect to:	APDF	AMSCO	MPDF	SEED
• Making changes in business strategies or operations?	48%	30%	64%	35%
• Making or planning new investments in the country?	49%	n.a.	60%	28%
• Providing or arranging training for managers, employees, or workers?	37%	n.a.	52%	21%
• Seeking assistance from outside providers of consulting and training services?	49%	n.a.	n.a.	17%

**Firm-level services are costly**

48. Over the periods reviewed, the facilities spent about \$90,000 to \$140,000 per investment project reported as financed. Unit costs have fallen for all the facilities, but they still came to roughly \$50,000 to 100,000 per project for the most recent years reviewed.<sup>39</sup> As indicated in paras. 37-38, however, some projects reported as completed end up not raising the expected financing, and some do not go ahead. Thus, for the periods reviewed, the average facility costs per project that actually raised financing was \$140,000 to \$250,000, and the average facility costs per implemented project was \$120,000 to \$320,000.<sup>40</sup> These costs were equivalent to 25% to 100% of the financing actually raised by the facilities and 20% to 25% of the amounts invested in projects that actually went ahead. The high percentages reflect the small average size of the projects assisted—smaller indeed than in OEU’s 1995 study. Clearly, the costs of the facilities’ financial advisory services are high in relation to the funds mobilized and investments realized.

49. Consultancy assignments, on the average, cost about half the amounts spent on financial advisory assignments for APDF and 66% for SEED, and the cost of APDF’s consultancy assignments has fallen in recent years. This decline may reflect APDF’s adoption of a diagnostic tool developed by FUNDES International to focus its efforts in

providing consultancy services to individual companies.

50. The costs of the AMSCO program (including seconded managers, administrative costs, and management and training subsidies) averaged \$174,000 per active client. AMSCO's administrative costs alone cost \$25,000 per active client, or 14% of the total costs.

*But some  
may  
generate  
good returns*

51. The facilities' financial advisory services may possibly generate satisfactory economic returns, but are unlikely to generate outstanding returns; the AMSCO program generates poor economic returns, essentially because many of its clients do not really need its services, but accept them to benefit from tax exemptions and subsidies; yet consultancy services can generate outstanding economic returns. Table 2.3 suggests rough estimates of the non-time-adjusted returns from the firm-level services. Due to the short gestation periods, returns of 16% to 18% or higher would be likely to yield satisfactory economic rates of return (assuming benefits continue for 10 years). (See Box 2.3.)

**Table 2.3 – Incremental Pre-Tax Profits for Most Recent Completed Year  
as Percentage of Incremental Costs<sup>a</sup>  
(& Number of Companies Retained for Estimates)**

	APDF	MPDF <sup>b</sup>	SEED	AMSCO	
Financial advisory services	22% (6)	14% (3)	16% (4)	n.a.	
Consultancy services	179% (4)	Negl. (13)	4% (6)	n.a.	
Provision of expatriate managers & company-specific training				<u>Case A<sup>c</sup></u>	<u>Case B<sup>d</sup></u>
• Based on counterfactual incremental sales	n.a.	n.a.	n.a.	12% (8)	2% (2)
• Based on counterfactual incremental profits	n.a.	n.a.	n.a.	68% (8)	5% (2)

<sup>a</sup> These figures do not represent internal rates of return. Also, the table excludes the returns based on the regression analysis, since companies in the categories cited in the second bullet para. of Box 2.3 could not be excluded in this analysis.

<sup>b</sup> For MPDF, financial advisory service clients that did not carry out investment projects are included with consultancy services, rather than financial advisory services.

<sup>c</sup> Excluding companies unlikely to be financially viable after departure of the AMSCO-seconded managers, companies that may not have needed facility assistance (companies owned 25% or more by private foreign investors and companies that already employed one or more of the AMSCO-seconded managers before seeking assistance from AMSCO).

<sup>d</sup> Same as Case A, but also excluding companies that had already identified one or more of the managers before seeking assistance from AMSCO.

### Box 2.3 – Basis for Estimated Returns

The estimated returns suggested by Table 2.3 are based on data from a small number of companies that responded to the survey questions. The standard deviations are high, the distributions skewed, and the mean values not statistically significant. The resulting estimates should be considered only as rough approximations.

- The estimates start with incremental annual sales and, in the case of AMSCO, incremental profits attributable to the facilities' assistance. As indicated in Table 2.1, the response rates ranged from 23% to 70%.
- OEG then adjusted these estimates to eliminate (a) companies that may not have needed facility assistance (companies saying that they would have gone ahead with their investment projects even without the facility, companies owned 25% or more by private foreign investors, companies that already employed one or more of the AMSCO-seconded managers before seeking assistance from AMSCO and, in a second iteration, companies that had already identified one or more of the AMSCO-seconded managers before seeking assistance from AMSCO), (b) companies that received services too recently to be able to estimate incremental sales or profits, (c) financial advisory service clients that did not provide information *both* on incremental sales and on incremental investments, and (d) in the case of AMSCO, companies the evaluation team considered unlikely to be financially viable once the AMSCO managers leave. Dropping these companies from the analysis reduced aggregate incremental sales by 6% for SEED, 33% for APDF, 53% for MPDF, and 78% to 96% for AMSCO and reduced the number of firms providing usable data for individual facilities to between 2 and 17.
- After dropping these companies, OEG extrapolated the incremental sales (and, in the case of AMSCO, profits) to the companies not covered by the surveys, based on the ratio of the number of firms surveyed to the number of firms in the population.
- OEG then estimated the incremental profits, based on the assumption that incremental pre-tax profits would be equivalent to 10% of incremental sales for investment projects and 20% of incremental sales for other clients. These percentages (derived from the responses on incremental sales and incremental profits provided by AMSCO clients and by clients of another, non-IFC, TA program) are undoubtedly higher than average profits/sales but are probably conservative for incremental profits/sales.
- Next, OEG estimated the costs (based on current cost levels) for the services provided to companies sufficiently mature to report benefits, the costs incurred by the clients included in the analysis and, in the case of AMSCO, the income taxes on expatriate salaries foregone by the host governments. These estimates do not include any incremental investments that may have been made by clients that did not carry out projects based on the facilities' services, but they do include facility costs for companies dropped from the analysis for the reasons given in (a), (c) and (d) of the second bullet in this box.
- Finally, OEG calculated the non-time-adjusted returns. These estimates did not take into consideration the linkages, externalities and other economic benefits that typically increase the economic returns above the financial returns.

Annex 2.6 provides further details.

52. The potentially excellent returns for the consultancy services are not surprising. X-efficiency—the effectiveness with which a given set of inputs is used to produce outputs—is typically low in developing and transition economies. Consultancy services can increase efficiency and profits significantly without requiring substantial investments and consequently can generate extremely high returns.

***Clients cover small share of costs***

53. Although IFC and the donors have generally not expected the facilities to be self sustaining, they have encouraged them to recover a greater proportion of their costs and made it necessary for three facilities to seek full self sufficiency. Donor support for the Caribbean and Central American Business Advisory Service (CCBAS) dwindled by the mid-1990s, and CCBAS had to try (unsuccessfully) to generate enough fees to allow it to survive. Although the AMSCO program benefits from donor funding of certain activities, AMSCO itself is intended to be financially self sustaining. And a business plan prepared for SEED called for the facility to have a five-year life, implying the need for fees to cover the full cost of any firm-level services to be provided (either within or outside the SEED framework) after the five-year period.<sup>41</sup>

54. The facilities have increased their fees, but fee income remains lower than envisaged and cost recovery remains low (Table 2.4).

**Table 2.4 – Cost Recovery for Firm-level Services**

	APDF	MPDF	SEED	AMSCO
Fees minus total costs (\$ millions)	-5.5	-2.0	-0.5	-3.9, or -8.1
Fees as % of total costs	18%	5%	14%	77%, or 54%

N.B. Based on data for most recent year covered by evaluation of each facility.

55. APDF, the oldest of the traditional facilities, received fees equivalent to 18% of its FY03 costs, up from 6% in 1994, but still needed \$5.5 million to cover its deficit on firm-level services. SEED, established in 2000, recovered 14% of its January-June 2002 costs. But MPDF, established in 1997, recovered only 5% of its 2001 costs.<sup>42</sup> SEED’s donors had set as a goal that SEED “price its services at commercially viable rates according to local market conditions...with the ultimate goal of 100% cost recovery...against local costs.”<sup>43</sup> In fact, the SEED evaluation reported that SEED had charged fees ranging from zero to more than 100% of its direct costs for its firm-level services. Even for companies that, without SEED, would have had more than 100 employees in 2002, fees ranged from 10% to 71% of its direct costs.<sup>44</sup>

56. Judging from APDF’s experience, consultancy assignments permit a higher level of cost recovery than financial advisory assignments. APDF’s fees covered 28% of the full cost of its consultancy assignments (88% of direct costs), compared with 14% (45% of direct costs) for financial advisory assignments. Still, even for consultancy assignments, APDF remains far from recovering its costs.

57. The AMSCO program covered 77% of its overall 2001 costs from client fees. Its clients’ willingness to pay, however, reflected the subsidies and tax exemptions they received as AMSCO clients. Absent these benefits, fees would have had to be lower, and AMSCO would probably have recovered only 54% of its costs.<sup>45</sup>

***Firm-level services depend on donor subsidies***

58. The facilities may be able to improve their cost recovery, but not sufficiently to cover full costs. Indeed, a facility that, due to donor pressure, must try to cover full costs is likely to stray from its underlying objectives. Faced with waning donor support, CCBAS pursued larger clients in an attempt to increase its fee income. Similarly, to permit its survival, AMSCO increased its revenues by serving clients that had little or no need of its subsidized services.<sup>46</sup> Aside from these two cases, this problem does not seem to have materialized for the IFC-supported facilities, presumably because IFC and the donors have recognized the danger and have been willing to provide continuing support.

### III. TRAINING OF BUSINESS OWNERS AND THEIR EMPLOYEES

*Training provided by facilities*

59. Aside from the training they provide to their own staff, the facilities have developed a range of training programs for business owners and their employees. MPDF has focused its efforts on a management training program, covering marketing, human resources, production and operation management, and finance and accounting. MPDF provides the material it develops to local training institutions that deliver the training and has converted some of its material into self-study workbooks.

60. APDF and SEED also address general management issues, but their training programs lack focus. They have devoted substantial efforts to specialized courses. SEED has offered courses, for example, on winning bids on construction contracts. APDF has offered even more specialized courses, for example, on financial management, governance and control for private schools in Ghana, and on food handling.<sup>47</sup> APDF and SEED develop and deliver some courses themselves and engage outsiders for others. Annex 3.1 summarizes the training services provided.

#### **The traditional facilities spend less on training services but reach more firms**

*The facilities devote modest resources*

61. For the periods covered by the individual evaluations, training accounted for 17% of MDPF's spending, 22% of SEED's, and some portion of the 6% of APDF's spending not allocated to firm-level services.

*But they reach far more companies than firm-level services*

62. APDF, MPDF, and SEED have provided training services to an average of more than 1,200 companies per year, compared with roughly 200 per year for their firm-level services.

63. In addition, the publishers of MPDF's self-study workbooks sold about 39,000 copies, with sales of individual titles ranging up to 2,700 in Vietnam and 1,250 in Cambodia. Estimates suggest that students purchased 50% to 70% of the workbooks and company owners and employees 30% to 50%.

64. AMSCO, which provides a combination of managers and staff training to all its clients, served 168 companies during 1997-2001 and provided training to an average of 18 employees per company, or more than 3,000 employees.

#### **Market failures justify donor-subsidized training services to some companies but not others**

*Some companies would have arranged for training without facilities, others not*

65. The facilities have based their training efforts on the recognition that competitiveness depends heavily on management capabilities and the belief that training needs were not being adequately met. In fact, 60% to 70% of the companies responding in the APDF, AMSCO, and SEED surveys and 46% in the MPDF survey considered that no other local organizations could have designed training plans similar to what the facilities offered.

66. Many, however, considered that others could have provided similar services. These companies selected the facilities because they believed they would provide higher quality training (52% to 71%), arrange training more rapidly (39% to 67%), or provide training at a lower cost (30% to 71%). To the extent that the facilities used their own staff to serve companies that could have acquired training services without

assistance, they competed with local training institutions or consulting firms. The facilities, however, mostly limited themselves to identifying training needs, selecting and supervising consultants to develop course materials, selecting and training trainers and subsidizing the programs. As a result, they competed with local institutions and consulting firms that develop and deliver training courses to only a limited extent and, on the contrary, probably stimulated demand for the services of these local organizations.<sup>48</sup>

67. Some companies would not have used training services, even where they were available. Some may not have known what types of training were needed and what types were available, some may have lacked confidence in their ability to assess the quality of training programs, and some may have felt they could not afford unsubsidized training courses because of the risk that trained employees might seek new jobs. By providing confidence in the quality of the training and subsidies to lower the costs, the facilities increased the amount of training delivered. To the extent that trained employees actually moved to new companies, the facility-assisted training programs resulted in benefits external to the companies sending the employees for training.

***Most trainees were from SMEs***

68. The vast majority of the companies whose employees participated in facility training programs were SMEs when the facilities first provided training to their employees. Indeed, median annual sales ranged from \$0.2 million (SEED) to \$2.0 million (MPDF), well below the \$15 million ceiling set by the guidelines, and median employment ranged from 15 to 100, well below the limit of 300 set by the guidelines. (See Annex 3.2.)

***Large size of some raises questions about justification for subsidized services***

69. Nevertheless, some companies far exceeded the ceilings. For example, 29% of the companies sending employees to MDPF training programs had more than 300 employees at the outset, including 12% with 1,000-4,000 employees, and 14% had sales in excess of \$15 million, including 9% with sales more than \$50 million. MPDF's training programs served large firms more than its firm-level services, but this pattern did not apply to APDF and SEED.

70. The large size of some companies participating in the facilities' training programs leads to questions about the market failure justification for providing subsidized services. Large companies are more likely to recognize the need for training, be capable of arranging training on their own, and be able to bear the risk of trained employees leaving.

***Most employers of trainees were locally owned, but others were largely foreign owned...***

71. Based on the survey results, local private investors owned all the equity in 50% to 75% of the companies benefiting from APDF, MPDF, and SEED training, and almost all the chief executives were local residents. Foreign investors held equity stakes in 3% to 15% of these companies and majority stakes in 3% to 8%, a bit lower than for firm-level service clients. Governments held minor stakes in APDF's and SEED's training clients but had some stake in 41% of the companies benefiting from MPDF training and owned 100% of 34% of these companies, well above the levels for MPDF's firm-level clients.<sup>49</sup> (See Annex 3.3.)

*...raising questions about justification for subsidies*

72. Questions can be raised about the appropriateness of the facilities providing subsidized services to companies controlled by foreign investors, since these enterprises are less likely to be hindered by market failure. Nevertheless, providing training to employees of foreign-controlled companies or employees of large companies is less of a concern than for the firm-level services. First, to the extent the facilities provide training through independent training institutions, as is entirely the case for MPDF and partly the case for the others, they have little control on the intake into the courses. Second, regardless of the size of the companies, the benefits go to a substantial extent to the individual employees, who may demand higher salaries or else leave to join other companies.

**The training services had a significant impact and may provide excellent returns**<sup>50</sup>

*Training services have had significant impact*

73. Between 82% and 98% of the companies responding reported that they had made at least one change in their business as a result of the training received, 73% to 83% that these changes had resulted in improvements in their business, and 55% to 79% that the training had increased their ability to compete. About 2% to 12% (compared with 5% to 23% for the firm-level services) expressed the view that without assistance from the facility, their company could not have survived. As in the case of the firm-level services, African companies expressed this view more commonly than others (10% to 12%, compared with 2% to 5% for the others). Annex 3.4 provides the relevant survey findings for each facility, the number of companies in the population, the number surveyed, and the number responding for each of these questions.

74. Many companies indicated that sales and profits were higher than they would have been without the facilities. About 80% of the companies sending managers and employees to MPDF training programs responded positively to the questions on whether sales and profits were higher, compared with about 50% for MPDF's firm-level services. For APDF, about half responded positively, roughly the same as for its firm-level services. Box 3.1 comments on MPDF's highly successful management training program.

**Box 3.1 – MPDF's Management Training Program**

MPDF, the first of the traditional facilities to provide training to business owners and their employees, introduced a participatory teaching method built around discussion of cases drawn from local business situations. It developed training materials in collaboration with local universities and international consultants, and used local institutions to deliver the training courses. Local institutions had not previously provided training for SMEs, but 16 had already offered MPDF-based management training courses by the time of the evaluation, and other institutions had developed their own business training courses, independently of MPDF. The success of MPDF's management training program is reflected in its direct impact (paras.72-75), its high rate of return (para. 81), and its indirect impact (paras. 77-78).

75. When asked to compare *actual* sales and employment with *what they would have been without facility assistance*, the companies willing to make estimates provided figures suggesting total, mean, and median increases lower than for the firm-level services (Tables 2.1 and 3.1 and Annex 3.4.)<sup>51</sup>

76. Assuming that the companies not covered by the survey are similar to the surveyed companies, APDF's and MPDF's training programs probably generated more than \$140 million of incremental sales, compared with an estimated \$80 million for their firm-level services and their training programs probably generated nearly 3,400 incremental jobs, compared with 5,500 jobs from their firm-level services.<sup>52</sup>

**Table 3.1 – Estimated Impact of Training Services**

	APDF	MPDF
<u>Incremental sales (\$'000)</u>		
Total	748	6,757
Mean	68	375
Median	2	0
Standard deviation	139	1,584
n	11	18
n/Number of firms surveyed	38%	25%
n/Number of firms in population	1%	2%
<u>Incremental employment</u>		
Total	33	67
Mean	2.5	2.9
Median	0	0
Standard deviation	6.1	26.6
n	13	23
n/Number of firms surveyed	45%	35%
n/Number of firms in population	1%	2%

77. As in the case of the firm-level services, the benefits were highly concentrated. A small percentage of the companies responding accounted for the bulk of the incremental sales. The degree of concentration was broadly the same as for the firm-level services.

***Important indirect impacts***

78. By introducing new teaching methods and drawing existing institutions into providing management training (Box 3.1), MPDF has had an impact well beyond the training provided based on its training materials. In addition, as shown in Table 3.2, the facilities have exercised a demonstration effect on SMEs that have not participated. Not surprisingly, the training programs generally had less influence than the firm-level services on other companies' strategies, operations, or investment plans.

**Table 3.2 – Demonstration Effect of Training Services**  
(% responding "Yes")

Do you know other companies that have followed your lead with respect to:	APDF	MPDF	SEED
• Making changes in business strategies or operations?	36%	64%	27%
• Making or planning new investments in the country?	25%	42%	22%
• Providing or arranging training for managers, employees or workers?	29%	66%	24%
• Seeking assistance from outside providers of consulting and training services?	29%	n.a.	47%

79. Aside from these indirect impacts, not reflected in the improved operating results of the companies sending employees for training, the facilities' training efforts have presumably benefited companies that subsequently hired facility-trained staff and the facility-trained staff themselves (including the facilities' own staff members).

*Costs could be lower*

80. The costs of the training programs might have been lower had the facilities taken greater advantage of materials already developed by other facilities and by IFC. APDF drew on some IFC training materials, and SEED drew on some MPDF materials. But the facilities did not use existing training materials as much as might have been possible. The facilities, thus, had to bear the higher costs arising from IFC's being responsible for management without taking advantage of the opportunities for sharing knowledge and training materials.

81. Because of major differences in the facilities' training programs, comparisons of average unit costs have limited significance. Noting, for example, that SEED's costs averaged \$52,000 per training session, \$13,000 per company served, and \$1,300 per training participant, compared with \$12,000, \$1,600, and \$500 respectively for MPDF, does not necessarily mean that SEED is less efficient than MPDF. The differences may reflect SEED's having started its training programs more recently and, thus, having to amortize the front-end costs over a small number of sessions, companies, and trainees; differences in the facilities' approach to developing training materials and delivering training; the nature of the training provided; or other factors.

*But the facilities' training services can generate excellent returns*

82. The facilities' training services can generate excellent economic returns—even higher than the returns on their consultancy services. The rate of return on APDF's training programs is likely to exceed 300% and the return on MPDF's is likely to exceed 1,300%. As in the case of the firm-level services (Box 2.3), these estimates are based on data from a small number of companies that responded to the survey questions, the standard deviations are high, the distributions skewed, and the mean values are not statistically significant. Consequently, the estimates should be considered only as rough approximations. (See Annex 3.5.)

83. Again, as in the case of the consultancy services, the high returns on training are not surprising. Effective training programs can greatly increase X-efficiency, yet the cost of providing training is typically lower than the cost of consulting services.<sup>53</sup>

*Facilities recover only small share of training expenditures*

84. Although IFC and the donors have not expected the facilities to be entirely self-sustaining, they have encouraged them to recover a greater proportion of their costs. The facilities have increased their charges but remain heavily dependent on donor funding. Except for APDF, they depend to a greater extent on donor funding for their training activities than for their firm-level services. See Table 3.3.

**Table 3.3 – Cost Recovery for Training Services**

	APDF	MPDF	SEED
Fees minus total costs (\$ millions)	-1.4	-1.5	-2.5
Fees as % of total costs	21%	4%	4%

85. Although the facilities would be unlikely to offer training services without any donor funding, they may be able to increase the extent of their cost recovery.

#### IV. CAPACITY BUILDING FOR BUSINESS SERVICE PROVIDERS

##### **The facilities spend less on capacity building, but reach far more companies**

*Facilities seek to develop capabilities of consultants, banks and business associations*

86. In addition to providing services direct to individual companies, their managers and employees, the traditional facilities seek to build the capacity of local organizations that serve SMEs. From the outset, the facilities have sought to develop the capabilities of local consultants by using them on assignments for client companies.<sup>54</sup> More recently, the facilities have developed programs aimed specifically at providing training for consultants, financial institutions, and business associations.<sup>55</sup>

87. APDF's capacity building efforts involve the provision of training to consultants, financial institutions, and business associations.<sup>56</sup> In addition, it seeks to enhance the capabilities of local consultants through its Associated Expert Program, which provides training and coaching, APDF accreditation, quality control, monitoring, and evaluation.

88. MPDF, despite having provided some assistance to two business associations, focuses its efforts on training of bank staff. After supplying training to banks through its own courses, MPDF established a Bank Training Center (BTC), owned by 10 local banks, that has taken over the training responsibilities. Although the pre-BTC training dealt mainly with loan analysis, more recent courses have focused on marketing and management issues, which may be of interest to the banks, but have no apparent relationship to the market failures that justify subsidized facility assistance.

89. SEED, which has given greater emphasis to capacity building than the other two facilities, focuses on consultants and business associations. It provides training to consulting firms to help them manage their operations and to prepare them to deliver standardized training programs. In addition, it is developing a Consultancy Network, a group of local consultants selected to work with SEED on its firm-level assignments. SEED provides training and some technical assistance to business associations.

*The facilities spend limited amounts*

90. The facilities' capacity building programs absorbed 38% of SEED's total spending for the period reviewed, 12% of MPDF's and some portion of the 6% of APDF's spending not allocated to firm-level services.

*But reach far more companies than firm-level services*

91. These efforts have helped many business service providers and, through them, have reached more SMEs than the facilities reached through their firm-level services. The facilities have provided capacity building services to 94 consulting firms (APDF and SEED),<sup>57</sup> 179 financial institutions (APDF and MPDF), and 39 business associations (APDF and SEED), or a total of 312 business service providers.<sup>58</sup>

92. The consulting firms responding to the surveys had used facility materials or techniques to serve about 700 SMEs, or an average per consulting firm of 52 for APDF and 10 for SEED. If the firms responding are typical, APDF and SEED may have served more than 2,000 SMEs through their assistance to 94 local consulting firms during the past couple of years—far more than the roughly 200 per year served by the traditional facilities' firm-level activities.

93. Still, these numbers are modest.<sup>59</sup> More than 80% of the SEED-assisted consultants consider that the unwillingness or inability of SMEs to pay for services limits the growth of their operations with SMEs. But other factors may also contribute. Indeed, an EBRD-managed program for consulting services in the same region has found no shortage of demand despite serving smaller enterprises than SEED and despite limiting its subsidies to the lower of €9,000 or 50% of cost.<sup>60</sup>

94. Interviews with a small sample of financial institutions participating in APDF training courses suggested that most participating banks had increased their lending to SMEs, but gave no indication that the APDF training had contributed to these increases. Interviews with a sample of financial institutions participating in MPDF training courses provided no information on increased lending to SMEs.

95. Visits to four of the six business associations now being assisted by SEED indicated that membership had increased by about 100 companies since beginning to work with SEED, bringing the total for the four associations to nearly 500. OEG has no information on the number of companies served by the business associations assisted by APDF, but several hundred have attended planning conferences for one association that APDF is helping promote.

### **Developing local business service providers addresses a significant market failure**

#### ***SMEs lack access to business services***

96. Developing economies typically lack the wide range of business services available in developed economies. SMEs can normally access accounting, information technology, and some other services, but they find it more difficult to access, say, consulting, financial, or marketing services. Active markets for these services have not emerged because of a lack of local service providers, shortfalls in their skills or experience, or the SMEs' lack of knowledge and experience in identifying needs, locating assistance, assessing alternatives, and evaluating costs and potential benefits.

#### ***A new paradigm calls for developing business service providers***

97. IFC and others have sought to address these problems by providing subsidized firm-level services. These efforts, however, have typically reached only a small percentage of the companies needing assistance, have often yielded disappointing results (particularly in the case of government programs), have had to rely on continuing donor subsidies and, to the extent they compete with existing or potential private service providers, have discouraged the development of local suppliers of business services.

98. Because of these concerns, the development community has elaborated a new paradigm calling for business services to be provided by private firms, rather than governments or donors, and for users to pay for these services, rather than relying on subsidies. The new paradigm aims at developing markets in which self-sustaining business service providers can reach and have a positive impact on more enterprises than can be reached directly by donor-funded programs. Development agencies can contribute to the creation and expansion of markets in business services, among other things, by helping to improve the capabilities of local business service providers, issuing vouchers for the purchase of consulting services or improving the availability of information.<sup>61</sup>

## **Improvements for business service providers - cannot compare costs and benefits**

*Facilities' efforts have had impact on business service providers*

99. The vast majority of the consulting firms participating in APDF's and SEED's capacity building efforts have been satisfied or very satisfied with the services that these facilities provided. Most reported that, as a result of the facilities' efforts, they had gained greater knowledge of the needs of SMEs, introduced new products designed specifically for SMEs, and increased their capacity to provide quality services to SMEs. As already indicated, they have drawn on facility materials or techniques to serve many SMEs. More than 40% reported higher sales and 45% higher profits. The reported increases in sales, however, totaled less than \$0.2 million or, extrapolating based on the ratio of the number of firms surveyed to the number of firms in the population, nearly \$0.3 million. These amounts are negligible.

100. The four SEED-assisted business associations visited have been satisfied or very satisfied with the services provided. All reported that SEED's contributions had helped in attracting new members,<sup>62</sup> two reported that SEED had helped in defining their strategies, two had introduced newsletters to their members, one cited improved financial management, and one mentioned improved advocacy work. The SEED evaluation, however, took place when SEED had just completed the initial planning exercises with these associations, so little could be said about improvements in the services provided to members.

101. Despite some dissatisfaction with MPDF's initial credit training program, 10 Vietnamese banks expressed their confidence in MPDF by investing in its BTC and sending staff for courses there.

*SMEs presumably benefited*

102. SMEs presumably benefited from the facilities' assistance to business service providers, but the evaluations provide no information on the nature or extent of the benefits.<sup>63</sup>

*Available information does not permit comparisons of costs and benefits*

103. Through December 2002, SEED had spent \$2.6 million on its consultant development program, equivalent to \$41,000 per consulting firm served up to that time. The respondents to the survey of SEED-assisted consulting firms reported incremental annual sales totaling only €78,000 (€122,500 if extrapolated to all the SEED-assisted consulting firms), equivalent to only €2,800 per consulting firm, far too little to yield an adequate returns on SEED's expenditures. To justify SEED's expenditures, the future increases in the consulting firms' sales and profits would have to be much larger or else the benefits to the consulting firms' clients (and possibly others) would have to be many times larger than the fees. One or both of these possibilities could certainly materialize—particularly because SEED's consultant development program was still young—but the information available does not permit a judgment now.

104. The information on the facilities' other capacity building programs is even more limited, so no judgments are possible. The new paradigm is conceptually attractive, but OEG cannot compare costs and benefits, as in the earlier chapters.

**Program sustainability depends on donor support, but organizations assisted to continue**

*Fees from capacity building are minimal*

105. The facilities recover a negligible share of their capacity building expenditures and, thus, the sustainability of their efforts depends on continuing donor support. SEED has recovered only 3% of its capacity building costs from consultants and nothing from the business associations it is assisting. (APDF and MPDF could not provide data.)

*Most organizations assisted are likely to be sustainable and to continue serving SMEs*

106. Most of the consulting firms and training institutions participating in APDF's and SEED's capacity building programs are likely to be sustainable and to continue serving SMEs. Virtually all these organizations plan to continue offering consulting or training services to SMEs in the future, and more than 80% plan to use the content or techniques taught by the facilities in this work. More than 40% consider that the facilities' activities have resulted in a permanent expansion of the supply of consulting and training services for SMEs, and about half consider that these activities have resulted in a permanent expansion of the demand by SMEs.

107. Still, as has happened elsewhere, some consulting firms may not survive, and others may find that they need to move towards serving larger enterprises to survive.<sup>64</sup> Two private firms set up to continue CCBAS' work went out of business because they could not generate adequate fees despite seeking to serve larger enterprises. Similarly, two of the 11 business centers established by PEP in Ukraine have gone out of operation, and two others remain dependent on donor support (Box 4.1, on p. 27). The consulting firms that turned out not to be sustainable were all created by the facilities or PEP. In contrast, the consulting firms assisted by the facilities' capacity building programs all existed before receiving facility support.

108. The banks participating in MPDF's BTC are likely to continue in operation and to continue serving SMEs, and BTC is aiming at self-sufficiency for its own operations. For 2003, BTC's second full year of operations, MPDF covered 73% of the total expenses. The participating banks should be able to pay enough to permit BTC to continue after MPDF stops providing support.

#### **Box 4.1 – PEP’s Business Centers in Ukraine**

PEP created a network of 11 privately owned consulting and training centers in Ukraine. Although this program has not been subject to independent evaluation, an evaluation report by two PEP staff members indicates that, through 2001, the centers had served 2,200 consulting clients and provided training to 10,000 persons—substantially more than the numbers served by the three traditional facilities reviewed for this study and more than the 700-2,000 SMEs assisted through the 179 consulting firms participating in the facilities’ capacity building programs. Nearly two-thirds of the clients surveyed considered their firms to be more competitive due to the centers’ assistance (in the same range as the 41% to 78% for the traditional facilities’ clients), but only 27% reported higher sales (lower than the 30% to 53% for the traditional facilities), and only 17% reported higher profits (well below the 36% to 53% for the traditional facilities).

Although the 2001 PEP report considered the business centers to be sustainable, two of the 11 had gone out of operation by 2004. The six centers that responded to a questionnaire still serve SMEs, but two of the six recognized that they could not sustain their operations on a continuing basis without donor support.

PEP’s approach to establishing the centers may have had some influence on these results. Initially, PEP did not envisage the centers becoming self-sustaining and provided free services to SMEs through the centers. In 1996, it began moving towards operating the centers on a commercial basis and, by 1999, sought to ensure from the outset that the centers would be self-sustaining after the first few years. Of the four business centers established under the initial, subsidy-based model, one has gone out of business and two admit that their profits are insufficient to allow them to sustain their operations on a continuing basis without outside support. In contrast, all three of the centers established during the final phase, calling for development of self-sustaining consulting firms, are still operating and believe that they can maintain their operations on a continuing basis without donor support. One of the centers reported a number of changes in its practices in its search for viability—shifting its attention to larger enterprises, dropping unprofitable services, cutting costs, and establishing a flexible remuneration system.

## V. IMPROVING THE BUSINESS CLIMATE

### Facilities spend little on improving business climates but can reach many companies

*Facilities seek to improve business climate.*

109. APDF, MPDF, and SEED all make some efforts to improve the business climate for SMEs and for the private sector more generally. APDF aims to strengthen business associations that can serve as advocates for the interests of their members, though its efforts have focused so far on just one association. MPDF has devoted its efforts mainly to discussion reports that seek to engender informed debate, typically based on information derived, at least in part, from surveys of private companies. SEED, which has the most extensive business climate program of the facilities reviewed, undertakes research to define the nature of the problems confronting businesses and outline potential reforms, makes efforts to convince policy makers to adopt needed reforms, assists governments in drafting legislation and regulations, and helps with implementation. It has focused its efforts on specific niches where it can draw on its own and IFC's expertise, particularly with respect to financial intermediation, SME strategy, and legal and regulatory reform. In addition to these efforts aimed specifically at the business environment, SEED seeks to improve the business climate through its assistance to business associations and municipal economic development organizations.<sup>65</sup>

*Facilities have devoted small share of resources to this end*

110. Efforts to improve the business climate accounted for 16% of MPDF's spending, 14% of SEED's, and some portion of the 6% of APDF's spending not allocated to firm-level services. All the recently established facilities envisage business climate programs, including two that anticipate devoting 20% to 25% of their resources to the business climate.

*Can improve prospects for many companies, including SMEs*

111. A favorable business climate is important for private sector development in general and for SME development in particular. Indeed, OEG has found that outcomes were better in countries that improved their risk ratings (from high to low or medium risk), compared with countries that suffered a deterioration in their risk ratings and, hence, the business climate.<sup>66</sup> Similarly, based on cross-country regressions, recent WBG research found "evidence that an effective business environment is not just a characteristic of successful economies but also plays an important part in their success."<sup>67</sup> Firms of all sizes suffer from problems in the business climate, but small businesses face particular difficulties because of governmental policies and regulations that favor larger enterprises and because of the limited resources that SMEs can devote to addressing their needs. Large businesses often have the means of influencing governments or, alternatively, of protecting their own interests even if the overall problems cannot be overcome. Small businesses do not. Because of the importance of the business climate, the inherent constraints on small businesses' ability to identify and defend their interests, and SMEs inability to capture enough benefits from reform to justify their efforts acting alone, donor support is justified.

*Risks of conflicts with WBG policies or beliefs*

112. Although no problems appear to have arisen, facility involvement in the policy arena inevitably involves the risk of being seen as encouraging ideas that conflict with WBG policies or beliefs. By relying heavily on outside consultants and working with independent associations in their business climate work, the facilities run the risk that the consultants will make recommendations that run counter to WBG policies or beliefs, or that the associations will lobby for action that runs counter to these policies

or beliefs. The facilities can exert substantial control over the work of consultants they engage, but they cannot censor the positions taken by business associations they support. To OEG's knowledge, no problems have materialized, but the risk nonetheless exists. For example, at the time of the evaluation, a SEED-supported mushroom growers' association in FYR Macedonia had been lobbying against imports of low quality mushrooms labeled as local. Clearly, calling for truth in labeling poses no problem. But IFC has no way of ensuring that an association would not go further and call for protection against imports, even if labeled accurately.

### **No basis for judgments on whether benefits of business climate efforts justify costs**

***Found little evidence of material impacts on business activity***

113. MPDF and SEED may have contributed to changed attitudes on a range of issues affecting SMEs and to changes in some legislation and regulations, but the evaluations carried out for this study found little evidence of material impacts on business activity. (See Annex 5.1.) The limited evidence does not necessarily mean that these efforts have failed. In particular, the timing of the evaluations may have been too early to identify results. Indeed, subsequent to the MPDF evaluation, IFC's 2003 Annual Review on Small Business Activities reported that MPDF's efforts in Vietnam had led to streamlining of licensing and other approvals, reduced taxes and fees, and other reforms. Similarly, a brief web search in May 2004 (subsequent to the SEED evaluation), identified several European financial institutions that had initiated leasing activities in Serbia (but not in FYR Macedonia) following the legislative changes that SEED had encouraged. The lack of evidence may also reflect the facilities not having devoted sufficient resources to have an impact, difficulties in attribution of outcomes and impacts, or the facilities not having done an adequate job of articulating the desired outcomes and impacts at the outset and tracking and reporting on them subsequently. PEP has done a better job of reporting on its results, particularly in developing leasing markets, but its activities have not yet been subject to independent evaluation.<sup>68</sup> (See Box. 5.1.)

#### **Box 5.1 – PEP's Efforts to Develop Leasing Markets**

PEP appears to have made a significant contribution in Russia to the development of leasing, typically a good source of financing for SMEs. OEG's 2002 IFC Country Impact Review on Russia noted that PEP had collected and disseminated information on leasing, organized seminars, drafted legislation, advised legislative committees, and provided advisory services. These efforts helped promote an improved legislative and regulatory environment, led to the creation of several leasing companies (including four backed by IFC investments), and, based on recent information published by PEP, contributed to a major increase in leasing activity in Russia. The leasing market in Russia now exceeds \$2 billion, six times its level at the time of the 1998 financial crisis. SMEs account for nearly 90% of the leasing companies' clients.

Based on PEP's experience in Russia, PEP has extended its efforts to Azerbaijan, Georgia and Central Asia, and SEED has undertaken similar efforts in FYR Macedonia and the Republic of Serbia. SEED's efforts have led to the establishment of eight leasing companies and to the signing of €30 million of leases in 2003.

***Information available does not permit comparisons of benefits and costs***

114. MPDF has spent about \$2.4 million on its efforts to improve the business climate, including \$1.2 million on its discussion reports, or an average of \$100,000 per report. SEED has spent \$1.7 million on its business climate work, ranging from less than \$100,000 for legal and regulatory reform in Bosnia and Herzegovina to \$400,000 for new financial services, including leasing.

115. The study, however, could not identify benefits that could be compared with the costs. The expenditures may well be worthwhile. Certainly, the importance that the Bank and IFC have been giving to investment climate issues in recent years demonstrates strongly held beliefs about the importance of these issues. The present study, however, provided no evidence on the returns on expenditures to improve the business climate.

***Activities depend on donor funding***

116. Whatever the benefits, the facilities' efforts to improve the business climate are unlikely to generate meaningful fees, and no one expects them to do so. MPDF has charged no fees, and SEED has charged only negligible amounts.

## VI. OTHER APPROACHES FOR PROMOTING SME DEVELOPMENT

### Other approaches worth considering but limited information limits conclusions

117. The approaches described in Chapters II through V are not the only ways to contribute to SME development. Many other interesting approaches and programs have been tried, both within and outside the WBG, including a wide range of activities supported by the SME Department's Capacity Building Facility.<sup>69, 70</sup> Based on a brief review of readily available material, this study has identified several alternative approaches or programs.<sup>71</sup> Some appear to have generated good results. But, absent adequate and reliable information, based on independent evaluations, OEG cannot express firm conclusions. Still, these approaches (as well as others not covered here) may be worth considering when the facilities develop their strategies for addressing the market failures that constrain SME development and private sector development more broadly.

*A program that uses retired executives as advisors has yielded excellent results*

118. An EBRD-managed program based on retired business executives has yielded excellent results. EBRD's TurnAround Management Programme (TAM) assigns teams of senior (typically retired), high-level business executives to advise SMEs and some larger enterprises. To develop the capabilities and self-confidence of local management, the TAM team members serve as advisors, not managers. Typically, they make six to eight brief visits over 1-½ years. The advisors receive fees well below the market rate for managers of their caliber. A recent evaluation concluded that the program is generating a high rate of return.<sup>72</sup>

119. Most developed countries have similar programs that draw on the skills of retired managers and even technicians. These programs typically target SMEs but some also serve business service organizations and others. Most of these programs pay no fees to the retired managers and, hence, their costs are even lower than TAM's.<sup>73</sup>

*Efforts to develop linkages have yielded mixed results, but no information comparing benefits and costs*

120. Efforts to develop linkages have yielded mixed results. One PEP project has been a major success. By helping to develop a reliable local supply of raw milk, PEP made it possible for a \$50 million yogurt project near Moscow to move ahead and, according to PEP, for the 18 dairy farms supplying the plant to double their earnings. This effort cost \$1.2 million.

121. Based on this experience, PEP has undertaken other projects in Russia to develop local suppliers for a mining company in a remote area, IKEA furniture stores, and foreign owned automotive assembly plants, and in Ukraine to develop suppliers for agricultural processing firms. PEP has reported little in the way of results from these projects, and OEG has seen no information on the costs.

122. An APDF linkage program has yielded disappointing results. The evaluation reviewed APDF's efforts to develop suppliers for the expansion of an aluminum smelter in Mozambique. It found that the prime contractor had awarded sub-contracts amounting to \$4.5 million to 14 SMEs and that the SMEs had met their commitments on time and within budget. But it also found that some of these SMEs (three of the four randomly selected for interviews) might have arranged the sub-

contracts without the program, that the SMEs were finding it difficult to secure further work following completion of the investment phase, and that the costs were high. For each of the SMEs benefiting, IFC spent more than \$14,000, essentially for training and monitoring SME performance, and the aluminum smelter spent \$36,000. The total cost of \$50,000 was equivalent to 16% of the value of the sub-contracts with the SMEs.<sup>74</sup>

123. IFC has reported other linkage projects, including efforts to develop suppliers for the Chad-Cameroon Oil Pipeline and Development and Shell Oil Company in Nigeria, both in collaboration with APDF, efforts to assist a Coca Cola bottling company to develop local distributors in Kenya in collaboration with APDF, and efforts to help a Michelin Tire affiliate to develop franchised dealers in Serbia in collaboration with SEED. In FY03, IFC established a Linkages Unit that seeks to help larger IFC clients develop linkage programs with local SMEs and the local community. By early 2004, this unit had initiated 49 programs, with 14 active projects, and 35 in the pipeline.<sup>75</sup>

124. A program developed and financed by the Confederation of Zimbabwe Industries appears to have yielded good results (though it has not been subject to independent evaluation). During its 2-½ year pilot phase, this program developed 139 ongoing business relationships to supply companies engaged in forestry, horticulture, tourism, and furniture manufacture. The program focused on identification of linkage opportunities through buyer open houses for potential suppliers, supplier capacity audits, feasibility studies to examine the merits of specific proposals, and workshops for buyers and suppliers. The program generally left supplier capacity-building to the buyers but in some cases arranged for outside assistance and even shared in the cost of the assistance. The program cost \$1,360 per linkage established (excluding the costs to the buyers), well below the \$14,000 spent by IFC in Mozambique. In contrast to the high cost approach typically used by IFC, the Zimbabwe program specifically sought to provide only the minimum assistance necessary and to emphasize “buyer mentoring” as “the most effective and sustainable approach to developing supplier capacity.”<sup>76</sup>

125. A UNIDO program has led to the creation of 54 private, non-profit exchanges to promote subcontracting and partnership relations between SMEs and large enterprises and among SMEs. The cumulative TA expenditures on this program totaled \$7.5 million, an average of \$167,000 for the 45 surviving exchanges. Based on its experience, UNIDO estimates that an exchange can be expected to generate 75-150 contracts per year, worth \$5 to \$13 million per year. These figures imply cumulative TA expenditures of \$1,000 to \$2,000 per annual contract, equivalent to 1% to 3% of the value of the contracts. And the figures provided for an exemplary UNIDO exchange in Peru imply average TA expenditures of \$106 per contract, equivalent to 0.25% of the value of the contracts, during a nine-year period.<sup>77</sup>

***Some cluster programs have reported good results, no information comparing benefits and costs***

126. Clearly, the reported costs of the Zimbabwe and the UNIDO programs have been well below the reported costs of IFC's linkage programs for the yogurt project in Russia and the aluminum project in Mozambique. Assuming that the reported costs are reasonably accurate, the lower costs presumably reflect the different approaches taken to fostering linkages. The IFC programs have devoted considerable efforts to developing the capabilities of SMEs to meet the needs of the large companies they were to serve. In contrast, the other programs have focused on facilitating access to information on large company needs and local supplier capabilities. Without adequate, reliable data on the overall benefits and costs of these other approaches, however, no conclusions are possible.

127. Serving clusters of clients can potentially provide good results because of making it possible to bring specialized experience to bear, permitting economies of scale, or both.

128. IDB's Multilateral Development Fund has financed a center in Argentina that designs programs addressing the needs of groups of companies in a specific region and then engages consultants to carry out the programs. A typical program serves five to seven participating companies, but some serve 30 or more. The reported results are positive, although they fall short of the results from the same center's one-on-one projects and, in some respects, the results from the IFC facilities' firm-level services.<sup>78</sup>

129. PEP has been providing services to groups of wood harvesting companies in northwestern Russia, information and communications technology firms in Russia, and farms in Russia, Ukraine and Tajikistan. PEP reports that these efforts have resulted in \$26 million of foreign direct investment in Russian logging companies and improved profitability for Ukrainian farmers. PEP also reports that cotton yields and gross profit per hectare increased more for farmers participating in its program in Tajikistan than for other farmers in the same region. The *percentage increases* for the participating farmers, however, were lower. Moreover, PEP's report gives no indication of whether the differences were statistically significant.

130. Aside from these PEP efforts, AMSCO has begun to experiment with a cluster approach for smaller clients, and IFC's new facility for Latin America intends to work with clusters. In addition, IFC has sought to foster clusters through its investment activities. A FY72 investment in a shoe company successfully helped develop local distributors. But a FY95 investment in a franchise equity fund achieved little.<sup>79</sup>

***IFC's SME Department has developed a web-based training site but too early to assess impact***

131. IFC has developed an SME Toolkit that offers a range of business tools, software applications, and online training materials. It has added some links that may be useful and introduced the interactive Web site in the Caribbean. Similarly, PEP has added information on local business service providers, e.g. consulting firms, training firms, banks, and other financial service providers, and introduced the Web site in Ukraine. The links to business service providers is a particularly interesting feature, since it directly addresses (albeit only partially) the market imperfection that calls for efforts to assist SMEs.

***Subsidies can encourage unremunerative activities***

132. Subsidies can encourage unremunerative activities. AMSCO's donors provide a subsidy to cover the costs of an unremunerative corporate governance program. Similarly, to provide an incentive for USAID-supported business centers in Ukraine to serve smaller clients who cannot pay full costs, USAID issues work orders for up to \$25,000 per assignment.<sup>80</sup>

***Voucher & matching grant programs have received mixed reviews***

133. Voucher and matching grant programs have received mixed reviews. EBRD's donor-funded Business Advisory Service (BAS) program, which seeks to assist SMEs and develop the capabilities of local consultants by covering up to 50% of the cost of consultants (subject to a maximum contribution of €9,000 per assignment), received a favorable assessment in a recent evaluation. The SMEs select the consultants, but BAS independently screens them to satisfy itself that they are qualified. During 1995-2002, BAS shared in the funding of 2,350 assignments at an average cost (including overhead) of €13,100 per assignment.<sup>81</sup> BAS has used many local consultants, and local consultants have carried out the bulk of BAS assignments. The companies assisted have been pleased with the results and have reported improved performance. The reported improvements, however, reflect before-after comparisons, rather than with-without comparisons. Moreover, the evaluation did not compare the costs and benefits.<sup>82</sup>

134. A rigorous evaluation of a WB matching grant program to support technological development in Mauritius was critical of the program. The program allowed the beneficiary companies to select what technology transfer services made best sense for them and to select their own service providers. The project provided grants averaging \$9,500 each to 224 companies. The evaluation criticized the program on three grounds. First, the program made only three grants for the use of local consultants. Local consultants had limited ability and experience and were not willing to invest to build up their capabilities to serve a market dependent on a temporary program to subsidize the use of consulting services. Second, additionality was low. Eighty percent of the firms surveyed said they would have undertaken their projects without the grant (92% for companies with 200 employees or more; 61% for companies with fewer than 100 employees). Third, the program's impact on sales per employee was not statistically significant when compared with a control group, which actually spent more on technological development than the companies assisted by the program.<sup>83</sup>

135. A WB matching grant program in Kenya has generated a substantial supply response. More than 100 master craft-workers, consultants, training institutions, suppliers, and financial institutions provided services in the program's first phase.<sup>84</sup> OEG has seen no information, however, on the impact or costs.

***Credit information registries facilitate access to credit, particularly for SMEs***

136. Credit information registries or bureaus facilitate access to credit. A recent, well researched WBG report found a statistically significant relationship between the existence of institutions to share credit information, i.e. public registries and private bureaus, and the availability of credit to private firms. More importantly, the report found "Smaller firms in poor countries, for which information is scarce or of poor quality, gain the most."<sup>85</sup> Although IFC has invested in credit rating agencies with a view to developing corporate bond markets,<sup>86</sup> it has not invested in credit bureaus that would make it possible to share credit information on SMEs. SEED, however, has helped establish a credit bureau in Bosnia and Herzegovina, the proposal for IFC's contribution to North Africa Enterprise Development called for the new

facility to support the introduction of credit bureaus, and IFC is now exploring investment opportunities with leading international credit bureaus through its Global Credit Bureau Program.<sup>87</sup>

## VII. STRUCTURE AND COLLABORATION

### Facilities now report to regional departments but need for cross-facility collaboration remains

*Facilities now report to regional investment department*

137. Collaboration—between IFC’s regional investment departments and the facilities and among the facilities—has been a continuing issue. Historically, top management supported the facilities, but the incentive structure led to the regional investment departments seeing little value in the facilities, which they felt did not contribute to their fulfilling their investment programs and supervising their investments. As a result, they generally devoted little attention to the facilities’ operations or to the possibilities of collaboration. Similarly, the facilities often did little to draw on the experience of the other facilities and on IFC’s experience.<sup>88</sup> And neither the regional investment departments, nor the facilities sought to develop synergy between: (a) IFC’s credit lines to assist SMEs and the facilities’ firm-level services or their capacity building programs for financial institutions; (b) the facilities’ capacity building programs for financial institutions and IFC’s extensive experience with financial institutions; or (c) the needs of IFC’s larger clients for local suppliers and distributors, and the facilities’ potential ability to help SMEs meet these needs. To deal with these “silo” problems, IFC has shifted the facilities’ primary reporting lines several times during the past two decades. Initially, the regions took the initiative in establishing facilities and retained responsibility for them. IFC transferred primary responsibility for the facilities to a central vice president in 1985, to the regions in 1995, and to the SME Department in 2000. Then, pursuant to a broader IFC reorganization, calling for the regions to focus on strategic issues, IFC transferred primary responsibility to the regions again in January 2004.

138. The new arrangements encourage the regional investment departments to recognize the facilities’ potential for making IFC more effective and proactive in support of the local private sector and to have the facilities contribute to the development and execution of an IFC-wide strategy, especially in IFC’s frontier markets. The regional investment departments’ scorecards do not yet call for reporting on TA activities, and the facilities’ scorecards do not yet call for reporting on their contribution to the IFC’s overall strategies. Inclusion of these activities in the scorecards should greatly increase the regions’ interest in the facilities and the facilities’ interest in IFC’s strategies.

*SME Department still has a vitally important role*

139. The new arrangements also call for the facilities to maintain a dotted-line relationship to the SME Department. The SME Department has played a useful role, but much remains to be done.

140. **Knowledge sharing.** The SME Department has taken steps to accumulate and disseminate information on what has worked, what has not, and promising new ideas, many of which have been adopted. It has arranged semi-annual meetings that facilitated exchanges of information, both at the meetings themselves and in subsequent bilateral exchanges. It has arranged for the facilities to post information on an internal Web-site and to send potentially useful materials to each other. It has disseminated information about the on-line SME ToolKit. And it has encouraged facility staff with specialized expertise to visit other facilities to transfer their knowledge. These initiatives have borne some fruit. SEED, for example, drew on MPDF in developing a training course, MPDF and PEDF in assisting individual companies, and PEP in its efforts to develop leasing markets.

141. The SME Department, however, needs to do more to expand knowledge sharing. For example, although there has been some progress, the facilities generally developed material for their training courses independently, without drawing on work done previously by other facilities or by IFC. Similarly, at the time of the evaluation, SEED had been developing its own information system because of the absence of a system that could be used by all the facilities.

142. **Management information systems, internal controls, reporting, and evaluation.** When the evaluations were being carried out, IFC was in the process of improving the overall control environment and systems infrastructure for the facilities and, more broadly, for all donor funded operations. These efforts included creation of an independent Facilities Financial Control Unit in the Controller's and Budgeting Department, the establishment of a central Finance and Control function in the SME Department, the development of new business processes and systems for budgeting, costing, and reporting, and development of common approaches for self-evaluation.<sup>89</sup> Nevertheless, certain components of this infrastructure remained to be developed to address issues that the study identified in the course of the individual evaluations carried out during 2002-03.<sup>90,91</sup>

- The facilities' management information systems did not allow the facilities to assess their operations and make decisions based on the actual costs, revenues, and benefits from specific services or specific sets of clients.<sup>92</sup> The facilities, thus, lacked information needed to monitor their efficiency, make sound decisions on focusing their efforts and establishing fees, and meeting data requests from donors or evaluators. The lack of this information hindered efforts to compare facility performance, productivity, and costs across facilities. These shortfalls mainly reflected inadequate systems but also arose from shortfalls in collecting, recording, and maintaining data. Among the specific problems identified were difficulties in putting together complete, reliable lists of companies served and employees trained, a lack of information on client size and ownership, deficiencies in time reporting systems, the lack of cost accounting systems and, more generally, incomplete and inconsistent data. Judging from the frequent changes in data provided to the evaluation teams, the reliability of the facilities' data and, hence, the facilities' scorecards was subject to doubt.
- Some facilities lacked adequate systems of internal control.<sup>93</sup> The facilities did not have firm policies on fees and, hence, subsidies. Facility management and staff retained substantial discretion. This discretion together with the decentralization of the facilities' operations called for greater attention to internal controls.<sup>94</sup>
- The facilities' reports to IFC and the other donors continued to describe completed assignments as "completed projects," even though this designation suggested that the investment projects had actually been carried out (paras. 37-38). Moreover, the facilities' reports provided no information on the extent to which the facilities had or had not reached the types of companies targeted.
- Problems had arisen with respect to annual financial statements. Several facilities had not issued audited financial statements for two years.<sup>95</sup> The unaudited financial statements that MPDF provided for two years reflected projections for the final months, rather than the actual amounts for the year as a whole. And the AMSCO program issued separate financial statements for AMSCO B.V. and the foundation that serves as a conduit for donor funds

without providing sufficient information to understand the flows between the two and the program's overall costs.

- The facilities had not developed adequate arrangements for the self-evaluation of their operations, particularly for training, capacity building, and business climate programs. During the period when the four evaluations were being carried out, the SME Department developed a monitoring and evaluation system to be used by all the facilities. This system introduced a number of improvements and should produce some useful findings. Nevertheless, further improvements would be desirable. Moreover, judging from reports issued by four facilities during the second half of 2003, there was still a good deal of diversity in evaluation practice.<sup>96</sup> The facilities had carried out some but not all the recommendations of the 1995 OEU evaluation and separate evaluations of the individual facilities. Among other things, some of the facilities still reported on projects for which offers of financing have been arranged, rather than projects actually carried out; had not installed adequate management information systems; and did not charge fees covering full costs and providing some profit for clients beyond their maximum size limits.
- The facilities had carried out some, but not all the recommendations of the 1995 OEU evaluation and separate evaluations of the individual facilities. Among other things, some of the facilities still reported on projects for which offers of financing have been arranged, rather than projects actually carried out; had not installed adequate management information systems; and did not charge fees covering full costs and providing some profit for clients beyond their maximum size limits.

***Need to recognize that facilities are donor funded remains critical***

143. Although IFC may wish to integrate the facilities with its regional strategies and operations, the other donors, who provide the bulk of the funding, may have different views. They may see the facilities as IFC-managed donor facilities, rather than donor-funded IFC facilities.<sup>97</sup> And they may consider that IFC's priorities may not always be consistent with what they consider to be the priorities for encouraging SME development. The donors certainly play a more active role in guiding the traditional facilities than they did prior to the 1995 evaluation. Pursuant to the 1995 recommendations, the facilities' boards must now concur with major facility policy decisions. But two other recommendations relating to donor support require continuing attention—ensuring adequate institutional oversight and managing potential conflicts of interest arising from IFC's management of the facilities.<sup>98</sup> With the facilities reporting to the regional investment departments, the SME Department is now in a better position to exercise independent oversight and, thus, to watch over issues of concern to the donors.

**The facilities also face important structural issues internally**

***Organizing along regional or product lines***

144. Since each facility operates in multiple countries and offers multiple services, each has had to grapple with the issue of organizing along regional or product lines. Regional or country offices can help a facility get to know the local business community, government officials and others; develop an understanding of local conditions and local needs; and serve their clients better. But regionalization is expensive and can make it difficult to provide adequate supervision and ensure respect for facility policies. A product line organization can help a facility to develop specialized capabilities, take advantages of economies of scale and facilitate

cross-country learning. But a product-based structure makes it difficult to take advantage of the benefits of regionalization. All of the facilities reviewed for this study have set up some regional or country offices, and three of the four have set up product teams. Each, however, dealt differently with the issues involved.

- Each of APDF's regional offices operated as a semi-autonomous unit, responsible for developing and providing services as the regional manager and staff deemed appropriate. This approach allowed the regional offices to address local needs more quickly than might otherwise be possible but limited APDF's ability to take advantage of economies of scale in developing and supplying services and limited its ability to develop specialized capabilities. Moreover, it resulted in some concerns about the adequacy of supervision and compliance with facility policies.
- AMSCO's field offices, though established recently, also operated with a good deal of independence. This independence hindered AMSCO's efforts to improve its management information system and ensure respect for organizational policies.
- SEED structured its operations around teams dealing with firm-level services, capacity building, and improving the business climate. It set up offices in each country, but the operating staff reported to the central team head, rather than the country managers. This approach enabled SEED to address common problems and opportunities across the region and to develop products that could be offered in multiple markets. But it did not facilitate working relationships and knowledge sharing among different teams within country offices.
- MPDF set up country offices and product teams but, in reaction to a recommendation in an earlier evaluation, took steps to foster cooperation at the country level. It arranged for new capacity building and business climate programs to be discussed and agreed with the regional manager and for regular meetings of regional and product staff to exchange information and discuss new ideas. Further progress may be possible, but MPDF has already done quite a bit to realize the benefits of both a regional and a product orientation.

### ***Multiple offices***

145. The benefits of regional offices tend to be limited to the country or, for large countries, the region where they are located. APDF's eight offices in Africa, for example, have provided little help in delivering services in the remaining countries. Similarly, half of the AMSCO clients responding to the survey in the countries with regional offices said that regionalization had strengthened AMSCO's contributions to their companies, but these benefits have not extended to countries without offices, where 83% considered that regionalization had not strengthened AMSCO's contributions.

146. The facilities serving many countries, however, cannot possibly afford to maintain offices in all of them. MPDF spent \$0.9 million in 2001 to maintain offices in Cambodia and Laos. And AMSCO needed \$2 million of donor funding for the initial costs of setting up seven offices in Africa. MPDF and SEED could afford to set up offices in each country served, but APDF and AMSCO, which have nearly 50 countries in their region, cannot.<sup>99</sup>

147. Some facilities seek to overcome this constraint by developing a network of consultants that can generate and serve clients in countries where they do not have

offices. PEDF, which serves more than 10 small countries in the South Pacific, pioneered this approach in the 1990s, and APDF has now adopted it.

*Co-location of field offices*

148. Where the evaluations found examples of good collaboration, the facility and the Bank had offices at the same site. SEED and the Bank, which operate from the same building in Sarajevo, collaborated closely on the WB's Business Environment Adjustment Credit in Bosnia and Herzegovina. SEED staff participated in the Bank's project preparation mission, and SEED played an important role in organizing and supporting a working group to consider steps to simplify the business registration process. Similarly, MPDF and the Bank, which operate from the same building in Ho Chi Minh City, exchange information on a regular basis, and the Bank proposed that MPDF's BTC provide training for a rural credit project.

149. The lack of offices in the same location, in contrast, may have contributed to poor collaboration. APDF, which did not have an office in Mozambique, sought to develop suppliers for the Mozal aluminum project. The Bank had two pre-existing supplier development projects in the country, but no attempts were made to integrate the APDF and Bank efforts. Similarly, SEED assisted a parliamentary committee in the Republic of Serbia to formulate an SME strategy. Yet the Bank, which seems not to have been aware of SEED's efforts, began advising the Ministry of Economy and Privatization on an SME strategy shortly before SEED's work was completed. The Belgrade offices of SEED and the Bank were not in the same building.<sup>100</sup>

## VIII. ENVIRONMENTAL, HEALTH, SAFETY AND SOCIAL ISSUES

### **Facilities' handling of EHS issues has been unsatisfactory and many clients' EHS performance poor**

#### ***What IFC and the other donors expected***

150. IFC and the other donors expected the facilities to bring to bear EHS standards on their firm-level clients. IFC 1995 and 2000 APDF board reports stated, "APDF projects follow the same environmental guidelines as the World Bank Group." An MPDF strategic plan, approved by the donors, indicated, "All MPDF projects will comply with IFC's Environmental Guidelines." A 1999 UNDP project document for AMSCO specified, "The selected enterprises must be shown to...respect international environmental standards." And one of SEED's donor agreements provided, "assisted companies will have to agree to introduce acceptable standards in relation to environment, worker safety and gender issues."

#### ***The facilities have fallen short of expectations***

151. Some of the facilities sought to address EHS issues (particularly the two more recently established facilities), but none fully met expectations.

- APDF had not articulated a policy on EHS issues, no one had overall responsibility, the views of its staff differed widely on what was expected, and APDF did not seriously raise EHS issues with clients.
- AMSCO's 1998 mission statement called for its clients to respect international standards, but AMSCO ignored this requirement. It recently adopted guidelines calling for new clients to adhere to national and local standards, rather than international standards, but these guidelines did not apply to the period covered by the evaluation.
- MPDF hired an environmental advisor from the outset and, in 1999, issued environmental procedures, requiring among other things an EHS review of every project. Its procedures, however, called for non-IFC clients to comply with local laws and regulations, rather than IFC's guidelines, as expected by the donors.
- SEED also hired an EHS specialist from the outset and actively seeks to help clients take realistic, cost-effective steps towards regulatory compliance. (The EHS specialist also participates in SEED's capacity building and business climate efforts.) SEED had not, however, laid down an EHS policy, specifying among other things how "acceptable standards" was to be interpreted.

#### ***Client performance has been disappointing***

152. Environmental consultants who visited more than 50 facility clients found that only 41% were meeting IFC's EHS requirements and only 49% were meeting local requirements. Nearly 30% had made some important improvements that can be attributed to facility staff, consultants or AMSCO-seconded managers. But many of these firms still did not meet minimally acceptable standards. (See Annex 8.1.)

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#### ***Unsatisfactory results reflect differing views on what facilities should require...***

153. APDF's, AMSCO's, and MPDF's shortfalls reflect, in part, the results of seeking to impose standards that the facilities considered unrealistic. These facilities felt that these standards should not apply to SMEs and that they had little or no leverage to require compliance. With small business owners skeptical of using consulting services, the facilities believed that many clients would forego their services rather than undertaking additional costs to deal with EHS issues. These concerns are understandable, particularly since the traditional facilities work with

clients for only a short period and cannot realistically threaten to withdraw services. They are not applicable, however, to AMSCO, which typically second managers for two to three years or more and which has the possibility of applying substantial leverage by threatening to withdraw management and training subsidies, discontinuing tax exemptions, or even withdrawing seconded managers.

*... and lack of  
adequate  
attention by  
facility  
management and  
IFC*

154. These shortfalls also reflect a lack of adequate attention to EHS issues by facility management and by IFC. The facilities have generally not provided EHS training to their staff and to consultants, have generally not called for consultants to address EHS issues during site visits, and often have not provided adequate guidance to clients on EHS issues. Clients understandably may wish to avoid incurring additional costs to deal with EHS issues, but the facilities have typically done little to develop achievable and affordable plans that can be used to convince clients to make the necessary changes (and, where warranted, to point out the savings that may result from improved EHS practices). A further indication of a lack of attention is that two facilities (MPDF and SEED) have issued or endorsed reports using standard language saying that projects would be designed and operated to meet national environmental requirements, even when such a statement has not been warranted by the facts.

## IX. RECOMMENDATIONS

155. OEG has four sets of recommendations, derived from the findings in the previous chapters. The facilities have achieved a great deal, and these recommendations should not be construed as detracting from what they have achieved. IFC and the facilities have been concerned with many of the issues addressed here and, particularly since issuance of the individual evaluations, have begun to address some of them.

### **The facilities should improve the strategic focus of their efforts**

#### *Paragraphs 17-20*

156. The facilities' decisions on approaches, programs, and client subsidies suggest inadequacies in their strategic focus. The facilities have adopted a range of approaches without clearly articulating what market failures they seek to address, the expected benefits and costs, or identifying their own capabilities and disadvantages. They have undertaken a wide range of programs pursuant to some approaches (e.g. training and capacity building) without giving adequate attention to priorities and the most economic use of their resources. In some cases, they have accepted clients and granted subsidies without adequate concern about using subsidies for clients that do not need them and, thus, not having sufficient funds to subsidize clients who do; the possible displacement of private service providers; and the importance of getting clients accustomed to paying for services.

#### *Recommendation 1*

157. *The facilities should improve the strategic focus of their efforts with respect to approaches, programs, and client subsidies.*<sup>102</sup> To this end, the facilities should consider:

- 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 programs proposed to address these issues, rather than others.*

In considering how to address a market failure, a facility might start out by considering what it can do to reduce the obstacles to an efficient outcome. It might, as it does now, try to improve the supply of business services through capacity building programs and to increase the demand by helping SMEs assess their needs, preparing terms of reference, identifying and supervising consultants, and covering the bulk of the costs. But, in some circumstances, it might also consider, say, encouraging demand through publicity on how consultants can help SMEs, making information available on the experience and range of services offered by individual consulting firms, or offering subsidies for the use of consultants without playing the active role required under its current approach (and, hence, with less risk of displacing private service providers). In selecting approaches and programs, the facilities would need to consider the advantages or disadvantages they would have for each alternative, the expected benefits and costs, and how their proposed strategies relate to IFC's regional strategies. The SME Department could help the facilities by developing a knowledge base of other approaches and programs that have been used to foster SME development, including information on the results, particularly evaluated results.

b) *Reallocating their resources:*

- *Continuing to reduce the share of their resources devoted to financial advisory services (though some retention of these services may be advisable to provide practical insights that can contribute to the facilities' capacity building and business climate work);*
- *Expanding their consultancy services and their training services, both of which can potentially yield excellent returns;*
- *Continuing the AMSCO program for a limited period to see whether it can achieve financial sustainability without straying from its development mandate, i.e. whether it can generate adequate fees from companies that truly need and can benefit from its services;*
- *Focusing their capacity building programs on the specific issues responsible for market failures and on financial institutions that serve SMEs (where the facilities can and should draw on IFC's experience and training programs); and*
- *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 and subsidized services.*

The guidelines should start from the principle of charging full costs except where a clear economic or business rationale calls for subsidies.

Since the rationale calls for subsidies to be used to overcome market failures and IFC's policies call for avoiding displacement of private sector providers, the facilities should give subsidies only to firms that would not have purchased firm-level or training services without them. The facilities, of course, cannot be sure whether specific clients really need subsidies, but evidence from this and other studies suggests that companies with substantial foreign ownership, large companies, highly profitable companies, companies with well-established relations with financial institutions, and companies with experience in using consultants (including prior experience with services provided by the facility itself) are less likely to need subsidies.

The guidelines should call for the facilities to provide full information to the clients and, to the extent possible, to charge fees in line with local market prices so that the clients develop an accurate idea of the price they would need to pay when they have to secure services without subsidies. The guidelines on subsidies should encourage increased cost recovery but should not create pressures that would lead to the facilities abandoning activities that IFC and the donors may wish to encourage, e.g. to the facilities targeting their firm-level services to large enterprises rather than SMEs. Donor subsidies can be used to maintain value-adding services the facilities might otherwise feel compelled to drop.

## **Integrate facility activities with country strategies but maintain central functional management**

*Paragraphs 136-143* 158. The new arrangements seek to make IFC's regional investment departments recognize the facilities' potential for making IFC more effective and proactive in support of the private sector and to have the facilities contribute to the development and execution of an IFC-wide strategy. The new arrangements call for the facilities to retain a dotted-line relationship with the SME Department, which facilitates cross-facility knowledge sharing and common management information, internal control, monitoring, evaluation, and reporting systems. The evaluations, however, identified several shortfalls, and the SME Department could be more effective than it has been in dealing with these issues. In addition, the SME Department could help the facilities to draw on WBG experience, e.g. on IFC's financial market expertise for use in the facilities' capacity building and business climate efforts.

***Recommendation 2*** 159. ***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 encouraging 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. Among other things, the facilities might collaborate with IFC to address obstacles to investments and to foster linkages that could increase the development impact of existing investments.*
- 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. Among other things, these efforts should include putting in place a results-based monitoring and evaluation framework where there is up-front delineation of program or project objectives, activities for achieving them, and expected outputs, outcomes, and impacts, specified as measurable targets against baseline data. The evaluation system should call for validated project completion reports, outcome and impact assessments for larger activities, scorecards to summarize the results, and comparability across facilities.*
- c) *By IFC and the facilities to ensuring that they take adequately into consideration the views, concerns, and interests of the donors. In this regard, IFC Management's review of the regional investment departments' annual strategy and budget proposals would provide an opportunity to assess whether the facilities are being appropriately integrated and their resources optimally matched to each country's SME needs and opportunities and whether their resources are being captured for supporting IFC investment operations unrelated to the facilities' mandates.*<sup>103</sup>

## **Integrate the facilities with the WBG’s skills, policy guidance, and local presence**

*Paragraphs 108, 110, 136, 147-148*

160. Although progress has been made, collaboration between the facilities and the rest of the WBG has sometimes been inadequate. Moreover, although no problems have materialized, the facilities’ efforts to improve the business climate and their support for business associations expose IFC to significant reputational risks.

### **Recommendation 3**

**161. 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. The facilities could draw, for example, on IFC’s credit training program in developing their own capacity building programs for financial institutions, IFC’s knowledge of financial institutions to inform their efforts to develop capital markets, WBG research to identify new approaches to fostering SME development, and the World Bank Institute for best-practice approaches to evaluating their training activities.
- 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 roles of engagement for supporting business associations.* Since the facilities cannot and should not control the views expressed by business associations they support, IFC needs to consider whether it is willing to bear the reputational risk of a facility-supported association’s calling for government actions that would run counter to WBG views on appropriate economic policies.
- 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).

## **The facilities should bring to bear IFC’s EHS standards**

*Paragraphs 149-153*

162. IFC and the other donors expected the facilities to bring to bear EHS standards on their firm-level clients. Despite substantial differences among the facilities, all have fallen short in some respects in following this mandate, at least partly because they considered the standards to be unrealistic. Less than half the clients visited were meeting acceptable standards.

### **Recommendation 4**

**163. 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.* To reflect the realities the facilities face and to balance the need to help companies grow into sustainable businesses and the need to ensure that they meet appropriate standards, the traditional facilities should call for the traditional facilities’ firm-level operations to comply with the Type 1 Requirements applicable to IFC’s financial intermediary operations. IFC applies these requirements in situations where it is impractical or infeasible for an intermediary to go beyond host country laws and regulations.

In accordance with the Type 1 Requirements, each traditional facility should (i) establish an EHS management system (policy, procedures, resources) and require that clients comply with host country EHS laws and regulations, (ii) appoint a senior officer with overall responsibility for EHS issues and ensure that he or she attends IFC sponsored or approved training in EHS management, (iii) submit an annual EHS performance report, and (iv) adopt the exclusion list that bars assistance, e.g., to ventures involving harmful child labor or ventures based on forestry products from unmanaged forests.

AMSCO, however, should consider adopting IFC's Type 2 Requirements. AMSCO provides managers for two to three years or even longer, typically deals with companies larger than the traditional facilities' clients, and can exert leverage by withdrawing management and training subsidies, discontinuing tax exemptions, or even withdrawing seconded managers. The Type 2 Requirements call, among other things, for ventures to meet IFC's EHS policies, rather than just the host country requirements, and for IFC clearance of high risk (Category A) sub-projects.

- b) *Taking steps to improve the efficacy of their efforts on EHS issues in their firm-level activities.* Based on their initial assessments, the facilities should identify potentially serious EHS issues and call for early action on them, linked to their willingness to commit resources to the client. More generally, the facilities should develop a list of specific actions to be taken, responsible parties, and deadlines and should call for clients to agree to the list. Since the traditional facilities have little leverage, they need to outline a step-by-step approach that is achievable and affordable. In addition, the facilities should provide training on EHS issues to their staff and consultants used and should call for consultants visiting client sites to devote some attention to EHS issues. To facilitate EHS reviews by staff and consultants, the facilities should draw on existing checklists that IFC can provide.
- 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.* Instead, where appropriate, documents should state, for example, that the company needs to take certain actions to comply with local laws and regulations.

## Notes

<sup>1</sup> Aside from SMEs, IFC's FY2000 business plan listed as priorities frontier markets, high-impact sectors, and sustainable development. IFC 2004 Strategic Directions lists several strategic directions, including strengthening "the focus on frontier markets with emphasis on the SME sector." OEG is now conducting a study of IFC's targeting of SMEs through financial intermediaries in frontier markets.

<sup>2</sup> Country circumstances and definitions vary, but micro-enterprises and SMEs typically account for 70% to virtually 100% of private sector employment in developing countries.

<sup>3</sup> The SME Department defines micro enterprises as enterprises with 10 or fewer employees, total assets of \$100,000 or less, and total annual sales of \$100,000 or less.

<sup>4</sup> According to IFC staff, the cutback in financial advisory services and expansion of capacity building and business climate activities has accelerated in the past few years.

<sup>5</sup> PEP is IFC's vehicle for a range of technical assistance programs in the former Soviet countries. Like the SME facilities, it undertakes some activities to foster SME development, but it differs from the facilities in three main respects. First, its mandate goes well beyond SMEs. It also seeks to encourage private direct investment, involving larger firms, and to improve the business climate for both large and small firms. Second, it has always been a core component of IFC's regional investment department. It has benefited from strong support from regional management and has actively contributed to developing synergy between IFC's investment and TA activities in the region. It works with investment staff to address obstacles to investments by IFC and others and to develop linkages to increase the development impact of existing investments. Third, it has gone further than the traditional facilities in putting people on the ground. It now has 24 offices, including six each in Russia and Belarus, and five in Ukraine. PEP's operations have not been independently evaluated, but OEG plans to evaluate them in FY06. This report's citation of PEP experience should not be interpreted as an endorsement of that experience but rather as just drawing on readily available material on comparable activities.

<sup>6</sup> In November 2003, IFC launched a review to assess its strategy and its business processes and systems for its overall donor funded operations.

<sup>7</sup> The study does not cover changes made since completion of the reports on the four facilities (June 2002 for MPDF, January 2003 for AMSCO, October 2003 for SEED, and November 2003 for APDF) and, thus, reflects the situation when these evaluations were completed.

<sup>8</sup> In some respects, the SEED evaluation was premature.

<sup>9</sup> These figures include the salaries and benefits paid to managers that AMSCO seconded to its client companies. They do not include PEP.

<sup>10</sup> AMSCO differs from the traditional facilities not only in terms of the services it offers but also in its governance structure. The traditional facilities, which are not separate legal entities, are managed by IFC, subject to guidance provided by donor boards. The AMSCO program, in contrast, is carried out through AMSCO BV, a corporation in which IFC holds 16% of the shares, and the UNDP African Training and Management Services (ATMS) project, which serves as a channel for donor funding. Although IFC is the Executing Agent for the UNDP ATMS project, it initially delegated its authority to AMSCO. Since the mid-1990s, however, IFC has taken a series of steps to increase its ability to carry out its responsibilities. In 1997, it seconded one of its own staff members as AMSCO's managing director. In 1997, it established Stichting ATMS, a non-profit foundation managed by AMSCO BV to channel donor funding. And in 2002, to eliminate inherent conflicts of interest and lack of transparency in AMSCO's decisions on the allocation of donor funds, it appointed an independent board of trustees for the Stichting, with members representing the donors and other major stakeholders.

<sup>11</sup> IFC sometimes refers to firm-level services as retail services and all other services for SME development as wholesale services.

<sup>12</sup> The facilities refer to business climate activities as business enabling environment activities, or BEE.

<sup>13</sup> See T. Biggs, "Is Small Beautiful and Worthy of Subsidy? Literature Review," prepared as working paper for this study; M. Schiffer & B. Weder, *Firm Size and the Business Environment: Worldwide Survey Results*, IFC Discussion Paper No. 43; T. Beck, A. Demircuc-Kunt, & V. Maksimovic, "Financial and Legal Constraints to Firm Growth: Does Size Matter?" Jan. 2002 draft ([http://rru.worldbank.org/Hot\\_Topics.asp](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.

<sup>14</sup> 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.

<sup>15</sup> 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

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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.

<sup>16</sup> This argument would not, of course, apply to training for the owners themselves.

<sup>17</sup> One recent study found that public sector corruption in Argentina reduced expected rates of return by 1-2.5 percentage points for large firms, 2-2.5 percentage points for medium-sized firms, and 3-3.6 percentage points for small firms. E. Buscaglia & W. Ratliff, *Law and Economics in Developing Countries*, Hoover Institution Press, 2000, cited in *Wall Street Journal*, Feb. 11, 2000, p. A15.

<sup>18</sup> This section is based, among other things, on a review of a Mekong Enterprise Facility feasibility study and business plan, 2005; proposed IFC participation in and contribution to the Mekong Project Development Facility, 1996; proposed IFC participation in and contribution to the extension of the Mekong Project Development Facility (MPDF II), 2002; proposed IFC participation in and contribution to the Balkans Enterprise Facility, 1999; Balkans Enterprise Facility: business and implementation plan, 2000; proposed investment in the African Management Services Company, 1987; proposed extension of the African Project Development Facility, 2000; proposed participation in and contribution to China Project Development Facility, June 15, 2000; proposed IFC participation in and contribution to developing enterprises in South Asia SME Facility, 2001; proposed IFC participation in and contribution to North Africa Enterprise Development Facility, 2002; proposed IFC participation in and contribution to the Indonesia Enterprise Development Facility, 2002; and proposed participation in Latin America Small and Medium Enterprise Programs 2003.

<sup>19</sup> The facilities are not unique in this respect. Few, if any, proposals for TA estimate the expected economic returns or provide any estimates of the economic benefits and costs.

<sup>20</sup> These decisions depend, of course, also on the facilities' ability to fund the activities, based on donor contributions, client fees, or a combination of the two.

<sup>21</sup> OEG's 2002 Country Impact Review on Russia found that IFC initiated TA activities in Russia in the same way as the facilities. The report suggested that the establishment of IFC's Private Enterprise Partnership (PEP) in 2000 might facilitate a more systematic approach to establishing TA priorities, but a cursory review of PEP's current activities suggests that OEG's 2002 observations remain valid.

<sup>22</sup> "...IFC's mandate and guiding principles have at their core the concept that all of the Corporation's activities should supplement and not supplant the role and financing of private investors, financial institutions, and advisors. This means that it is **collaboration rather than competition** that underpins the Corporation's work with other sources of private capital and advice. [The issue is] whether under the circumstances of each case, the Corporation is achieving, or significantly helping to achieve, a worthwhile objective that would not otherwise be achieved or get done in a timely fashion." IFC, *Collaboration with Private International Financial Institutions: Practices and Policies*, Nov. 1995, pp. 1-2. Underlining and bold font in original.

<sup>23</sup> Because AMSCO provides its services as a package, this chapter comments on its overall operations and their results. The following chapter comments on AMSCO only to the extent that its training activities can be separately analyzed.

<sup>24</sup> 59% and 28% for APDF, 30% and 20% for MPDF, and 40% and 15% for SEED.

<sup>25</sup> Between 61% and 85% of the *consultants* participating in APDF and SEED capacity building programs considered that difficulty in identifying their needs limited SMEs' demand for consulting services to a moderate or great extent, and 78% to 85% considered that a lack of information on the quality of services furnished by particular providers limited SMEs' demand to a moderate or great extent. SEED's *SME clients*, in contrast, gave much less importance to these issues. Only 3% considered that difficulty in identifying their needs limited their demand for consulting services to a moderate or great extent, and only 21% considered that a lack of information on the quality of services furnished by particular providers limited their demand to a moderate or great extent.

<sup>26</sup> The findings of the 1995 evaluation were similar.

<sup>27</sup> The findings of the 1995 evaluation were similar.

<sup>28</sup> Women account for more than 30% of the chief executives of APDF's clients (well above the 13% reported in 1995) and more than 20% of MPDF's clients but only 6% of AMSCO's clients and 1% of SEED's.

<sup>29</sup> The facilities record projects as completed when a financial institution has indicated that it is willing to provide financing under specified terms and conditions. The facilities' procedures call for the financial institution's commitment to be reflected in a letter or other documentation provided by the institution.

<sup>30</sup> The 1995 evaluation found that facility clients had actually implemented 80% of the projects reported as financed, or an average of 31 per year for the four institutions reviewed.

<sup>31</sup> This paragraph calls for two qualifications. First, several MPDF clients, when asked how they would have raised the necessary financing without MPDF, said that they would have secured it from family members. (The question was

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not raised in the other evaluations.) Second, in response to a separate series of questions on whether they could have obtained financing from another source without the facility, 71% of the MPDF clients, 39% of the APDF clients, and 18% of the SEED clients gave affirmative responses, but only 29%, 5%, and 18%, respectively, said that they could have done so on the same or better terms and conditions and in the same or a shorter time frame.

<sup>32</sup> These sums are well below the \$53 million per year reportedly raised, \$42 million per year actually raised, and \$69 million per year of investments realized for the four institutions reviewed by OEU in 1995, but the facilities now give relatively less importance to financial advisory services than they did in the 1990s.

<sup>33</sup> The importance of this constraint to the availability of financing to SMEs is highlighted in WBG's *Doing Business in 2004: Understanding Regulation*, Chapter 5.

<sup>34</sup> The estimates provided in this section include incremental sales and profits of companies that may not have needed subsidized services and, in the case of AMSCO, companies that the evaluation team considered unlikely to be financially viable after the departure of the expatriate managers provided by AMSCO. The subsequent comparisons of benefits and costs exclude these companies.

<sup>35</sup> This quasi-experimental research design was based on the fact that substantially similar companies became facility clients at different times. The companies that became clients in the more recent years served as control groups for the companies that had become clients earlier. The evaluation's inability to identify statistically significant impacts for APDF may reflect a combination of data inadequacies, inability to identify when APDF clients first began to receive services, too short a period for the impacts to be felt, or a true lack of statistically significant impacts. The SEED evaluation did not include a regression analysis because of the small sample size. For a more detailed explanation of the methodology, see Nexus Associates Inc., "Evaluation of the Mekong Project Development Facility: Final Report," June 2002, Appendix F.

<sup>36</sup> 95% confidence interval 3% to 28%. Statistically significant at the 5% level of significance. Nexus Associates, *op. cit.*, p. 43.

<sup>37</sup> Sales of companies with an AMSCO-seconded manager in place would be 36% higher than those without (95% confidence interval 8% to 70%). Sales of companies that received AMSCO training would be 43% higher (95% confidence interval 13% to 83%). Statistically significant at the 1% level of significance. DFC Ltd., "Evaluation of the African Management Services Company (AMSCO), Jan. 2003, p. 38.

<sup>38</sup> "Programs involving direct support to private firms in developing countries...are in many ways similar to the activities of venture capitalists. Many of the ventures supported through such programs are high-risk with a relatively low probability of success. A smaller number have high returns, both private and social, often with significant spill-over...The challenge is to design programs in a manner such that there is an adequate number of successful ventures...to justify the resources expended..." G. Batra and S. Mahmood, "Direct Support to Private Firms: Evidence on Effectiveness," December 20, 2001, p. 18.

<sup>39</sup> For APDF, which was covered by the 1995 OEU report, facility costs per project reported as financed fell from an average of \$241,000 for 1986-93 to \$182,000 for 1993, an average of \$140,000 for FY00-02, and \$97,000 for FY02.

<sup>40</sup> Some projects went ahead without the financing the facilities tried to arrange.

<sup>41</sup> The January 2000 business and implementation plan specified that SEED was to have a five-year life.

<sup>42</sup> For the most recent years covered by the 1995 evaluation, fees covered 4% of PEDF's costs, 9% of PBAS', and 27% of CCBAS'.

<sup>43</sup> SEED, Annual Report, 2001, p. 7.

<sup>44</sup> Based on SEED evaluation, Table E-2, and data collected during field work. Information on company size was not available for all companies.

<sup>45</sup> Since the AMSCO program provides a package of seconded managers and staff training, analyzing the cost recovery for the two types of services separately would be artificial.

<sup>46</sup> This problem is a general one. J. Levitsky (ed.), *Business Development Services: A Review of International Experience*, London, 2000, pp. 135 and 146, shows similar findings in Latin America and Romania.

<sup>47</sup> AMSCO's company-specific training, of course, is even more specialized.

<sup>48</sup> The training institutions benefiting from subsidized training materials provided by MPDF, however, do compete actively among themselves and with other institutions. Moreover, some other institutions that do not participate in the MPDF program receive more substantial subsidies from bilateral sources and offer training at significantly lower prices.

<sup>49</sup> Roughly 15% to 30% of the chief executives were women.

<sup>50</sup> Most of this section ignores SEED, since its training program was too young to yield meaningful results. In particular, the survey generated estimates of incremental sales 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.

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<sup>51</sup> Since AMSCO provides both advisory and training services, its impacts were covered in the previous chapter.

<sup>52</sup> The regression analysis, comparing the actual performance of companies for years after they had begun receiving services with the performance of similar companies that had not yet begun receiving services, yielded no statistically significant results for APDF. It found that MPDF training boosted export sales by more than 100%, but this finding did not extend to total sales. In the case of AMSCO, the combination of company-specific training services and seconded expatriate managers boosted sales on average by about 40%. No regression analysis was carried out for SEED because of the small sample size.

<sup>53</sup> The analysis assumes that the companies benefiting from the facilities' training services increased their sales without significant incremental investments.

<sup>54</sup> APDF, e.g., used 212 local consulting firms for its advisory services during FY99-02, or 75% of the total, compared with 66% in 1995. APDF, however, treats branches of foreign firms as local.

<sup>55</sup> APDF and SEED see business associations as vehicles for (a) undertaking group marketing and purchasing efforts, establishing quality standards, and delivering training services, and (b) advocating the interests of members. Chapter 6 deals with the associations' advocacy role. SEED also treats its work with two municipal economic development organizations as capacity building efforts. This report deals with them in the next chapter, covering business climate programs.

<sup>56</sup> APDF's business association activities have focused on one organization, South African Women Entrepreneurs Network.

<sup>57</sup> Half the consulting firms benefiting from APDF's and SEED's intensive capacity building efforts had some affiliation with foreign consulting firms, and 16% were partly owned by foreign consulting firms.

<sup>58</sup> Separately from the facilities, PEP established and provided capacity building services to 11 business consulting centers in Ukraine, provided capacity building services to eighteen business associations in Belarus, and has arranged for 13 consultants from Uzbekistan to receive training from the PEP-sponsored consulting centers in Ukraine.

<sup>59</sup> In contrast, the 11 consulting and training centers that PEP established in Ukraine during 1994-2001 had reportedly provided consulting services to an average of 200 local enterprises each by mid-2001.

<sup>60</sup> S. Thompson and M. Dolinsek, "EBRD/TMG Independent Operational Review: Final Report," Investissement Developpement Conseil, June 2003.

<sup>61</sup> A group of forty multilateral, bilateral, and other development agencies has developed this new paradigm, which is embodied in Committee of Donor Agencies for Small Enterprise Development, *Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention (2001 Edition)*, WBG, SME Department, February 2001. See also K. Hallberg, *A Market-Oriented Strategy for Small and Medium Scale Enterprises*, IFC Discussion Paper No. 40, The World Bank, 2000.

<sup>62</sup> The 18 associations being assisted by PEP in Belarus have expanded their membership from 10,600 to 17,100.

<sup>63</sup> The terms of reference did not call for assessing these benefits. Estimating the economic benefits from at least some capacity building programs, however, could be done.

<sup>64</sup> See Chapter 6, below; A.G. Tabuenca and J.J. Llisterri, "Enterprise Development Centres in Latin America," in J. Levitsky (ed.), pp. 127 and 135.

<sup>65</sup> The previous chapter considered the facilities' assistance to business associations.

<sup>66</sup> In view of the importance of the business climate, OEG is conducting an evaluation of IFC's investment climate activities.

<sup>67</sup> T. Beck and A. Demircuc-Kunt, "SMEs, Growth, and Poverty," *Public Policy for the Private Sector*, WBG, Private Sector Development Vice Presidency, Feb. 2004, p. 4.

<sup>68</sup> Difficulties in assessing the impact of efforts to improve the business climate are not limited to the facilities. The team preparing the *World Development Report, 2003-2004*, which focuses on investment climate issues, found that, despite reports of success, expected reforms were not carried out in most cases and that, even when reforms were carried out, no one had monitored actual outcomes.

<sup>69</sup> IFC provides more than \$7 million per year to its Capacity Building Facility (CBF), administered by the SME Department, for grants to support innovative small business development projects and models. Through FY03, CBF had provided more than \$21 million in grants for roughly 100 projects, roughly on a 4:1 basis. These grants support one-time demonstration projects that can be replicated and scaled up in the future and broader, enduring strategic alliances with on-the-ground, best practice SME institutions that can lead to other projects. See IFC, *2003 Annual Review: Small Business Activities*, pp. 10-11 and 38-40.

<sup>70</sup> For convenience, some specialized SME Facility programs are covered in this chapter.

<sup>71</sup> The SME Department does not maintain a readily accessible knowledge base on other programs for fostering SME development.

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- <sup>72</sup> EBRD, Project Evaluation Department, "Special Study: TurnAround Management Program," April, 2004.
- <sup>73</sup> Some of the facilities have used retired managers provided by these programs.
- <sup>74</sup> Although APDF contributed staff time to help identify training requirements and coordinate the work of outside consultants, IFC's Capacity Building Facility, managed by the WBG's SME Department, provided the funding cited here. This program involves a form of firm-level services. It is treated separately here to facilitate comparisons with similar programs.
- <sup>75</sup> IFC Strategic Directions, April 1, 2004.
- <sup>76</sup> J. Grierson, D.C. Mead, and E. Kakore, "Business linkages in Zimbabwe: the Manicaland Project," in J. Levitsky (ed.), *op. cit.*, pp. 187-195.
- <sup>77</sup> A. de Crombrugge and J.C. Montes, "Global experience in industrial subcontracting and partnerships," in J. Levitsky, *op. cit.*, pp. 196-207.
- <sup>78</sup> E. Oldsman, "Making Business Development Work: Lessons from the Enterprise Development Center in Rafaela, Argentina," Inter-American Development Bank, April 2000.
- <sup>79</sup> Along similar lines, EBRD has recently approved an investment to finance Bosch automobile service franchisees in Ukraine. Moreover, a Bank staff member reports that a company he had established before joining the Bank licensed more than 2,000 small entrepreneurs in India to produce cement roofing tiles using technology transmitted by interactive video training. He reports that his company was profitable and that the franchisees generated sales of nearly \$50 million per year.
- <sup>80</sup> Dangler, *op. cit.*, pp. 25-27.
- <sup>81</sup> EBRD, *Technical Cooperation: Helping to Build a Brighter Future, EBRD Report to the Donor and Official Co-financing Community, 2002-03*, p. 80.
- <sup>82</sup> S. Thompson and M. Dolinsek, "EBRD/TMG Independent Operational Review: Final Report," Investissement Developpement Conseil, June 2003.
- <sup>83</sup> T. Biggs, "A Microeconomic Evaluation of the Mauritius Technology Diffusion Scheme (TDS)," World Bank, Regional Program on Enterprise Development, Discussion Papers, Oct. 1999.
- <sup>84</sup> T.A. Riley and W.F. Steel, in Levitsky (ed.), *op. cit.*, pp. 165-175.
- <sup>85</sup> World Bank, *Doing Business in 2004: Understanding Regulation*, 2004, pp. 55-69.
- <sup>86</sup> Pakistan Credit Rating Agency, Chengxin International Credit Ratings Ltd. (in China), Thomson Rating Philippines, DCR Lanka, and Thai International Rating Agency).
- <sup>87</sup> IFC, *2003 Annual Review: Small Business Activities*, p. 16.
- <sup>88</sup> OEG's predecessor, OEU, observed in 1995, "The degree of institutional oversight exercised has varied depending on the interests of the responsible managers, and IFC's efforts to encourage the facilities to learn from each other's experience have been at best sporadic."
- <sup>89</sup> The evaluation did not review these developments.
- <sup>90</sup> Although the terms of reference did not call for the evaluations to examine these issues, the evaluations identified many shortfalls as a by-product of seeking and reviewing needed information.
- <sup>91</sup> As suggested in footnote 10, AMSCO differs from the traditional facilities. AMSCO does not have to follow instructions from IFC, does not use IFC information technology, and is not subject to IFC financial controls, including oversight by the Facilities Financial Control Unit.
- <sup>92</sup> The shortfalls in the facilities' management information systems go beyond what the facilities themselves can do. Broader changes are needed in IFC and even WBG systems. The Donor Funded Operations initiative is addressing these issues.
- <sup>93</sup> The shortfalls were particularly serious for AMSCO. For example, AMSCO, a private sector company that was intended to charge fees to cover its costs and generate some profits, had full control of the donor funds used for subsidies to its clients. The larger the subsidies, the larger the fees the clients could pay. IFC established a non-profit foundation in 1997 to channel the donor funding, but initially charged AMSCO itself with managing the foundation. It did not really address the inherent conflicts of interest and lack of transparency until it appointed an independent board of trustees, with members representing the donors and other major stakeholders, in 2002.
- <sup>94</sup> The 1995 evaluation had raised the same issue.
- <sup>95</sup> According to the Facilities Financial Control Unit, (a) IBRD had suspended issuance of financial statements for donor funded operations pending completion of a Bank review of control matters in connection with these operations, but (b) the financial statements have now been issued to the donors.
- <sup>96</sup> These issues will presumably be addressed in the uniform project completion measurement system, applicable to all technical assistance and advisory services activities in the Corporation which is now being developed."

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<sup>97</sup> MPDF has adopted the donor viewpoint and, over the past few years, has described itself as “a multi-donor facility managed by IFC.”

<sup>98</sup> OEU, *op. cit.*, P.25.

<sup>99</sup> Although aimed at improving efficiency, rather than permitting them to open new offices, APDF and AMSCO are co-locating their offices and seeking to increase their collaboration more generally.

<sup>100</sup> The buildings were located near each other, but informal interaction is likely to be less frequent among staff members in separate buildings.

<sup>101</sup> The differences in client performance among the facilities are not significant.

<sup>102</sup> IFC’s strategic initiative for donor funded operations also calls for improved strategic management of IFC’s TAAS activities.

<sup>103</sup> The 1995 evaluation had also called for the facilities to be sensitive to the donors’ concerns.