There is one thing small businesses in the developing world need more than anything else: better business environments.

Many local entrepreneurs have all it takes to succeed, yet must struggle against unfriendly conditions. It’s not just the most obvious obstacles that hold them back, like macroeconomic uncertainty, weak physical infrastructure, widespread corruption, and difficulty enforcing contracts and property rights. Often there are harder-to-detect barriers as well, such as:

- excessive demands for licenses, permits, and inspections
- burdensome tax and regulatory regimes
- a lack of appropriate institutions

These problems can be fixed—but not easily. Frequently larger firms have the resources and political clout to get around them, but small businesses do not. This reality emerged clearly in a recent study of 80 countries summarized in a new IFC discussion paper, *Firm Size and the Business Environment* (www.ifc.org/economics/pubs/discuss.htm). The survey found that SMEs are greatly disadvantaged when compared with larger firms and need a more supportive business climate to realize their potential.

Governments that want to address this problem are sometimes hindered by their own limited capacity to devise and carry out reforms, especially at the vital subnational level. And rarely do the right mechanisms exist to connect authorities with local SMEs and launch a policy dialogue. Entrepreneurship suffers as a result.

The World Bank Group is helping on several fronts. A recent technical assistance grant for the Federal Republic of Yugoslavia, for example, focuses on helping Belgrade authorities with deregulation, local economic development, and SME support initiatives. The SME Department is helping to forge new ties with some of the world’s leading organizations in this field. The intent is to strengthen the excellent work being done by these groups and help it move in new directions. One important partner is FUNDES International (www.fundes.org), a foundation that works with small businesses in Latin America on the “enabling environment” and other key issues.

FUNDES specializes in bringing local public and private sector stakeholders together to identify specific barriers to small business growth that can be changed within a few years. Ongoing since 1997, this work is most advanced in Argentina, Colombia, and Costa Rica, and is expanding rapidly. In late August, 30 FUNDES experts met in Panama to review experiences and plan future initiatives, which will be supported in part by IFC’s SME Capacity Building Facility.
George Soros is not just one of the world’s most famed investors. He is also a man who has channeled his wealth into a global network of philanthropies supporting key building blocks of democracy: rule of law, market economies, division of power, and respect for human rights, minorities, and diversity of opinion.

From a head office in New York, the 71-year-old billionaire’s nonprofit organizations provide more than $300 million each year to ”assist the transition from a closed to an open society” in Central and Eastern Europe and the former Soviet Union as well as Africa and other regions.

One key Soros creation is the Open Society Institute (OSI), a think-tank that works closely with a network of local Soros foundations. The foundations’ activities include a local government initiative (http://lgi.osi.hu) that has helped municipal and provincial authorities carry out successful reform programs since 1993. Partners include the World Bank Institute, with which OSI has co-developed training courses for local officials on fiscal decentralization, urban administration, managing multiethnic communities, and other topics.

Until now, however, the local government initiative has not specifically sought to improve the business environment for SMEs. This is the focus of a new joint project with the World Bank Group in Kosovo—a first step in leveraging OSI’s considerable expertise in local government issues to support private sector development.

Funded with $198,000 from the World Bank’s Canadian trust fund for enabling environment initiatives in the Balkans and $130,000 from the OSI local government initiative, this two-year project will expose joint government/small business/NGO teams from local municipalities to ”what works” in reforms friendly to small business. Topics to be covered range from local government/private sector cooperation to key elements of strategic planning and goal-setting. After a week-long workshop in Pristina, the teams will take a study tour to Hungary and then write their own agendas with measurable output targets.

The project comes only a year after U.N.-supervised local elections created the first municipal authorities in postwar Kosovo, where Kosovars had long been excluded from any significant role in civil administration. Its approach will be pragmatic and results-oriented, helping local communities think through ways to set the conditions for SME development and thus spark economic growth. Specific ideas that result can be proposed to the donor and investment community for funding as needed.

For more information: Eva Bakonyi (ebakonyi@ifc.org).
New Moves in Vietnam

Private companies in Vietnam are small—but expectations of them are big. Over the next decade, SMEs will need to be the leading source of productive jobs for the roughly 11 million new workers who will join the labor force. Firms are starting to benefit from a business environment that improved considerably with passage of an Enterprise Law in 2000. But local entrepreneurs emphasize the need for further reforms, as detailed in a new study co-sponsored by the Mekong Project Development Facility (MPDF).

The Enterprise Law instituted some key SME-friendly administrative changes. More than 100 previously required licenses were abolished, and the time needed to register a new business was reduced. These streamlined procedures and more predictable relations with government authorities give Vietnamese business owners more time to do what they do best: run their businesses.

More than 20,000 SMEs have officially registered since the law was passed, an impressive increase over previous levels. Obtaining this “formal sector” status makes it easier for SMEs to obtain commercial financing, export goods, build competitiveness, and create jobs. These are essential steps in a country that has made great progress in reducing poverty but still has more than 30 million people living below the poverty line.

A range of development agencies have provided significant support to the Vietnamese government’s efforts to create this more supportive environment for private enterprise. They include the Asian Development Bank, the United Nations Development Programme, the World Bank, and numerous bilateral donors, often working closely with one another. International experts provided technical assistance and perspectives on the writing of economic law from three different continents; donors financed a study that reviewed approaches among Vietnam’s Southeast Asian neighbors, which proved useful in explaining the law to the National Assembly. Donors also supported efforts to facilitate communication between ministries about how to implement the law.

The Next Step

Additional reforms are needed to build on this momentum. A recent survey of newly registered companies carried out by MPDF and Vietnam’s Central Institute for Economic Management found that SMEs continue to face many obstacles. These include unclear administrative procedures and ongoing problems with capital mobilization, business licenses, land and construction permits, taxes, investment incentives, and inspections. Almost 300 newly registered SMEs weighed in with their views, including small firms in manufacturing, trading, services, construction, and food processing. While affirming that the new law is a good start, the respondents emphasized that much more is needed to enable new enterprises to survive and grow.

For copies of the new MPDF study Doing Business Under the New Enterprise Law: A Survey of Newly Registered Companies, contact Thai Dzung Truong, MPDF Hanoi, Tel.: (84 4) 824 7892, E-mail: tdzung@ifc.org, or download by visiting www.mpdf.org.
In interior China, incomes lag far behind those of the more prosperous coastal regions that receive high levels of foreign investment. That’s why western China is the site of the newest IFC-managed SME facility, the China Project Development Facility (CPDF). Like its predecessors in other regions of the world, the new China facility will provide technical assistance to local small businesses and build local capacity in the consulting and financial services industries. Equally important, it will press for improvements in the local business environment and help stimulate lending to SMEs.

Funded by Australia, IFC, Switzerland, and the United Kingdom, CPDF began gearing up with activities in August and September before its formal launch. It is focusing initially on Sichuan and operates from headquarters in the provincial capital, Chengdu.

CPDF is the sixth active multidonor SME facility to be managed by IFC. Others include the Africa Project Development Facility (APDF) and its sister organization, the African Management Services Company (AMSCO); the Mekong Project Development Facility (MPDF); Southeast Europe Enterprise Development (SEED); and the South Pacific Project Facility (SPPF). All are overseen by the World Bank Group SME Department, a joint effort combining IFC’s transactional experience with the policy expertise of the World Bank.

CPDF is a key component of the World Bank Group’s broader development strategy for China. It will encompass three main programs:

- **Financial Institutions Strengthening**: Helping local financial institutions learn to lend effectively to SMEs.
- **Capacity Building and Training**: Building affordable local access to industry associations, accounting and consulting firms, e-commerce providers, and others.
- **Business Environment Assistance**: Working to identify and relieve constraints that small enterprises face in the local business environment.

Rather than seeking to become a long-term direct service provider itself, the new facility will work to build sustainable local capacity for SME development. In addition to strengthening SME investment proposals for SME investment projects, the CPDF will help local financial institutions monitor and evaluate SME loans, and advise them on financial and management reporting systems, environmental and corporate governance issues, marketing and technology strategies, and other issues.

The Financial Institutions Strengthening program will help local partner financial institutions better evaluate, structure, and manage SME loan portfolios, using both traditional banking skills and new approaches to SME lending.

The Capacity Building and Training and Business Environment programs will also have wide-ranging agendas. CPDF will develop local managerial and SME support services capacities through training and institutional strengthening. In coordination with the programs of other donors, especially the UK’s DFID and the World Bank, CPDF will also advocate and support improvements in the business environment for SME development through diagnostic research and seminars on policy and regulatory constraints.

IFC has taken a partnership approach to developing this initiative. Work began with two parallel grants from its Technical Assistance Trust Funds in June 1999: $173,000 from the Netherlands to support design of a detailed project concept, and $437,000 from Australia for the study *China’s Emerging Private Enterprises: Prospects for a New Century*, released in September 2000. In a related initiative, IFC has also launched a new $22.5 million SME equity investment fund emphasizing Sichuan. This vehicle is being managed by Small Enterprise Assistance Funds (SEAF), a U.S.-based specialist in developing country SMEs that also works closely with IFC in other regions and currently manages more than $120 million in assets in similar funds. An ongoing study, facilitated by $150,000 in Dutch trust fund support, is reviewing constraints and opportunities in the important Sichuan agribusiness sector.

For more information: Eric Siew (esiew@ifc.org) or Yang Li (yli@ifc.org).
Strong private sector development has been part of China’s remarkable poverty reduction story.

In preparation for its formal opening, CPDF held a symposium in September for financial institutions in Chengdu called “Profiting from Lending to Small and Medium Businesses.” The event exposed some of China’s senior bank managers, government officials, and private sector representatives to evolving approaches in SME lending worldwide. In the process, it identified some potential local banking partners that CPDF can work with as a way to help improve today’s low levels of SME finance in Sichuan.

The need for this work was demonstrated by the presentation of a local shoe manufacturer, Chengdu Aminer Leather Products. The firm’s general manager, Liu Qiong Ying, vividly recounted her difficulty obtaining support from local financial sources. Founded in 1996, her company has grown from about 30 to 700 employees and today exports most of its women’s leather shoes to Russia, the United States, Chile, and Japan. Despite good market prospects and cash flow, however, Ms. Liu has never received a loan from the banking community, essentially because of insufficient collateral. Thus she is having problems obtaining the medium-term loan she needs to improve her company’s facilities in order to better meet the requirements of existing and prospective clients overseas.

The prevalence of such experiences is what led to the September symposium, which brought together local commercial banks, Chinese government officials, and foreign experts on small business lending. Since many Chengdu banks are isolated and unable to follow emerging international trends, IFC arranged for presentations by top private SME lenders from other parts of China, such as the Bank of Shanghai.

The symposium followed another IFC-sponsored Chengdu event in May that addressed the local enabling environment for SME development. It identified two main constraints on lending to SMEs: interest rate caps and legal standards for acceptable loan collateral. As a result, CPDF is now framing a detailed program for future work in the financial sector in Sichuan.

For more information: Aleksandra Skoric (Askoric@ifc.org) or visit http://www.ifc.org/sme/pdf/html/china_banking.html
The conundrum of microfinance: How to run a self-sustaining program that targets large numbers of the very poor?

Ask FINCA International. Its global nonprofit network is well on the way to achieving financial viability despite making loans that average only $250—considerably smaller than those of many other organizations active in the field. Currently lending to more than 180,000 microenterprises in 20 countries, the network will be scaling up through a new alliance with IFC that is part of the World Bank Group’s work to expand microfinance activity worldwide.

To date, FINCA affiliates have largely relied on donor financing. None has yet evolved into a full-scale commercial bank. Helping in this transformation is a specialty of IFC, which began working with FINCA two years ago. It identified the group’s operation in the Kyrgyz Republic as an ideal first target for conversion. Launched in 1995 with a five-year, $6.2 million grant from the U.S. Agency for International Development (USAID), FINCA’s Kyrgyz affiliate is now the third-largest financial institution of any kind in the country. A high loan repayment rate and efficient organizational structure have allowed it to report healthy annual surpluses. Still, it reaches only a small fraction of its potential market, and faces many obstacles in obtaining commercial status.

ICF, in partnership with USAID and Kyrgyz government officials, has been instrumental in mobilizing the funding needed to tackle these issues. Early on, $100,000 in grants from IFC’s Technical Assistance Trust Fund supported studies used to draft the country’s first microfinance law and cover FINCA’s cost of writing a detailed business plan. The SME Capacity Building Facility provided another $100,000 to support the transformation, including new legal assessments and training and technology for local staff.

But how to help FINCA lend to more poor Kyrgyz entrepreneurs without waiting for the legal and transformation issues to be resolved? As an interim step, IFC’s Southern Europe and Central Asia Department devised an innovative for-profit investment vehicle that can provide necessary funding on a commercial basis. The $2.5 million FINCA Microfinance Resource will operate as a three-year limited liability corporation, funded 40/60 by IFC and FINCA. “This will give them the capital they need to reach more clients in need of microloans until the transformation project is complete,” says IFC’s Richard Rutherford.

The funds will earn a return and will likely be rolled into the equity of FINCA’s new Kyrgyz commercial microfinance bank. The bank is expected to open by the end of 2002 with 24,000 borrowers—a 17 percent increase over today’s levels.

The Kyrgyz project is the likely first step toward a larger relationship between IFC and FINCA’s network of global microfinance institutions. This partnership would focus on three main areas:

- establishment of a legal framework for MFIs in countries where this is absent
- transformation of FINCA’s financially viable programs into for-profit MFIs
- direct investments in FINCA affiliates.

The goal is helping extend more financial services to some of the poorest people in developing countries. “This vehicle is a template that can be replicated with other microfinance NGOs around the world,” adds FINCA’s Geremy Birchard.

FINCA at a Glance

WHAT IT IS: The Foundation for International Community Assistance, or FINCA, is a nonprofit microfinance organization that fights poverty “with sound business principles and an entrepreneurial spirit.”

MISSION: To create employment and raise incomes by providing financial services to low-income entrepreneurs who lack access to traditional banks.

HOW IT WORKS: Offers microloans and a savings program through a network of locally managed institutions. FINCA has lent $22 million to more than 180,000 clients, the vast majority of them women.

For more information:
FINCA International
1101 14th Street, NW, 11th floor
Washington, DC 20005
Tel.: (202) 682-1510
Fax: (202) 682-1535
E-mail: finca@villagebanking.org
Web: www.villagebanking.org
MEET THE TEAM

Twelve more staffers in the World Bank Group’s Small and Medium Enterprise Department.

NAJY BENHASSINE
Algerian
Current position: Participant, World Bank Group Young Professionals Program.
Recent experience: Associate, McKinsey & Co., Switzerland; visiting professor, University of Geneva, Switzerland.

NKOSANA MOYO
Zimbabwean
Current position: Senior advisor, SME Department.
Recent experience: Minister of industry and international trade, Zimbabwe; managing director and founder of Batani Capital Finance, Zimbabwe; managing director of Standard Chartered Bank, Tanzania.

MONICA CHONG
Hong Kong, China
Current position: Program assistant on consultant issues, SME Department.
Recent experience: Program assistant, Southern Europe and Central Asia Department, IFC.

MARIAMA MUTH
American
Current position: Information technology coordinator, SME Department.
Recent experience: Information technology coordinator, Africa Department, IFC.

HARVIE E. COMBASS JR.
American
Current position: Information technology officer, SME Department.
Recent experience: Information technology deputy project manager, World Bank/IFC.

MISHECK NGATUNGA
Tanzanian
Current position: Regional manager for eastern Africa Project Development Facility.
Recent experience: Investment officer, APDF, Nairobi; senior management positions, East African Development Bank, Kampala.

HAMISH DINGWALL
British
Current position: Senior program officer, SME Department.
Recent experience: Director of Oil and Gas Group, Scottish Enterprise, Aberdeen; manager for internationalization, Oil and Gas Group.

HENRI RABARUJOHN
Malagasy
Current position: Regional manager for francophone West and Central Africa, Africa Project Development Facility, Abidjan.
Recent experience: General manager, Private Sector Support Fund, World Bank, Madagascar; investment officer, APDF, Accra.

WILLIAM ANDREW GILLISPIE
American
Current position: Team assistant, SME Department.
Recent experience: Team assistant, Private Sector Development, World Bank; national appeals representative, American Legion National Headquarters.

THOMAS C. SCHIPANI
American
Current position: Financial controller, SME Department.
Recent experience: Principal program officer, Southern Europe and Central Asia Department, IFC; manager, Information Technology Division, IFC.

HIROYUKI HATASHIMA
Japanese
Current position: Investment officer, SME Department.
Recent experience: Senior risk management officer, African Development Bank; country economist for eastern Africa, African Development Bank.

PAUL RODNEY TURNER
Australian
Current position: Graphic designer and web developer, SME Department.
MULTILATERAL DEVELOPMENT BANKING BUSINESS SEMINAR.
November 8, 2001, in Ottawa, Canada.
Sponsor: Inter-American Development Bank.
For more information contact H. Miyakawa or J. Kipnis at (202) 623-2652 or 623-2980.
www.iadb.org/exr/calendar/cal.htm

CONVERSION TO THE EURO AND ITS IMPACT ON LOCAL SMES.
November–December 2001; workshops in various locations in Macedonia and the Federal Republic of Yugoslavia, including Kosovo.
Sponsor: Southeast Europe Enterprise Development.
E-mail: ssauvage@ifc.org (Samira Sauvage)
Tel.: (387) 33 217 760

BANK LENDING OFFICERS TRAINING.
Scheduled on request by banks, through winter 2002.
Sponsor: Southeast Europe Enterprise Development.
E-mail: ssauvage@ifc.org (Samira Sauvage)
Tel.: (387) 33 217 760

WORKSHOPS ON ADVOCACY FOR BUSINESS ASSOCIATIONS.
November 2001 – May 2002, in Sarajevo, Bosnia and Herzegovina.
Sponsor: Southeast Europe Enterprise Development.
(2) Training of consultants on human resources management for SMEs. Five-day training, tentatively scheduled for March 2002.
E-mail: icuric@ifc.org (Ivana Curic)
Tel.: (387) 33 217 760

SEED DONOR MEETING.
Week of November 12, 2001, in Belgrade, Yugoslavia.
Sponsor: Southeast Europe Enterprise Development.
E-mail: cmiller3@ifc.org (Christopher Miller)
Tel: (387) 33 217 760

SME RISK ASSESSMENT AND CREDIT ANALYSIS.
Sponsor: Africa Project Development Facility, Accra office.
E-mail: bamoako@ifc.org (Brigid Amoako)
Tel.: (233 21) 779804/5

INVESTORS CONFERENCE.
November 15–16, 2001, in Mwanza, Tanzania.
Sponsor: Tanzania Chamber of Commerce and Industry and Africa Project Development Facility, Tanzania office.
E-mail: tcciamwanza@netscape.net (Amran K. Batenga)
Tel: (007) 742 52 0271

STRATEGIC BUSINESS PLANNING.
Sponsor: Africa Project Development Facility, Accra office.
E-mail: aouedraogo@ifc.org (Alice Ouedraogo)
Tel.: (233 21) 779804/5