Managing Entrepreneurs: Lessons Learned from Providing Advisory Services to SMEs in Mozambique and Angola

Advising small and medium enterprises (SMEs) can prove very challenging. From 2006 to 2008, IFC tried to do just that in Mozambique and Angola, with the goals of helping local entrepreneurs and enterprises secure financing, building up their business membership organizations, and providing professional training. This SmartLesson shares lessons learned from that effort, called the Entrepreneurship Development Initiative.

Background

At the time that IFC launched its initiative in the two post-conflict countries in 2005, Mozambique’s economy had been expanding at a rapid pace for the previous decade, after the 15 years of civil war that ended in 1992. However, limited access to finance and business expertise was a constraint on the private sector’s ability to meet consumers’ needs, create jobs, and generate tax revenues. Angola’s economy also was booming, after its 27-year civil war that ended in 2002. But its economy remained heavily dependent on oil production; monopolies and quasi-monopolies dominated the leading sectors of the economy, and inconsistent government regulations made entrepreneurial activity costly and difficult. In sum, both countries had very weak private sectors.

IFC Advisory Services launched the Entrepreneurship Development Initiative in partnership with the African Development Bank and the governments of Denmark, the Netherlands, and Norway. The initiative provided direct assistance to small and medium enterprises and to entrepreneurs, as well as to intermediaries that support the enterprises, such as business development service providers and business membership associations. The initiative also sought to create a business environment conducive to successful growth and expansion.

IFC’s initiative stimulated growth in the target businesses by providing better access to finance and business system support, and—on a selective basis—access to export markets and local subcontracting markets.

Specifically, the Entrepreneurship Development Initiative undertook the following projects in Mozambique and Angola from 2006 through 2008:

1. Providing a business plan or a feasibility study for five projects in Mozambique to help them secure financing. IFC’s cost of $176,560 to draw up plans and studies helped the entrepreneurs and enterprises to raise $3.47 million in loans and grants from commercial banks and international institutions—a cost recovery of 22.57 percent.

2. Supporting nine business membership organizations representing SMEs in Mozambique and Angola. The work included developing strategic 5-year plans; setting up workshops to analyze the strategic plans, as well as workshops with government and other private players; conducting market surveys; and creating marketing tools such as websites and brochures. The organizations—which include industry associations, women’s associations, business associations, and chambers of commerce—can play a key role in the market, since they usually are the private sector’s voice in its dealings with government, public institutions, international organizations, and donors. IFC’s budget was $122,000 for Mozambique and $56,000 for Angola and it had cost recoveries of 20 percent and 7 percent, respectively.
3. Training 2,285 individuals, including entrepreneurs and managers or staff of small businesses in Mozambique and Angola. IFC offered the professional training either through business membership organizations or financial institutions, or directly. Trainees included several business associations in Mozambique, hotel staff in Angola, and accountants and businesswomen in both countries. IFC’s budget was $567,000, and its cost recovery was 21.71 percent.

**Lessons Learned**

**Lesson 1: Working with a limited budget for consultancy services requires creative solutions—or more money.**

**Hiring consultants in both countries was very difficult.**

The projects involving finance for SMEs called for specialized skills in finance that weren’t readily available in Mozambique. Also, consulting firms such the Big Four usually charge more than $750 a day, plus sometimes a success fee. For most of the projects, IFC’s budget called for a daily rate of $300 to $350 for 30 working days, or about $10,000 total.

- In one case, we found a creative solution. A Project in Agribusiness sector that planned to produce multi-variety roses for sale locally and in South Africa and the Netherlands it was particularly hard to find consultants with expertise in horticulture. By networking with other consultants, we found an expatriate from Zimbabwe with suitable experience, and managed with the target budget of $10,000. We prepared a business plan that helped the Rose Production Project raise about $3.15 million from commercial banks.

- In another project, A Midia Expansion Project from a local company that obtained written and audio information and images and sold them to communications media, including newspapers and television channels we were able to stick close to our budget mainly because of the strength of the IFC brand. The group wanted to broaden its business to include typography and a daily newspaper and needed a feasibility study on the financing required. IFC committed to pay one of the Big-4 Consulting firms $16,000 to do the study. The firm initially complained that the fee wasn’t high enough, given the scope of the project. In the end, the consultant accepted the contract, mainly because it wanted to work for IFC.

- In two other cases, we were able to hire management firms because IFC considered the projects a priority and increased their budgets. We got $40,000 from IFC and the African Development Bank to draw up a business plan to establish the Institute of Directors of Mozambique, which was meant to represent top private- and public-sector executives and promote corporate governance in Mozambique. IFC considered that improved corporate governance was a pressing need for Mozambique, as a post-conflict country. We got $100,000 to prepare business plans for about 20 SMEs from the information and communications technology sector to help them compete in a grant program for proposals on using their technology to boost rural development in Mozambique. The $200,000 grant program was offered by the World Bank Group in partnership with public- and private-sector entities in Mozambique. IFC was willing to spend more on the grant program because it was a World Bank initiative and helped SMEs gain access to finance.

As for the projects supporting business membership organizations, there weren’t many local consultants in Mozambique or Angola with the necessary expertise. Both economies had been centralized after the countries became independent, which didn’t allow for private businesses. IFC’s budget for each of these projects ranged from $6,000 to $30,000, and this was too low for international consultants. Our solution in most cases was to select individual consultants with experience in strategic planning, designing marketing tools, and facilitating workshops.

The situation in Angola was more complicated, because consultants wanted higher rates. The solution was again to be creative and fly Mozambican consultants to Angola instead of hiring locally. (In many cases, the World Bank/IFC rates for short-term consultants do not match the going rates in the local market.)

Despite the budget constraints, IFC followed its procurement rules and procedures in hiring and managing the consultants.

**Lesson 2: Providing advice and training to entrepreneurs and their business membership organizations demands that IFC exert strong leadership and take extra steps to ensure that projects are managed properly and to control their outcomes.**

As such, entrepreneurs, SMEs, and business membership organizations were looking to get cash from IFC and not expecting that this would require them to improve their management practices. The organizations had that assumption because many donors and institutions do provide cash contributions, and they didn’t understand that IFC sometimes just provides advice.
Each of the clients posed different challenges.

The Mozambique project promoters tried to hide some information from IFC; they changed ideas and approaches quickly; and in some cases, they tried to manipulate numbers to present a more favorable picture of their finances. For example, one entrepreneur wanted our consultants to artificially increase the amounts in their investment plan so that later on they could buy a family house. Another client wanted his business plan to give an artificially high cost for equipment he needed to purchase, and later tried to buy the same equipment at a lower price and quality.

Not all entrepreneurs took the advice of IFC’s consultants. In the Agribusiness Project, the consultants recommended bringing in a technical partner with expertise in horticulture, since the local entrepreneur had little background in that sector. The entrepreneur refused that suggestion and still managed to get a loan of $3.15 million. But when the project started in the field, it failed.

IFC’s task in these situations was to always defend the consultant’s recommendation and work, and to protect the consultant from being negatively influenced by the entrepreneur.

Working with business membership organizations also required IFC to keep control by using proper project management skills and tools, since most of the organizations had a host of problems. They had low membership and poor accounting and governance practices. They weren’t able to sustain themselves financially and therefore relied on donors. They provided little service, ineffective lobbying, and weak communication with the public (for example, some have no brochures, flyers, or websites). In many cases, an organization had no periodic elections and was run by one man who viewed it as an opportunity for self-promotion and political links.

To overcome these problems, IFC and its consultants needed to take some additional steps. For example, after IFC had hired a consultant and signed a contract with specific deliverables, board members of a business membership organization would sometimes contest the contract details and budget that they had previously approved. To avoid this type of misunderstanding, IFC would prepare minutes of board meetings and circulate them to all board members. Also, IFC insisted that the leaders of the organizations indicate in writing their satisfaction with each deliverable.

Lesson 3: In working with entrepreneurs and their business membership organizations, IFC’s oversight must include careful management of consultants’ contracts and payments and the work they produce, including training materials, business plans and feasibility studies.

Because it was difficult to find consultants with the necessary expertise for these projects, IFC staff in the field knew from the beginning that they must put extra effort into managing the consultants.

The effort included meeting periodically with the consultants and exerting strong control over their contracts and payments. Consultants wanted up-front payments of 10 percent to 20 percent of their fee, but because they had simultaneous contracts with other clients, they often wanted to delay their work on the IFC project. To manage this situation, IFC would not make an up-front payment but would pay in installments after the consultant delivered a result that was approved by IFC and the client.

In the case of providing professional training, many of the consultants weren’t accustomed to working with SMEs and initially didn’t adjust their material to suit the SMEs’ unique needs. IFC had to take control of customizing the material presented to the trainees and secure the client’s approval of the material before the training began.

IFC also encountered situations in which Mozambican entrepreneurs and SMEs unquestioningly accepted everything that the consultants said and wrote. Our job in that case was to closely monitor the business plans and feasibility studies that the consultant produced, to ensure that they were appropriate.

Lesson 4: Before taking on a finance advisory project, IFC should canvass potential lenders to gauge interest and learn about financing requirements in the local market. Making presentations to lenders also is a useful step in the process of structuring a project.

Before agreeing to provide advisory services to the five Mozambican projects seeking finance, IFC contacted the financial institutions with which the entrepreneurs already had relationships, to gauge the institutions’
interest in providing loans to those projects. Without such interest, we would not provide any support.

We contacted other lenders in order to increase the potential sources of financing for the projects. That exercise also helped us understand the market requirements for accessing loans and assisted us in structuring the projects.

The consultants on IFC’s team and the project promoters made several presentations to financial institutions, which helped us to substantially improve the structure of the projects and also helped the lenders understand the projects.

In the end, the Agribusiness Project, the Institute of Directors of Mozambique, and the information and communications technology sector grant program managed to secure financing.

**Conclusion**

This project was designed to give a boost to small and medium enterprises and to entrepreneurs in Mozambique and Angola to help the countries along their path of economic recovery after long civil wars. Although worthwhile, the project presented several pitfalls.

Entrepreneurs and small business owners were tricky project partners, because they often lacked structured ideas that could be converted into a business plan or a feasibility study. They were practical people who were looking for quick wins. Managing their personalities and agendas was interesting but difficult.

Likewise, the business membership organizations were poorly organized and could have been risky to work with, because if anything had gone wrong, they could have sent out incorrect messages to their members and others that would have created a problem for IFC.

It also was difficult to find consultants with the necessary expertise for these projects in small markets such as Mozambique and Angola, and therefore managing the consultants demanded extra effort.

The project taught us that working with a limited budget for consultancy services calls for creative solutions and, sometimes, more money. Also, IFC must exert strong leadership when working with and training SMEs and their business membership organizations, and take extra steps to ensure that projects are managed properly. One possibility is for IFC to actively participate in the project to ensure that everything goes well, but the risk is that IFC might get too involved and create the perception that it is acting as the consultant, not the project manager. IFC must carefully manage consultants’ contracts and payments and closely monitor the work they produce for those clients. Finally, before taking on a finance advisory project, IFC should canvass potential lenders to gauge interest, learn about financing requirements in the local market, and address key questions that lenders might have about the project.