The Power of Partners

It is the essence of teamwork—two sides doing more together than they could on their own. It’s something seen in every business, and especially in the world of micro, small, and medium enterprises.

To strengthen its impact in this crucial segment of private sector development, the World Bank Group is increasingly looking outside, linking up with organizations that stand as leaders in the field. The goal: to make them even better and extend their reach.

Scaling up these micro/SME players on the cutting edge enables them to do more than ever with their time-tested models of service delivery, and is one of the keys to the World Bank Group’s new strategy. For its part, IFC has begun reducing its own direct investments in individual SMEs, instead emphasizing “wholesale” efforts channeled through both financial and non-financial intermediaries. To this end, IFC is using its new $7.1 million SME Capacity Building Facility to fund major new partnerships with several global best-practice institutions. Helping extend their reach is an efficient step toward meeting IFC’s objective of fighting poverty by building small businesses.

These world-class partners—whether profit or nonprofit, and based in the developed or developing world—can apply to the facility for funding of up to 40 percent of the costs of innovative projects that take their proven models farther. Early examples of this new partnership approach include ACCION International and IPC, two top microfinance institutions with somewhat different styles but equally powerful results, and SEAF, a specialized SME investment fund manager that also boosts productivity with carefully honed technical assistance packages (see pages 2–3). More such partnerships are expected in the coming months, giving IFC new sources of learning that can help widen its range of micro/SME activities.

“We see these groups as just the right kind of partners,” says IFC Executive Vice President and World Bank Managing Director Peter Woicke. “Traditionally IFC has defined its intermediaries in micro/SME work as conventional finance institutions such as banks, venture capital funds, and leasing companies. And while that approach is entirely valid and must continue, it’s also time to expand the definition a bit and start working through some less conventional ones as well.”

This new commitment to partnership is also happening within the World Bank Group itself. The World Bank is broadening its own efforts, which often focus on helping governments improve the business climate for smaller firms. New closer coordination between the Bank and IFC helps bring the private sector directly into the dialogue in many countries, including Bosnia and Herzegovina (see page 6).

Another interesting approach is in Moldova, where the World Bank and European donors have teamed to finance a government body that has generated 10,000 new jobs in the past five years by creating new SMEs out of existing large industrial enterprises (see page 7).

See NEW PARTNERS, page 2
SEAF CEO Bert van der Vaart and IFC Executive Vice President Peter Woicke sign partnership agreement in Washington, DC, March 1, 2001.

but vital to local economies. SEAF works intensively with investees to build value, providing fee-based and donor-funded consulting services in areas such as marketing, finance, and management, before eventually selling its stake. Its exits have achieved cumulative weighted average returns on investment above 30 percent.

Although originally only able to attract the participation of development institutions, SEAF's investment funds have now begun to attract private capital as well. It is a trend IFC will strongly support through its growing partnership with SEAF.

Since 1999 IFC has invested $17 million in four different SEAF-managed funds. The new agreement will help the organization scale up, covering the cost of tools such as new management information systems and specialized financial personnel. IFC's support will also enable SEAF to begin working in Africa and other regions.

Since its founding, SEAF has helped create 7,000 jobs and has assisted more than 160 SMEs. Bert van der Vaart, SEAF's CEO, says IFC's participation will help the organization reach many more SMEs than before.

Now, IFC is helping the organization move to a new level, attracting more private capital and channeling it down to the market segments that need it most. Under a $2.5 million global initiative launched this spring, SEAF will receive $850,000 from IFC's SME Capacity Building Facility. SEAF is contributing $733,000 from its own resources and drawing on other funding sources that include the U.S. Agency for International Development, the Dutch government, and Citizens Democracy Corps, a U.S. organization that sends senior business executives to work as volunteers with SMEs in developing countries. Additional resources are expected from other donors in the future.

Based in Washington, D.C. and the Netherlands, SEAF manages a network of 14 commercially driven investment funds around the world. Operating under a unique "equity plus assistance" model, the funds typically invest in businesses with 10 to 100 employees and annual revenues of $200,000 to $2 million—too small to interest mainstream private equity investors, but vital to local economies. SEAF works intensively with investees to build value, providing fee-based and donor-funded consulting services in areas such as marketing, finance, and management, before eventually selling its stake. Its exits have achieved cumulative weighted average returns on investment above 30 percent.

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Province. In Mozambique the work will center on strengthening an institution called Tchuma in the Maputo area, where only 5 percent of potential microborrowers are currently being reached. Efforts in Guatemala and Brazil will also focus on helping successful nonprofit microfinance institutions evolve into viable commercial players, increasing their impact and sustainability.

These new initiatives come just as IFC has made its first direct investment in an ACCION affiliate, Compartamos of Mexico. In the last 10 years Compartamos has developed a highly profitable lending portfolio serving 60,000 Mexican borrowers, mostly women. With technical assistance provided by ACCION and funded by the U.S. Agency for International Development, Compartamos recently spun off its microfinance operations into a separate for-profit entity, Financiera Compartamos SA. IFC is now supporting this new institution’s capital increase, taking over 15 percent of the newly issued shares and helping triple its number of borrowers over the next five years.

ACCI ON has a core operational staff of 30 experienced microfinance management specialists working both from a regional office in Bogota and from the ACCION headquarters outside Boston. Its work has helped show that, under the right regulatory conditions and with proper management and technology in place, microfinance can both serve the poor and earn profits—enough so that some commercial banks are now keen to enter the field. The key, ACCION believes, lies in the strong technical support it provides to its network. In partnership with IFC, ACCION should be able to offer new economic opportunities to thousands more small-scale entrepreneurs in Latin America and Africa.

**INTERNATIONALE PROJEKT CONSULT**

A new commercial microfinance bank will soon open in one of the Philippines’ poorest islands, Mindanao. It is the latest result of IFC’s new global partnership with a world leader in microfinance, Internationale Projekt Consult GmbH (IPC) of Germany.

At a meeting in Manila on February 20, IFC Executive Vice President Peter Woicke signed documents bringing together the five shareholders who are providing around 60 million Philippine pesos (US$1.2 million) to launch Micro Enterprise Bank of the Philippines (MEB-Philippines). They are:

- **PlantersBank**, a Philippine commercial bank specializing in SME finance (40 percent)
- **IPC’s investment fund Internationale Micro Investitionen** (20 percent)
- **DOEN Foundation of the Netherlands** (20 percent)
- **FMO**, the Dutch development finance institution (10 percent)
- **IFC** (10 percent)

Early studies financed by IFC’s Japanese trust fund confirmed that significant demand for microfinance exists in Mindanao. MEB-Philippines will provide market-rate loans to small entrepreneurs traditionally underserved by existing financial institutions. That approach is the hallmark of IPC, a consulting group whose management support services have helped build self-sustaining microfinance institutions in Latin America, Central and Eastern Europe, and the former Soviet Union. IPC will now develop this new institution in the Philippines, applying its customized credit technologies and expertise and training local loan officers. It is an approach that has proved successful in many difficult environments, including Kosovo, where the IPC-managed Micro Enterprise Bank was the first licensed bank in the post-conflict era and reported profits after only six months of operation.

Like IFC, IPC believes that regulated, self-sustaining financial institutions are the best way to meet the large demand for microcredit. The two institutions thus teamed in June 2000 to spearhead a new partnership called the Global Microfinance Capacity Building Facility. An $85 million initiative to support new IPC-managed commercial microfinance institutions in 11 countries, the facility combines investment and technical assistance funds in one efficient package, uniting several like-minded groups in a common cause.

When MEB-Philippines opens in a few months, it will be able to draw on already committed training funds from IFC and the DOEN Foundation to cover its institution-building needs in the critical first three years. Other countries expected to get new IPC-managed microfinance institutions under this initiative include Ghana, Turkey, and others.

For more information on all three partnerships: Katia Macedo (kmacedo@ifc.org).
There's a “frontier focus” to much of the World Bank Group's SME work. The toughest issues, such as extreme poverty and environmental degradation, are often the ones that demand the most creative responses. In Cambodia, the IFC-managed Mekong Project Development Facility is helping expand a handicrafts business that employs formerly homeless women. In Honduras, poor people without home electricity are benefitting from IFC-financed solar lighting. And in Mexico, a World Bank initiative is linking small companies with large ones to find ways to make environmental improvements that boost the bottom line.

Building Sustainability: Cambodia's Hagar Crafts

The Hagar Project, an integrated housing and job training program for destitute women and their children, is widely seen as one of Cambodia's most effective poverty-fighting initiatives. Sponsored by Youth with a Mission, an international Christian NGO, it has an excellent track record of helping people climb from the economic fringe of one of the world's poorest countries, assisting them in building new lives and learning marketable skills. Now, assistance from the IFC-managed Mekong Project Development Facility (MPDF) is helping to scale up its most successful component, a handicrafts business currently providing training and employment for 50 women.

Many of the women at the Hagar shelter previously lived on the streets and were subject to exploitation. Hagar provides them with relief assistance, job training, schooling for their children, and housing for up to six months. Business units in handicrafts, soy milk production, and catering provide support for the shelter by creating income-generating jobs. Women can continue as wage-earning employees after their stay in the shelter ends.

Operational since 1997, Hagar Crafts makes high-quality bags, mats, slippers, and other items from local woven cloth. It currently turns a small profit by selling the goods to tourists in Phnom Penh and Siam Riep as well as exporting them, mainly to Switzerland, Japan, and Singapore. Production uses manual sewing machines. The turnover of the unit in 2000 was estimated at $80,000.

MPDF conducted a thorough review of Hagar Crafts' production processes and advised it on a business expansion project. The plan is to transform Hagar Crafts from a donor-funded unit into a private company, enabling it to expand its production capacity and increase exports. Hagar will establish a separate commercial entity for Hagar Crafts, with an independent management and operating structure. The goal is to obtain new sources of technical assistance (both advisory services and training) and upgraded technology, including management information systems. Current employees would then be trained in new skills, including operating electrical sewing machines. The expansion is expected to create an additional 20 jobs.

The planned transformation of Hagar Crafts will integrate the social development objectives of Hagar with private sector development objectives. Hagar is expected to be one of the shareholders, and will implement the plan to transform the craft unit into a private enterprise. In addition to providing employment for approximately 70 destitute women, the project will also contribute approximately $100,000 to Cambodia's export earnings by 2003. Long-term plans include the transfer of ownership to deserving employees. The project has the potential for replication in other commercial units of Hagar as well as other NGO projects.

For more information: Karla M. Quizon (mquizon@ifc.org).
Honduras: Solar Power for the Poor

A startling fact: A third of the world’s people have no access to commercial energy sources.

In Honduras, one of Central America’s poorest countries, fully 50 percent of all households lack access to electricity. Extending the electric grid to remote rural areas is too expensive for the national utilities company. Many farmers have no choice but to rely on traditional small-scale sources of energy, or on polluting and often oversized gas and diesel generators. But another, cleaner solution exists: photovoltaic solar home systems.

Giving rural Hondurans access to solar power is the business of Soluz Honduras, a subsidiary of a U.S.-based company, Soluz Inc. For a small installation fee, Soluz installs a solar home system that provides a small amount of electricity. The user pays $10 to $20 a month for service, and receives enough energy to provide electric lighting and power a radio or television set. The unit thus provides the small amount of power that many rural households would like at a cost they can afford. The electricity replaces the use of generators, fuelwood, candles, and kerosene for lighting, thus reducing pollution-causing carbon dioxide emissions.

The product is simple, but it fills the needs of people who otherwise could not afford electricity, says Doug Salloum, manager of the IFC-managed Global Environment Facility (GEF). Soluz Honduras has raised a total of $1.5 million in debt and equity funding from that program as well as others.

Soluz Honduras already serves more than 750 fee-for-service customers and is poised to expand. A survey carried out by the company before starting business showed that a third of the residents in target markets spent more than $8 a month on batteries, kerosene, and candles. A $15 monthly charge for clean electricity is thus an attractive alternative for many.

There is no competition from other electricity suppliers in Honduras, as the national utility company has a limited capacity to electrify most of the areas served. Soluz Honduras’s near-term expansion goal is to serve 5,000 paying customers within the next three to four years, allowing it to achieve profitability. Future expansion, perhaps with additional IFC financing, could position Soluz Honduras to serve 50,000 of that country’s 850,000 unelectrified households.

For more information: Doug Salloum, GEF (doug.salloum@sympatico.ca) or John Rogers, vice president, Soluz Inc. (jrogers@ijc.org).

Big and Small Companies in Mexico: Together in Environmental Management

Putting environmental management systems in place is often too expensive for small businesses. But working with larger mentor companies can give SMEs a cost-effective way to improve their environmental efficiency.

In Mexico, the government, the World Bank, and 11 large companies including IBM, Lucent Technologies, Honda, and CEMEX have jointly sponsored a project to help 22 SMEs improve their environmental performance. The goal was to see if the mentoring support would help the SMEs—all of them suppliers to the larger firms—successfully meet the criteria of targets such as ISO 14001, a certification setting standards for a firm’s environmental policy, planning, implementation, and operation.

Progress is encouraging. Within a year, 80 percent of the SMEs reported lower pollution and nearly 50 percent reported improved waste handling. More than half also reported improved efficiencies in use of energy and raw materials. Even though none of the SMEs chose to become ISO-certified, they have reported continued good environmental progress. Some of the new networks created have been maintained. The pilot helped increase understanding of small businesses’ approach to environmental matters, and the model is now being replicated in Bangladesh.

For more information: Kulsum Ahmed (kahmed4@worldbank.org).
CLOSE COOPERATION

Combining the World Bank's policy reform expertise with IFC's client focus creates a whole stronger than the sum of its parts. Through this joint effort, Bosnian SME owners are starting to press their government for a better business climate, and a Moldovan industrial restructuring effort may move into a new phase.

- Judicial reform and legal enforcement
- Reducing corruption in customs administration
- Simplifying registration, licensing, and inspection
- Promoting public-private sector dialogue in the formation of legislation and policies affecting private business

The recent emergence of business associations determined to advocate for policy change has been an encouraging step. While working on a small business “country map” of Bosnia last June, an SME Department team saw the need to bolster these groups. Accordingly, the World Bank used Canadian donor trust funds to enlist the Canadian Manufacturers and Exporters Association to help train the groups in advocacy work. Work was done in close coordination with the World Bank's BAC team and involved strong support from Southeast Europe Enterprise Development (SEED), a new IFC-managed multidonor initiative for SMEs in Bosnia, Albania, Kosovo, and FYR Macedonia.

The participating business groups face major challenges in organization, membership recruitment, and communication. But they are gaining new advocacy skills and applying them in the policy formulation process via the BAC. There are encouraging signs that independent voices of small business are emerging to help build a more favorable business climate, making Bosnia a better place to live, work, and invest.

For more information: Christopher Miller (cmiller3@ifc.org).

BOSNIA and HERZEGOVINA: A Better Business Climate

Strong associations that can speak effectively on behalf of private business interests are crucial to private sector development in any country. But too often they are absent. New ways must be found to bring them into the policy reform process.

In Bosnia and Herzegovina the World Bank Group is working to bring local small business groups directly into the debate on ways to improve the business climate. The country's postwar pace of privatization and small business start-ups has been slow, taking a toll on development. Foreign investment is also low, mainly due to the intrusive administrative and legal barriers held over from the past.

In response, the World Bank is preparing an estimated $40 million Business Adjustment Credit (BAC) that will support the government’s reform agenda. Four key areas are being considered:

- Judicial reform and legal enforcement
- Reducing corruption in customs administration
- Simplifying registration, licensing, and inspection
- Promoting public-private sector dialogue in the formation of legislation and policies affecting private business

MOLDOVA: Post-Privatization Restructuring

In Moldova, the World Bank Group is helping tackle the complex task of restructuring large, inefficient industrial enterprises without creating massive unemployment. Playing a key role is the nonprofit Agency for Restructuring and Enterprise Assistance (ARIA), which received initial funding under a Private Sector Development loan. Some 450 small and
medium businesses have benefited from ARIA's assistance—at least 80 of them new SMEs created by spinning off viable units of larger, dysfunctional companies.

ARIA was established in 1995, a time of severe economic difficulties in Moldova. Companies that once powered the Soviet military-industrial complex were limping along, burdened by enormous debt, bloated labor forces, rusting capital assets, and little production. ARIA has helped these companies reorganize through bankruptcy and liquidation, sale or lease of assets, and spinning off of units that still show profit potential.

The enterprises' physical assets themselves have been reconceived. Where the hulking relics of decaying manufacturing plants once loomed, newly created industrial parks now hum with activity. Spin-off businesses are remaining on site while other SMEs are also moving in, making use of existing buildings, equipment, and infrastructure to substantially lower their costs.

One example is the liquidation of Spectrul, a textile manufacturer in the city of Chisinau. ARIA helped the company preserve its core business, complete the privatization process, and sell or spin off its noncore assets. A new company, Produse Tehnice, was established to manage the Spectrul Industrial Park on the site of the old textile firm. The park quickly filled with small and medium-sized businesses that together employ 450 people.

Also restructured was a manufacturer of technical military equipment known as ALFA. After the breakup of the Soviet Union, ALFA stopped getting orders, and by 1997 the company was nearly $13.5 million in debt. The 800 workers on the payroll had not been paid in more than two years. Today, the ALFA Industrial Park supports 85 businesses employing 1,500 workers. Most of the debt has been paid off and most tenants report profitability.

In the last five years, 60 enterprises have completed ARIA's restructuring regimen while 24 were liquidated, all working with teams of trained, almost entirely local consultants. The agency's expenditures for the period total about $9 million, with funding from the World Bank, USAID, and European donors. The SMEs assisted by ARIA have created approximately 10,000 new jobs, account for a 30 percent increase in worker productivity, and have attracted $40 million in new private investment commitments.

With hundreds of companies still under state ownership, many of them in serious arrears, great potential exists to create still more SMEs. ARIA is moving toward a fee-based, management consulting model that uses local consultants to work with qualifying companies. World Bank Group support may help scale up the successful ARIA model by transferring the knowledge and organizational framework and by designing pilot restructuring projects in other countries.

For more information: Lars Jeurling (ljeurling@worldbank.org).
Calendr

Seminars

ASIAN DEVELOPMENT BANK
34th ANNUAL MEETING OF THE BOARD OF GOVERNORS.
May 9–11, 2001, in Honolulu, Hawaii.
E-mail: annualmeeting@adb.org

AFRICAN DEVELOPMENT BANK GROUP
E-mail: valenciapress@afdb.org

In the World Bank Group

BUSINESS DEVELOPMENT SERVICES.
April 23–24, 2001, in Washington, D.C.
Sponsor: SME Department.
E-mail: aamuah@worldbank.org (Alex Amuah)

COMPETITION POLICY IN INFRASTRUCTURE SERVICES.
April 23–24, 2001, in Washington, D.C.
For more information contact Leticia Aguilar at leticiaa@iadb.org or at
(202) 623-1648.

WORLD BANK GROUP/INTERNATIONAL MONETARY FUND SPRING MEETING.

Training

BDS TRAINING PROGRAM 2001.
August 5–23, 2001, in Glasgow, U.K.
Sponsor: Springfield Centre.
www.springfieldcentre.com
E-mail: bds@springfieldcentre.com

CHALLENGES TO MICROFINANCE COMMERCIALIZATION.
June 4–6, 2001, in Washington, D.C.
Sponsors: The MicroFinance Network; ACCION International; MBP; U.S. Agency for International Development; Consultative Group to Assist the Poorest (CGAP).
http://www.bellanet.org/partners/mfn/conf.html
E-mail: shalpern@mfnetwork.org (Sahra Halpern)

AFRICA PROJECT DEVELOPMENT FACILITY/AFRICAN MANAGEMENT SERVICES COMPANY JOINT MEETINGS.
E-mail: nafram-m'bowl@ifc.org (Nana Afram-M'bow)