

# Pay Less, Get More: A Sustainable Business Approach to Capacity-Building Services

*In advisory services, we often try to develop markets for capacity-building services where currently there is no visible demand or supply. For the corporate governance program in Southern Europe, we developed a market-based approach to enable our partners to explore new business opportunities in the field of specialized education, training, and conferences that they previously had avoided because of lack of experience and/or high financial risks.*

## BACKGROUND

Initially, the model that we followed in our corporate governance program in Southern Europe was for IFC to organize a conference or training, hire consultants, and pay for all the costs. Because corporate governance was a new concept, we believed that no one would pay for our conferences and training, and therefore we did these events for free.

On average, a one-day conference would cost from €10,000 to €30,000 (about \$13,000 to \$39,000), and whenever we would follow up, we would realize that through our activity we had created little chance of sustainable development because:

- Free events made it more difficult for us to attract the right people who cared deeply about the topic;
- The consultants we used never took ownership of the event and never envisaged replicating the event without us; and
- The public believed that our events were just a temporary trend that would disappear with the end of the project.

Based on these shortcomings, we decided to adopt a new approach that would allow us to ensure sustainability in what we do. We convinced our consultants and partners to become the main owners of the conferences and training sessions, while IFC would provide capacity-building support and share most of the financial risks.

Through this model, we managed to reduce our costs for conferences and trainings in most cases to ZERO and even to get some return from our activities!<sup>5</sup>

## LESSONS LEARNED

### 1) What is the Sustainable Business Approach?

The idea is simple. As we try to convince our partners to enter new business segments that we want to develop, we insure their potential financial risks up to 75 percent of the potential total loss. So if the activity cannot take place or if there is a loss, we will reimburse our partners 75 percent of the net loss; and they will only have to support the remaining 25 percent. By doing so, we remove most of the financial risk from our partners and therefore give them an incentive to try new activities.

### 2) Is it too risky for IFC?

In fact, we not only cover risks but we also work to minimize our financial risks. We help our partners develop a business plan that we believe carries the best chances of success.

For us to enter in this kind of partnership, we need to believe that the activity envisioned can raise enough funds from the participants to cover at a minimum the costs associated with the event. To break even, and possibly to make a profit, is what in our view guarantees sustainability. Since we take the bulk of the financial risk, we have a lot of leverage to express our views on how the business plan should be

prepared. On the other hand, the fact that the partner is potentially liable for the remaining 25 percent of the loss gives him a strong incentive to take full ownership in the business plan and to ensure that all factors are taken into account.

This is where the “real” work of advisory services takes place, because here we talk about the content of the activity we plan to deliver and how IFC can help our partners do it. This is why this model can be adapted to all types of advisory services projects, not just for corporate governance.

### 3) How is the arrangement set up?

In order for our partners to feel real ownership in the activity, we usually let them be the front-runners and main organizers of all activities needed for the event. Of course, we assist them whenever necessary, but in front of the public, we always appear as the supporter or partner and not as the main organizer. This helps our partners build their own capacity and reputation in the market. We also allow our partners to collect all the fees from the participants and to look, if needed, for sponsors and other partners.

As soon as the partners need to pay invoices for the event, and as long as there are not enough proceeds yet from the participants, they submit them to us and

we pay the expenses as they occur, as long as they do not reach the limit of 75 percent of the total pre-identified costs. We considered a simpler approach whereby our partners would pay all the associated costs, and we would reimburse them at the end only if there was an actual loss. In reality, however, our partners proved very reluctant to pay for the costs themselves before receiving proceeds from the participants, or they had a liquidity shortage. This is why we pay them instead and get compensated later.

For this approach to work, we need to sign a cooperation agreement with our partners in which the detailed business plan is an integral part of the agreement. We also clearly stipulate how and what we will pay for, namely all expenses related to the event, as they occur and as long as they cannot be paid from the proceeds paid by participants. If these conditions are fulfilled, then we ask our partners to send us the invoices (with copies of the bills received by them).

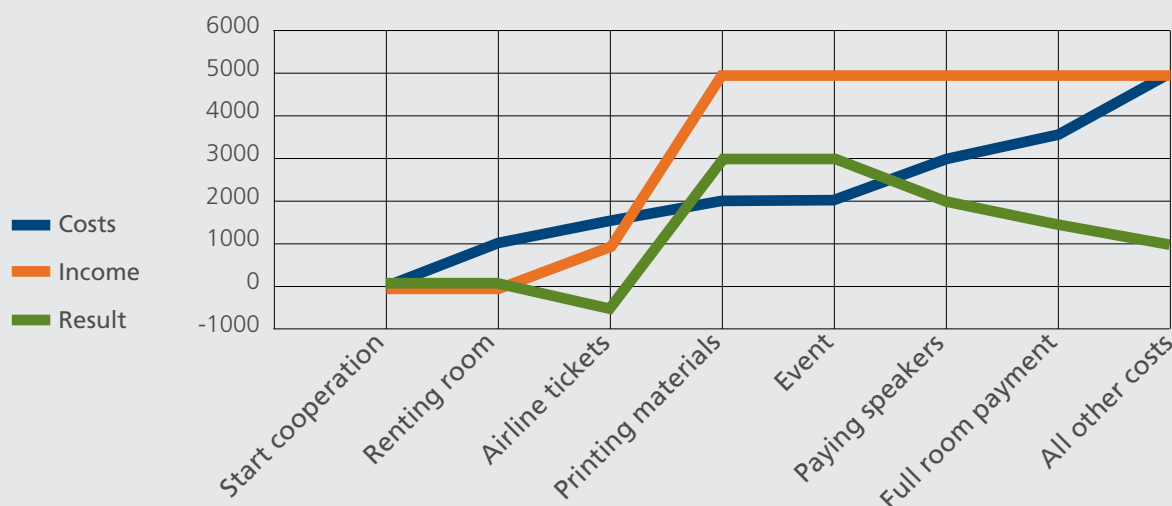
In reality, the arrangement works even better than on paper. We rarely pay 75 percent of the total costs; in fact, in most cases we pay nothing. The reason is that as the first payments are due, our partners usually already have proceeds from participants to cover such costs, and therefore the conditions mentioned in the agreement are not fulfilled. However, stipulating in the agreement that we would cover costs if needed is important because it reassures our partners. We want to convince our partners to enter new businesses, so we need to give them incentives.

**Note:** Please take into account the fact that, should the forecasted costs be higher than \$5,000, you will need to ask your partner to register as a vendor through the World Bank system so that you can pay him, should you need to. This is just a formality, but failing to do so in advance can make you lose time and cause your partner to become frustrated.



An event organized based on the sustainable business approach.

## EVENT COSTS VS. INCOME: A HYPOTHETICAL EXAMPLE



### 4) What happens at the end of the event, or if the event does not take place?

If the event is canceled for any reason outside the control of our partners, we calculate the net loss and reimburse them 75 percent of that amount. In most of the foreseeable cases, cancellations will occur before the event takes place, which means that not all planned costs are due: for instance, if a conference is canceled, the speakers will not receive their full fees but at worst only a fraction of them. Therefore, in this case, losses are limited and fully manageable. The same process is followed if there are not enough proceeds from the event, namely if there is a loss.

If the event is profitable, we then calculate the net profit and share it in reverse—namely, we get 25 percent and our partner keeps 75 percent. In this case, we send our partner an invoice with the amount corresponding to our share of 25 percent of the profit. This may be the area in which we faced the most problems as our partners would tell us that no matter how well they understood and appreciated the model, it was always a psychological matter for them

when they received an invoice for payment from an international organization. Should this be an issue, our suggestion is that you simply remove the share of 25 percent of profit in favor of IFC.

For the sake of good relations and to avoid misunderstandings, it is important to explain to the partners that “net” (be it a loss or a profit) means that we take into account what each party pays in advance and gets reimbursed from it, before calculating the net portion. This is an area in which we had several misunderstandings at the beginning, and therefore special emphasis is required here.

### 5) How does it work in practice?

See chart above for a hypothetical example showing how the system works:

According to the hypothetical example in the chart, IFC pays the bills only as long as the income is not higher than the costs (to be compensated later in case the event is successful). In this example, IFC would have to cover the airline tickets, but the purchase of the printing materials can already be done by the

partner, as all the participant fees have been received. At the end, our example shows a profit of €1,000 (\$1,313), which is reached after all costs (including previous payments from IFC) are paid. Thus, we will receive €250 (or 25 percent of the profit), and our partner will keep the remaining €750.

We used this model 10 times in four countries and with more than six partners. From our events, we had losses only twice due to a miscalculation of the demand.

Even with losses, the same partners are still working with us to explore the market further and to continue what we initiated. In all other cases, our events were profitable. Here are some examples:

Two years ago, we initiated a course on corporate governance with the University of Belgrade. Students were asked to pay €800 (\$1,050) the first year and €1,200 (\$1,576) the second year. Costs to set up the course were estimated at roughly €10,000 (\$13,140). The first year, the university had 35 students and 45 in the second year. Not surprisingly, the university will launch the course for a third year, and this time it will be done without our support.

We helped the Serbian Association of Managers launch a training series for its members on several topics associated with corporate governance. Through the sustainable business approach, we could convince them that they needed to develop capacity in-house, rather than hire expensive consultants. Together, we delivered four events spread over eight months, and in each of them we managed to get around €1,000 (\$1,313) of profit for a four-hour conference, the costs of which were approximately €4,000 each (\$5,252). The association now continues this exercise in other fields without asking for our support.

When a Macedonian financial weekly magazine, *Kapital*, was interested in entering the field of organizing business conferences, we jointly organized a conference on corporate governance. We wanted to keep the participation fees below €200 (\$263), but that was not enough to cover all expenses. Thus, we urged the partner to look for other sources of income, and the magazine quickly managed to sell paid ads to several sponsors. The event gathered more than 200 participants and media, and, in the end, we received €1,000 (\$1,313) as part of our financial profit. Included in the activity was the publication and delivery of a special magazine dedicated to the conference.

## CONCLUSION

This approach really works as a trigger and safety net in which our partners feel more confident to test new business opportunities. Most important, this model has allowed us to ensure sustainability of our events. In most of the cases so far, our partners continue even without our support and even broaden the scope of their activities to new topics.

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October 2008