Project Development Facilities and Business Advisory Services,

which assist sm

all business development, are a major component of IFC's technical assistance efforts.

These efforts are coordinated by the Small and Medium Enterprise (SME) Department, jointly managed by IFC and the World Bank and completing its first full year of operations in FY01. The department follows a four-part strategy with PDFs and BASs: improve the business environment, build access to capital, provide support services, and advance information technology.

As of June 30, 2001, facilities coordinated through the SME Department include the African Management Services Company (AMSCO), the Africa Project Development Facility (APDF), the China Project Development Facility (CPDF), Developing Enterprises in South Asia (DESA), the Mekong Project Development Facility (MPDF), Southeast Europe Enterprise Development (SEED), and the South Pacific Project Facility (SPPF). These initiatives are briefly described in this Chapter. More detailed information is contained in the SME Department's website at www.ifc.org/sme, and also in the annual report of each facility.

African Management Services Company

African Management Services Company's (AMSCO's) mission is to assist African companies—in particular, small- and medium-sized private companies with substantial African ownership—to become more sustainable and competitive in national and international markets. AMSCO achieves this by seconding experienced managers to client companies, and by providing client-specific training to upgrade the skills of the local workforce to improve their performance and productivity.

AMSCO has four core competencies: recruitment of managers to senior positions; secondment to African client companies of well-qualified managers for two to three years; development and implementation of tailor-made training programs for capacity building; and offering workshops and manuals toward the promotion of good corporate governance.

Highlights of AMSCO's activities in CY00 include:

- The number of managers grew by 17 percent to a total of 244 at the end of 2000, seconded to 99 African companies (77 percent SMEs) in 23 countries.
- AMSCO has trained 2,400 employees in company-specific (on-the-job) training programs.
- AMSCO clients contributed, on average, 85 percent of the total and costs of expatriate management and training of their employees. This demonstrates two aspects of development impact: AMSCO's client companies perform well, enabling them to pay; and their owners consider AMSCO's services of value.
- A market study by Ernst &Young Ghana in Autumn 2000 revealed that the market for management services in Africa is still largely undeveloped. AMSCO's services are still unique and continue to be in great demand. AMSCO is now cooperating with local service providers in order to speed up the development of markets for such services and prepare them to take over AMSCO's function.

- AMSCO has developed six offices in Africa and is in the process of transferring functions from its head office in Amsterdam to offices in Africa.
- AMSCO supported IFC TA projects to promote, through its managers and through other local partner institutions, good corporate governance in nine countries.

The recognition and application of corporate governance standards is crucial for economic development because it increases discipline in the business community, and at the same time acts as a signal to investors and donors alike, especially to international investors. The IFC/AMSCO Corporate Governance Program provides country specific manuals and workshops that emphasize the role and responsibilities of shareholders and Boards of Directors, and of the aspects of integrity, transparency and accountability.

A good example of AMSCO intervention is that of Groupe RTA (Radio Télévison Analamanga) in Madagascar. In the two years since AMSCO's involvement, RTA has diversified its programs, created a loyal television and radio audience, increased its efficiency by more than 60 percent and established the first technical school in which employees may learn the skills of media production. Today RTA has achieved a level on par with European Media groups, and hopes to export the concept of RTA in Africa.

AMSCO was established in 1989 as a public-private partnership led by the United Nations Development Programme, the African Development Bank, and the International Finance Corporation. These founders, together with shareholders made up of development banks and prominent international corporations, and with generous support from donor governments, have provided AMSCO with $55 million by way of share capital and grants for management and training over the last 12 years.

Africa Project Development Facility

The Africa Project Development Facility (APDF) is a joint IFC/multi-donor initiative supporting African small- and medium-sized enterprises, and managed by the IFC. Headquartered in Johannesburg, with regional hubs in Abidjan, Accra, Johannesburg and Nairobi, and offices in Lagos and Cape Town, it facilitates access to a wide set of business development services for local SMEs and the organizations in Sub-Saharan Africa.

APDF was established in 1986 as a joint venture of IFC, the African Development Bank and the United Nations Development Programme (UNDP) to help African entrepreneurs develop "bankable" business plans and secure necessary financing for their projects. Since its inception to June 30, 2001, APDF has assisted more than 460 projects, leading to more than $670 million in new investment and the creation of approximately 36,500 jobs. It has now broadened its mandate to include capacity building for SMEs, consulting services, business associations, and local financial institutions. APDF also works closely with its sister organization, AMSCO, which provides fee-based management support and training as well as corporate governance assistance throughout the continent.

At the beginning of FY01, APDF began a new five-year, $39 million budget cycle, with a core set of products that include:

Business Advisory Services

- Business diagnosis using a well developed tool
- Business plans, due diligence and valuations
- Financial structuring and fund raising

Enterprise Support Services

- Organizational/human resource development
- Development of marketing and sales strategies

- Productivity improvements and quality control
- Improvements in finance and accounting systems
- Management information systems
- Strategic planning
- Working capital management and sourcing.

Skills Development

- On and off-site training for SME personnel, using local institutions
- Consultant training (best practices, report writing, ethics in consulting, etc.)
- Financial institutions training (appraising, credit scoring, mentoring, etc.)
- Training and capacity building for local business associations especially in the role of lobbying for improvements in business conditions.

In the past year, APDF donors have endorsed the following strategic direction:

- Helping SMEs access capital to launch, expand and strengthen their businesses through business plan development and financial structuring.
- Broadening the assistance program to include services that improve management, operations, and competitiveness of SMEs.
- Developing capacity and partnerships with local institutions and local consulting firms to support SMEs on a more sustainable level.
- Working with local financial institutions to improve their support to SMEs.
- Regular monitoring and evaluation of outputs and outcomes of assistance provided to SMEs, to develop a continuous learning process, and help improve services and inform stakeholders.

China Project Development Facility

IFC's Board has approved a $5 million grant contribution (over five years) to support the establishment and operation of the China Project Development Facility (CPDF). In addition to IFC's contribution, the donor contributions were formalized during the last quarter of FY01 to include Australia for $1.5 million and Switzerland for $2.3 million. It is currently anticipated that CPDF's effort to bolster the development of small- and medium-sized enterprises in Sichuan Province will have a total budget of $17 million. The first Donor Meeting will be held in October 2001.

The design of CPDF drew on three key sources:

- A major review of the Chinese private sector that IFC commissioned with the support of Australia through the TATF Program, managed and publicly reported on during 1999/2000;
- IFC's own private sector investment experience in China, and in the Sichuan Province in particular; and
- IFC's experience in managing SME support facilities in other difficult and emerging markets (most notably the Mekong Project Development Facility—MPDF).

Activities

With key managers and initial staff already appointed, CPDF will formally commence operations in October 2001. Several CPDF initiatives are already underway in agribusiness, the financial

sector, and the business enabling environment. A "Business Enabling Environment for SME Development" seminar took place in the city of Chengdu, Sichuan Province, on May 17-18, 2001, organized in collaboration with the State Economic and Trade Commission (SETC). The seminar, funded by AusAID through the IFC's TATF program, aimed to examine the implementation of the recommendations from the IFC report entitled *China's Emerging Private Enterprises: Prospects for the New Century*, published in October 2000, and was designed to:

- Provide realistic examples of how implementation of the enabling environment recommendations from the IFC China private sector study may be carried out;
- Support the efforts made by the SETC and the Government of Chengdu to develop a city level implementation program for improving environment for SME development;
- Provide an opportunity for other international agencies operating in Sichuan Province (such as the World Bank, IFC and DFID) to share their experiences with the participants; and
- Disseminate the experience gained in Chengdu to other provinces and municipalities.

Objectives

CPDF's activities will:

- Foster the development of a vibrant private sector as the main engine of employment and income growth in the interior of China.
- Respond to the growing needs of private SMEs to formalize their operations and overcome internal constraints to growth and development.
- Provide visible demonstrations of best practice methodology for evaluating, structuring, and implementing investment projects.
- Help upgrade the skill levels of personnel within firms, the domestic finance sector, professional associations, and local consulting firms, and leave a legacy of sustainable local consulting and training capacity, to deliver high-quality support services to SMEs, including the development of Internet-related services.
- Support the development of particular sectors with significant potential for SME growth and promote further improvement in the overall environment for SME development.
- Provide a contact point for local, regional and international companies and business groups, and facilitate regular interactions between these groups and relevant government, financing, bilateral agencies, and the development community at large.

These objectives have been premised on the belief that larger numbers of faster growing private SMEs will contribute more to job creation and to economic dynamism, and hence to poverty reduction, than is currently the case in this province.

Developing Enterprises in South Asia

IFC's newest SME Facility is DESA—Developing Enterprises in South Asia. Approved in FY01, this program will be anchored in Bangladesh, with focused outreach programs in Nepal and in Northeast India. Only limited activities will be undertaken in Bhutan until such time as this country becomes an IFC member.

DESA will offer a mix of programs to assist viable SMEs in the region with the potential for growth. It will work extensively with local institutions, including banks, training institutions, consultants, and government agencies.

DESA will provide programming in three main areas:

- **Improving Access to Capital.** SMEs in all three countries identify lack of access to finance as a primary constraint on business. Finance for working capital is a major obstacle but there is also a significant demand for long-term capital investment. In addition, entrepreneurs are often unable to present sound project proposals to banks for financing. In all three countries, there are a handful of good domestic banks with adequate liquidity, branch networks, and some track record and interest in lending to SMEs. They need assistance to build their capacity to increase the size and quality of their SME portfolios. DESA will aim to build this capacity.
- **Improving Access to Business Development Services.** Alongside finance, SMEs are constrained by their lack of know-how in management, marketing and technology adoption. Local organizations have limited experience in serving SME markets and are in need of capacity building and technology transfer to be able to reach deeper into small firm markets on a commercially viable basis. DESA will assist groups of local service providers with an interest in reaching SMEs on a commercial basis (both public and private). This assistance will involve providing training, facilitating cooperative efforts to upgrade skills, and transferring products proven effective with SMEs.
- **Improving Business Environments.** Business environments are very difficult with significant over-regulation, particularly in Bangladesh and Nepal. DESA will not initiate national policy reforms, but will directly assist the World Bank Group, the Asian Development Bank (ADB), key bilateral donors, and the government in the policy arena.

It is currently anticipated that the total budget for DESA for its first five-year period would be up to approximately $28 million. IFC expects to make a contribution of up to $5 million to DESA over the period ending June 30, 2006 ($1 million per year) and mobilize the remainder from other donors.

Mekong Project Development Facility

Launched in 1997, the Mekong Project Development Facility's (MPDF's) overarching mission is to foster growth in the number and size of domestic private firms in Vietnam, Cambodia, and the Lao PDR. The $25 million facility (not including a commitment of 5 million euros from the EC, pending resolution of some outstanding issues) bases its work on the idea that domestic entrepreneurship is central to ongoing efforts in all three countries in order to overcome widespread poverty and continue the transition from central planning to market-based economies.

In CY00, MPDF helped 34 companies raise financing, an increase of 55 percent over 1999, resulting in investments of $27.5 million, and leading to the creation of more than 6,000 new jobs and nearly $50 million in foreign exchange earnings per year.

MPDF applies a twofold strategy to its goals of strengthening small businesses, and improving their access to capital and their operational performance. The first strategy involves company advisory assistance, and the second involves business support services development. MPDF executes this twofold strategy by:

- Catalyzing additional financial flows from other sources and giving a boost to private sector development;
- Providing viable SMEs with improved access to long-term capital, technical advice, and managerial skills;
- Bolstering local lending capacity by providing specialized training to local private commercial banks;
- Promoting partnerships among local firms and financial, technical, and domestic partners at home or abroad; and
- Helping improve the local business environment.

In Vietnam, MPDF-sponsored training in management practices help build emerging private businesses. The facility currently organizes management training for local entrepreneurs on a full cost-recovery basis at business schools in Hanoi and Ho Chi Minh City. Despite the country's dearth of reliable business information and sources of reliable finance, MPDF launched successful pilots in Cambodia to scale up companies in the textiles and manufactures sectors in 2000, and expanded relationships with several banks and entrepreneurs in 2001.

Achievements in Lao PDR can be attributed to the willingness of local banks and IFC to lend to domestic firms, as well as to four years of experience and local market knowledge built up by MPDF staff. Completed projects have focused on education, and on Laos' comparative advantages in tourism and wood processing.

A good example of MPDF's contribution on the investment side is its recent work with Thai Hoa, a tea firm located 85 kilometers north of Hanoi that was launched in 1997. The company came to MPDF with a goal of increasing its exports from 2,000 to 3,000 tons per year. MPDF support helped it install an additional processing line as well as a fiber extractor for a secondary plant, leading to employment for 100 workers. The project is expected to generate 45 additional jobs in the future, mostly for women. The improved production capacity is also helping Thai Hoa charge higher prices for higher quality goods.

On the broader capacity building front, one of MPDF key projects involved the development of self-study workbooks offering "flexible learning" that gives Vietnamese and Cambodian entrepreneurs a practical way to acquire needed skills. Local publishing houses took full commercial risk in producing the 42,000 workbooks printed to date, hoping to earn a profit from their sale. Priced at the equivalent of about $2.35 in Vietnam and $1.90 in Cambodia, the workbooks are widely available in bookstores and street markets and selling well. *Ho Chi Minh City Woman* newspaper recently named them the bestselling business books in Vietnam, and in Cambodia 2,000 copies were sold in the first month. The project budget came from MPDF, the Canadian donor agency CIDA, and IFC's SME Capacity Building Facility.

New regional initiatives include establishing the first regional SME fund, pilots for distance learning, strengthening of business associations, and the application of e-commerce to SMEs. MPDF also seeks to expand existing programs in the management training, tourism and garment manufacturing sectors.

MPDF is financed by ten donor countries and institutions (not counting the EC), including the Asian Development Bank and IFC.

Southeast Europe Enterprise Development

Southeast Europe Enterprise Development (SEED), a multi-donor initiative managed by IFC to strengthen SMEs in Bosnia and Herzegovina, Albania, FYR Macedonia, and Kosovo, was launched in Fall 2000. In late Spring 2001, SEED's donors decided to expand SEED's mandate to include the Federal Republic of Yugoslavia (Serbia and Montenegro). The five-year effort offers a variety of services both to local SMEs directly and to other organizations that support them, and also works closely with the World Bank Group and other institutions to improve the difficult operating environment for small businesses in the target economies. Headquartered in Sarajevo with offices in Banja Luka, Belgrade, Pristina, Skopje, and Tirana, SEED is funded by Austria, Canada, Greece, the Netherlands, Norway, Slovenia, Sweden, Switzerland, the United Kingdom, and IFC.

SEED's mandate is to support the development of small- and medium-sized enterprises as well as individuals and institutions that serve the needs of SMEs and is working to enhance the broader enabling environment in which all of these stakeholders operate. SEED implements its mandate through tailored, enterprise- and organization-specific technical assistance, capacity building programs, training courses and research / policy interventions.

To implement the mandate fully, SEED embraces three strategic targets of assistance: enterprise-level investment services, capacity building of enterprises and institutions serving SME's needs, and improvement of the business enabling environment.

Investment services

SEED targets companies for sustained, market-based competition. If an SME can define its business in these terms, then and only then is it ready for financing. SEED will attempt to identify clients that are near this goal. In such cases, SEED will actively try to match the company with appropriate investors and financiers immediately. For those SMEs that need to strengthen their performance, SEED will assist in that development prior to seeking financing. When the client has obtained financing, SEED may also offer post-investment services. SEED has developed a number of products to assist SMEs in various stages of development and competitiveness. These include:

- Initial appraisal
- Partnership agreement
- Internal enhancement plan
- Investment plan
- Marketing the investment plan
- Post investment activities, which might include the following areas: setting up accounting/financial information systems; management training; management information systems; financial management; trade finance; export marketing and procedures; ISO accreditation; preparing the company for second/ third round financing; project implementation; and market development.

Capacity Building

The vast majority of SMEs in Southeast Europe have been shielded from modern market economies and are at a disadvantage as they operate and attempt to develop their businesses. Furthermore, there is no history of business advocacy or association existing with the sole purpose of supporting business interests.

SEED is addressing these issues by:

- Partnering with local associations of business owners and building the capacity for these associations to expand and function more effectively and independent of donor support;
- Implementing training and technical assistance programs to local business service firms (accounting firms, small business law firms, auditing firms, management information firms, general consultants, etc.), which will help with the professional development of SMEs and contribute to the creation of a business consulting sector;
- Implementing core training programs for client SMEs designed to enhance overall business competitiveness by facilitating improvements in key areas of the enterprise—financial management, marketing and distribution, streamlined and environmentally-friendly production, corporate governance, etc.
- Facilitating knowledge sharing among SMEs and SME service

providers through in-person "business roundtables," and Internet-based exchanges.

- Promoting the development of women-owned/operated businesses through targeted support for women business association development.

Business Enabling Environment

For SMEs to operate productively and attract investment, especially foreign investment, the environment in which they operate needs to be simple, supportive, predictable, and transparent. To better develop these attributes in the region, SEED is currently involved in the following activities:

- Support for legislative and tax reform benefiting SMEs. SEED is a strong advocate of this reform as a member of the international community and through its support to business association development. Specific areas of interest are property rights and registration, collateral and mortgages, business law and corporate governance, and labor law;
- Administrative and regulatory reform to help reduce heavy bureaucratic burden on SMEs and close work with FIAS related to administrative barriers study;
- Outreach to leaders of municipalities for local economic development programs targeting SME development support;
- Organization and dissemination of relevant business information—especially information that would assist SMEs in identifying new markets, understand and comply with local laws and regulations, and learn about new products, production methods, and technology;
- Promote regular dialogue between local business representatives and government;
- Engaging in special projects. Currently involvement includes support for sector specific trade fairs to help SMEs find new business opportunities and reconnect with old ones, development of credit bureaus, and an analytical review of the SME sector from which development progress of the sector can be gauged.

All program activities will be implemented as needs and niches are defined in Albania, Bosnia and Herzegovina, Macedonia, and Yugoslavia. Given the current status of Kosovo, only special projects with narrow focus are anticipated there at this time.

SEED is already on the fast track. At the end of June 2001, SEED completed six investment projects with a total value of $2.4 million, and helped raise $1 million in financing. In addition, SEED completed 13 internal business diagnostic plans and various capacity building initiatives. The latter include providing assistance for launching the first credit bureau in Bosnia, partnering with a consortium of lending schools in Slovenia for the design and delivery of management programs for SMEs, and supporting the founding of business associations in Bosnia.

SEED is also working in concert with the World Bank on its $40 million Business Adjustment Credit (BAC) for Bosnia to improve the business climate of the country. The BAC tackles judicial reform and legal enforcement; reducing corruption in customs and tax administration; simplifying registration licensing and inspections; and promoting public-private sector dialogue. SEED works with the World Bank to define priorities within these areas for reform and to ensure that the needs of SMEs are fully represented.

South Pacific Project Facility

In February 2001, major donors including IFC, Japan, Australia, New Zealand, and the Asian Development Bank, agreed to fund the activities of the South Pacific Project Facility (SPPF) for a third five-year phase at a cost of $10.5 million. The decision was an endorsement of the core competency in small business project work developed by the Facility since its establishment in 1990. During their meeting in Sydney, the donors acknowledged SPPF's ability to effectively respond to the unique development needs of the IFC's ten Pacific Island members, which are almost totally dependent on SMEs for private sector growth. Indeed, private sector growth is widely regarded in the region as critical to the social and economic development of Pacific island nations. SPPF has transferred a wide range of business and financial management skills to Pacific island entrepreneurs and consequently helped to foster a belief in the region's own ability to establish successful SMEs.

With a mission to "assist and accelerate the development of productive, self-sustaining, small- and medium-sized, private sector enterprises in Pacific island countries," SPPF has completed about 108 projects with a total value of more than $100 million over the past 11 years. In fulfilling its mission, the Facility has given a high priority to encouraging indigenous enterprises, involving women in business and fostering an awareness of environmental concerns.

The Facility's key objective over the next five years will be the development of a strategy to leverage the demand for its services through decentralization and local capacity building. SPPF will also seek to service new and growing sectors such as capital markets through intermediary development. The decentralization strategy will represent a significant transition away from the Facility's current policy of providing largely Sydney based consulting services to Pacific SMEs. While SPPF's existing agents act largely as facilitators for the Facility's consultants, it is envisaged that they and a number of yet to be appointed agents will in future work as local providers able to market and deliver SPPF products on a commercial basis. As a part of this strategy, SPPF plans to standardize its products, provide training, and develop a fee structure aimed at ensuring that the local delivery of its services is a commercially viable option for local agents. The proposed local agent network will operate within the SPPF's quality control framework.

During this five-year funding period, SPPF will also give priority to developing linkages between large aid or privately funded projects and local SMEs capable of participating in these projects.

In spite of political and economic instabilities in some countries in the region during FY01, SPPF was nevertheless able to complete 13 projects over the past year (July 2000–June 2001). Reflecting the nature of the region's economy, the value of these projects averaged between $500,000 and $800,000. Funds raised per project averaged between $200,000 and $600,000.

In Papua New Guinea, SPPF was involved in projects ranging from packaging to plantation timber, tuna processing, wholesale distribution, and healthcare. Agribusiness and aquaculture ventures were reviewed in Vanuatu and Palau while in Samoa, funding was raised to assist businesses in the healthcare, education and finance sectors.

The Facility was engaged in fisheries and tourism sector activities throughout the Pacific during the year. These activities included a review of the tourism portfolio held by the Federated States of Micronesia Development Bank and a major tourism project in Palau.

The local financial markets also presented growth opportunities and, during the year, SPPF appointed a capital markets specialist to complement the skills of regional investment officers and other industry specialists. In the financial services area, the Facility, with support from New Zealand through the TATF Program, has already provided technical assistance leading to the establishment of Samoa's first locally owned private commercial bank and is involved in the establishment of a Samoan venture capital fund.

SPPF is also working to develop a technical assistance package for the region's development banks on the understanding that without access to funds from development bank sources, growth in the SME sector will be severely restricted.