

SME FOCUS

WORLD BANK GROUP / SMALL AND MEDIUM ENTERPRISE DEPARTMENT

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IN THIS ISSUE:

PAGE

Internet Access for SMEs

Micro, small, and medium enterprises are the lifeblood of developing countries, creating jobs and raising incomes in environments where economic opportunities are otherwise scarce. But for all their importance, they face a daunting obstacle: far too few have access to regulated banks, savings and loan associations, investment funds, and other formal financial institutions.

PAGE

SME Department Intranet Page Launched

For the most part, local financial intermediaries (FIs) see small business simply as high-risk, low-return operations not worth their time. Micro, small, and medium enterprises generally don't have the management and accounting skills required to provide transparent financial statements, and most lack enough credit history or fixed assets to serve as collateral. This makes them seem much too costly for local FIs to consider. And in the few cases where FIs do emerge to target the sector, regulations such as capital adequacy ratios, interest rate caps, and bank licensing requirements often thwart their efforts.

PAGE

Partner Profile: IPC

Broad systemic change is needed. The hard part is making it happen. How can local banks come to see that, for all its informality, small business can be good business?

The thinking in the development community on this subject has recently begun to change. In the past, the emphasis was often on increasing subsidies to microenterprises and SMEs. Development organizations traditionally have subsidized direct credit to SMEs and provided grants for business training programs and cheap loans to intermediaries carrying 100 percent government guarantees. This approach has had some positive effects on poverty via job creation and small



© Mark Fallander

New IFC investee PlantersBank has built a business financing Philippine SMEs.

business start-ups. But it depends on shrinking pools of donor aid, and is increasingly being criticized for distorting local markets and contributing to a "culture of non-repayment." It also seems to strip away the incentives FIs need to grow comfortable with taking small business credit risk—the first step to increased lending.

Now things are moving in another direction, with a new goal of increasing small business access to a

See *FINANCIAL SERVICES*, page 7



HARNESSING THE POWER Internet Access for SMEs

The Internet is radically changing all aspects of the small business environment. Those who make strategic use of it can dramatically lower their costs of doing business—not only by new efficiencies in acquiring information and marketing products, but also by a changed framework for relating to customers, accessing capital, and carrying out internal business processes. Those who ignore the new technologies risk falling further behind.

So far, the benefits of e-business have largely been confined to industrialized nations and the largest companies of the developing world. To spread the gains more widely, the World Bank Group has begun financing a wide range of projects to help SMEs make better use of the Internet.

One recent example is RICENET, a new Web site that the Cambodian Rice Millers Association is launching on a pilot basis with \$40,000 from the IFC-managed Mekong Project Development Facility (MPDF). Although neighboring Thailand and Vietnam are the world's top two rice exporters, Cambodia so far exports almost no rice, one of its most important crops. This contributes to its remaining one of the world's poorest countries. RICENET will help by:

- Enabling local millers to gain up-to-date national and international information on the rice sector.
- Giving them a new low-cost communications platform for discussion among themselves or with suppliers and customers, both in Cambodia and abroad.
- Training local Internet/IT teams that can facilitate broad computer usage in rural areas.

Computers with Internet access are being installed with the MPDF grant, and the project is expected to move to sustainability as local users show a willingness to contribute to central costs at the end of the pilot phase.

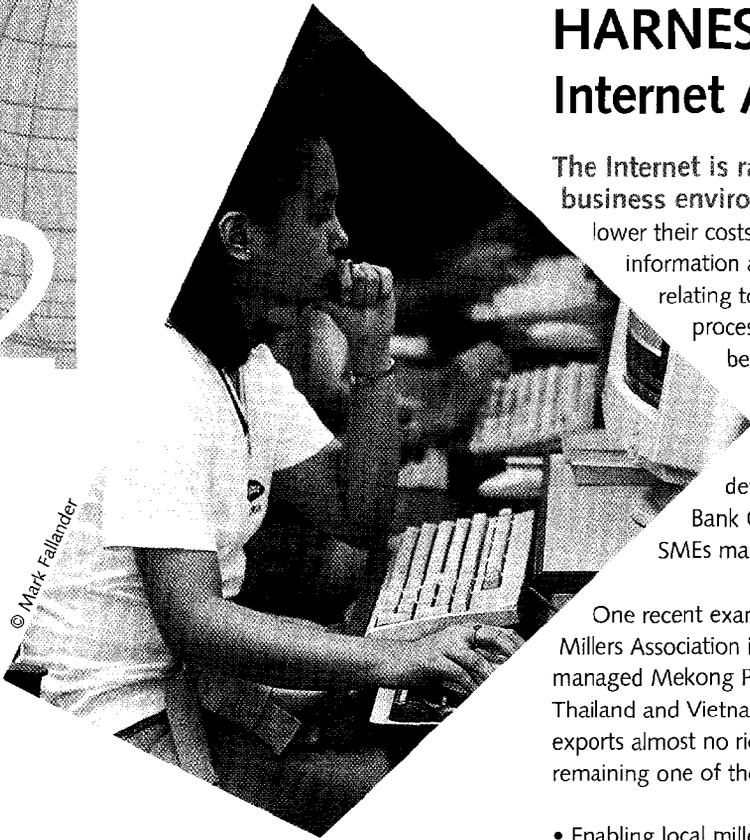
RICENET is part of a World Bank Group strategy that will address the five priority areas that can help SMEs advance in their strategic use of Internet technology:

E-ACCESS

Access to an Internet connection—which requires quality phone service and a reasonably priced Internet service provider (ISP)—is the necessary prerequisite to applying the new technologies. Projects in this area may include investment in ISPs, Internet cafés, and related training for small businesses.

E-INFORMATION/KNOWLEDGE

Increasing SMEs' access to quality information via the Internet requires not only making more information available online, but also ensuring that it is selected and packaged in accessible formats. Projects in this area will include the establishment of portals with content tailored to SMEs in specific sectors or countries, as well as syndication of content that can be redistributed to appropriate local sites. For example, the World Bank and IFC are jointly working on the Global Development Gateway, a site whose content will include this kind of material.



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**SME Department
Director Harold Rosen
meets RICENET users,
Cambodia
(below).**



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Director: Harold Rosen

Editor: Catherine A. Sunshine
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Newsletter coordinator: Luljeta Tola

For further information or to
request additional copies:
L.Tola, (202) 458-7562
E-mail: Ltola@ifc.org



E-COMMERCE

SMEs can expand their potential customer base by making products available online, either via their own Web sites or through online "malls" that serve multiple retailers. They can also cut supply costs by online purchasing, as a recent e-commerce start-up in the Philippines that IFC financed along with PlantersBank and others shows. Such projects may also include investing in "vertical portals" that bring buyers and sellers in one industry online together in fragmented niches that are dominated by SMEs.

E-FINANCE

Since significant opportunities for cost savings can emerge when financial transactions are done online, IFC has begun considering projects with India's Global Trust Bank and others to set up virtual banking Web sites focused on SMEs. These initiatives can help the banks widen their service offerings significantly by obtaining better information about clients.

E-OPERATIONS

Business operations in all sectors are being re-engineered to take advantage of Internet technology. This results in cost-cutting and the availability of more advanced services, including accounting systems, supply chain management and database management, to SMEs. Projects in this area may include investments in applications service providers tailoring their products to SMEs, as well as training programs to help SMEs integrate such technologies into their business operations. Other possibilities include helping small and medium financial enterprises move their own operations online, as well as helping SMEs take advantage of the burgeoning services becoming available for trade finance, equity finance, and other financial services. ■

Seminar

in The Hague Spotlights Financial Services

Financial intermediaries are a critical link in the chain of services that help small businesses start up and succeed. A key challenge for donors and technical assistance providers is to build sustainable financial intermediaries that can work successfully in the small business sector long after donor funds have been withdrawn.

Meeting this challenge was the focus of the Small Business Financial Services Seminar co-hosted by IFC and the Netherlands Development Finance Company (FMO) in The Hague last June. Participants exchanged ideas, tools and techniques, and lessons learned on how to help financial intermediaries service the small business sector in emerging markets. Crucial to this effort is the involvement of technical assistance partners who can work with local banks to build long-term capacity. Many of the best technical assistance firms working in this sector were on hand to share their insights.

In lively discussions, participants shared their experiences in financial services innovation, systems development, credit risk management, business planning, technology implementation, and policy planning. Tough issues were dealt with openly and honestly. These included, for example, the lack of transparency and communication among the international financial institutions; the challenge of building flexibility into technical assistance contracts while maintaining control; the difficulty of making an impact in a sector without creating market distortion; political influences on donor programs; and the need for multi-lateral lenders to simplify their lending procedures.

At the session's end, participants produced a blueprint for a more focused, coordinated approach to helping small businesses that donors and technical assistance providers can build on. Participants will continue this work in the late fall at a follow-up meeting hosted by IFC.

For more information:
Anne Lagomarcino (alagomarcino@ifc.org).

SME Intranet Is on Live!



Visit us soon at <http://ifcnet.org/sme> !

The Small and Medium Enterprise Department is pleased to announce its new Intranet Web site at <http://ifcnet.org/sme>.

The site is available to staff of the World Bank Group, including its field offices and facilities. Here's a sampling of what you'll find:

ABOUT US: Organizational chart, key players, vision and strategies of the SME Department.

LINES OF BUSINESS: Country mapping, business environment, knowledge management, metrics and evaluation, e-business, regional programs, facilities, capacity building, pilots, partnerships, funds mobilization.

COMMUNICATIONS: Presentations, press releases, fact sheets, and this newsletter.

CALENDAR: SME events within and outside the World Bank Group.

DEPARTMENT MIS: Work programs, deliverables, tracking of projects, management team minutes, budget.



Russia's new Campina yogurt processing plant buys milk from local dairy farmers.

PEP Targets SMEs in Former Soviet Union

Agribusiness is a key sector of the Russian economy, and over the years IFC has sought to strengthen it through active support of land privatization and farm reorganization. With more than \$27 million in technical assistance, IFC has helped transform nearly 500 collective or state farms into new private farming enterprises.

When a Dutch dairy cooperative, Campina Melkunie, wanted to build a new yogurt processing plant outside the Russian capital, IFC provided not only financing but also support in sourcing high-quality raw milk from local farms. In 1997, using \$1.1 million in grants from its Dutch Technical Assistance Trust Fund and another \$235,000 from Campina itself, IFC helped the Dutch firm identify potential suppliers. It then helped negotiate supply contracts with eight dairy farms in the area, each having between 100 and 800 employees and annual revenues of \$200,000 to \$4 million.

IFC, Campina, and Rabobank also teamed up to create a new agricultural leasing company to help the farmers acquire equipment they need to meet Campina's quality standards. The leasing company intends eventually to work not only with Campina but also with other interested processing companies. The yogurt plant is now fully operational and is having an impact in a region where agricultural production declined by as much as 60 percent after the fall of the Soviet Union, before beginning a slow recovery in 1997.

The countries of the former Soviet Union need many more such initiatives if they are to increase privatization, lessen regional imbalances, and develop the transparent business practices needed to attract foreign direct investment. To help them reach these goals, IFC has created a new financial and organizational framework for its technical assistance in the region, the Private Enterprise Partnership. A joint venture between IFC and donors, PEP will work in Armenia, Belarus, Georgia, Russia, and Ukraine, emphasizing sustainable grassroots efforts.

Building on IFC's track record of technical assistance in the region, PEP will create a stable funding base and a permanent structure for administering projects. Private donor funding is expected to total \$15 million per year for the next three years, with IFC contributing an additional \$9 million over this period.

Collaboration with the World Bank Group's SME Department is expected to include staff exchanges, coordination of approaches to donors, and efforts to measure the development impact of technical assistance activities.

For more information:

Farzin Mirmotahari (fmirmotahari@ifc.org).

"Friendly Credit" for Brazilian Entrepreneurs

The World Bank is providing new money to an innovative pilot that helps microenterprises in Brazil. A \$50 million loan will further develop the country's acclaimed CrediAmigo (Friendly Credit) microfinance project.



Financing microentrepreneurs in one of Brazil's poorest regions.

Brazil has Latin America's largest concentration of informal microenterprises, many of them located in its underdeveloped northeast. While commercial banks have generally ignored the microenterprise sector, Brazil's Bank of the Northeast has aggressively pursued this market, which represents more than 2.2 million potential clients in this region alone.

The World Bank worked closely with the Bank of the Northeast to develop the CrediAmigo program, starting in 1996 with study tours for the bank's senior managers to successful microfinance programs in Latin America and Asia. The World Bank also provided technical assistance through Acción International and the Consultative Group to Assist the Poorest (CGAP).

The CrediAmigo pilot was launched in 1997. Within two years it had grown into the largest microfinance program in Brazil, with 51 branches and more than 40,000 active clients. Most clients own small shops or kiosks or manufacture items such as clothing, shoes, and soap in their homes. The average loan is \$250.

CrediAmigo's experience shows that its focus on microenterprise makes good business sense as well as contributing to social development. Loan delinquency rates of less than 3 percent confirm that informal microentrepreneurs are good clients for formal financial services, even though most are illiterate and poor.

CrediAmigo attributes its success to the careful selection and training of loan officers and the development of a simple loan product with minimal application requirements. While covering costs, the program's interest rates are still less than a fourth of what informal moneylenders demand.

The latest infusion of cash "will provide a secure source of funding for the program's expansion over the next five years, as well as finance the additional technical assistance and equipment required to support growth on a sustainable basis," says World Bank project manager Steven Schonberger. The program expects to serve at least 150,000 clients during the project period.

Loan funds will be provided to CrediAmigo branches at Brazilian market rates to permit evaluation of real profitability. The loan will also support an evaluation to determine how improved access to formal financial services affects the households of microentrepreneurs.

The Bank of the Northeast is discussing with Brazil's Central Bank how the CrediAmigo program can evolve toward an independent financial agency that offers a wider variety of services to its clients. Annual evaluations will be carried out with CGAP and IFC to evaluate progress toward this goal. Bank of the Northeast has highlighted the importance of continued partnership with the World Bank and CGAP in the development of a sustainable microfinance program.

This article was adapted from the June 13, 2000 issue of Today, the World Bank's online newspaper.

For more information: Steven Schonberger
(sschonberger@worldbank.org).

Samoa's MedCen Hospital

"Heaven on earth, the ideal life," Robert Louis Stevenson once rhapsodized about the region then known as the South Seas. For the British author the South Pacific islands were a vast distance from the cares of his homeland. But the very isolation that attracted travelers is a continuing problem for the people of the region's micro states today. "We have very small populations and very little land," says Samoa's prime minister, Tuilaepa Sailele Malielegaoi. "There are trade and transport difficulties and a shortage of capital for development."

In 1990 IFC responded to these challenges by establishing its South Pacific Project Facility (SPPF). Many of the small businesses SPPF has assisted focus on the region's timber, sea

life, and tourism resources. An exception is MedCen Samoa, a private, 19-bed hospital outside the Samoan capital.

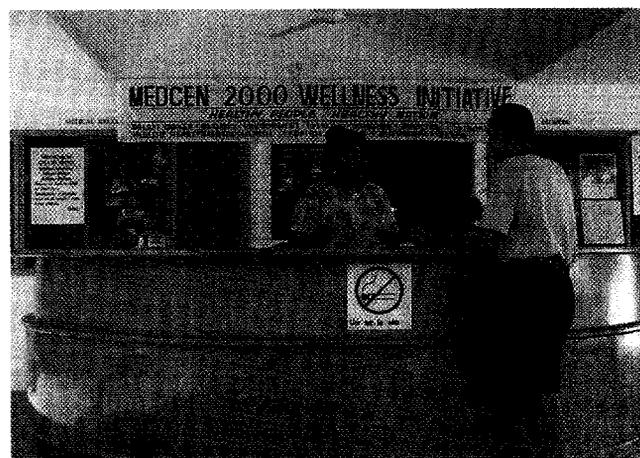
Co-founders Dr. Mamea Emosi Puni and Dr. Tualatasi John Adams approached the SPPF in 1994 with their high-risk venture. The hospital would require the largest capital raising in Samoa's history. Moreover, the proposal for a private facility that would operate on a user-pays basis raised social issues. Most people in this tiny nation of 165,000 are subsistence farmers, and per capita GDP is around \$800 a year. Everyone, including IFC and the World Bank, had to be convinced that this wasn't going to be a hospital just for the tiny Samoan elite.

The breakthrough came with an SPPF market survey showing that village families would indeed use the proposed hospital and pay for it with money sent by relatives living and working in New Zealand, Australia, and the United States. The SPPF became deeply involved in the \$2.2 million project. The Development Bank of Samoa provided \$700,000 in the form of term debt, while IFC made a \$500,000 quasi-equity investment. The balance came from 21 local shareholders. SPPF, says Dr. Puni, was "the glue that brought people and institutions together to make this place a reality."

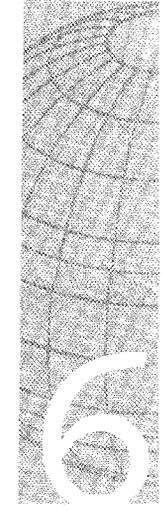
Opened in 1998, MedCen provides high-quality care with an emphasis on obstetrics/gynecology and pediatrics. It charges affordable prices and has taken some pressure off the state-funded health system. The hospital employs 34 people and has boosted Samoa's skills base.

Cut off from treatment by the vast Pacific Ocean, Robert Louis Stevenson died in Samoa of tuberculosis in 1894. Today, MedCen, with the assistance of the SPPF and the support of the Samoan government, is helping to ensure that isolation no longer threatens the health of the Samoan people.

For more information: Denise Aldous
(daldous@ifc.org).



IFC's South Pacific Project Facility helped bring quality private health care to Samoa.



PARTNER PROFILE: Internationale Projekt Consult

DEMAND FOR MICROFINANCE IS ENORMOUS. SUPPLY IS NOT.

Usually missing from the equation: regulated, self-sustaining financial institutions with a social vision and a desire to target low-income entrepreneurs. But recent work by Germany's Internationale Projekt Consult GmbH (IPC) shows how important a bottom-line mentality can be in bringing financial services to this critical underserved market.

Created in 1980, IPC first worked on donor-funded microfinance programs in Latin America. Founder and principal owner Claus-Peter Zeitinger recalls seeing money constantly lost and discovering that "if you made a fuss like an owner, you were looked down on." He was repeatedly told that microfinance was about poverty reduction, not commercial viability. But he also saw how that approach kept microfinance from being sufficiently scaled up, forcing the vast majority of microenterprises to rely instead on exorbitantly priced informal-sector loans.

Today IPC puts its own money at risk as an owner of microfinance institutions (MFIs). As such, it can insist on good results from both the development and financial perspectives. Through an investment fund it manages, Internationale Micro Investition AG, IPC owns stakes in commercial MFIs in Latin America and the Caribbean, Eastern Europe, and the former Soviet Union. Through a new \$85 million partnership with IFC, the Global Microfinance Capacity Building Facility, the firm will expand to Africa and Asia as well.

All institutions supported benefit from IPC's active stakeholder approach and essential grant funds from donors in the start-up phase. Custom-designed software manages operations at all IPC-affiliated institutions. IPC-trained credit officers also bring laptops on-site to microenterprises, drawing up cash flow statements in minutes. Credit officers are responsible for loans from start to repayment and—unusual in the commercial banking industry—their compensation is linked to the quantity and performance of the loans they manage.

IPC AT A GLANCE

WHAT IT IS: A for-profit consulting group that designs and establishes self-sustaining microfinance institutions in developing countries.

MISSION: To strengthen the microenterprise sector by promoting sustainability and greater scope for microfinance services.

HOW IT WORKS: Joins IFC and others to launch new institutions through an independent investment fund, applying customized credit technologies and staff incentives to ensure returns on its investments. Institution-building grants from donors are critical in the start-up period, then phased out.

PARTNER WITH IFC IN: Albania, Bosnia and Herzegovina, Georgia, Ghana, Haiti, Kosovo, Mozambique, the Philippines, and Ukraine. Will work in other countries through new Global Microfinance Capacity Building Facility.

IPC has emerged as a key IFC partner in microfinance, along with U.S.-based nonprofit Acción International, local institutions ACLEDA Bank (Cambodia) and K-REP (Kenya), and others. The German firm's microfinance venture in Kosovo, the first licensed bank in the post-conflict era, opened in January and showed profits within its first six months despite the highly difficult business environment. The bank has drawn in German giant Commerzbank as a shareholder—thus gaining not only capital and prestige, but also invaluable expertise in international capital transfers, a chief source of income for the many Kosovars with ties abroad.

In Bolivia, local institution Caja los Andes began in 1992 as a microfinance program run by a Bolivian NGO. IPC helped it evolve into a formal financial institution in 1995 and cut its portfolio's administrative costs by more than half. This year Caja los Andes expects a 15 percent return on equity. ■

For more information:

IPC GmbH
Am Eisernen Schlag 31
D-60431 Frankfurt/Main
Germany

Tel.: 49-69-95-14-37-0
Fax: 49-69-95-14-37-25
E-mail:
ipc_gmbh@compuserve.com
Web: www.imi-ag.de
or www.ipcgmbh.de

**Continuing our
introduction of the
World Bank
Group's Small and
Medium Enterprise
Department.**

FINANCIAL SERVICES, from page 1

wide array of long-term, financially sustainable services. Several innovative efforts of this kind are underway throughout the World Bank Group in partnership with other development finance institutions and local FIs. Among the strategies: investment in financially viable intermediaries targeting SMEs and increased technical assistance in reducing transaction costs.

The SME Department is working closely with the World Bank's Rural and Micro Finance/Small Enterprise Thematic Group and its counterpart within IFC's new Global Financial Markets Group to help these efforts succeed. Some recent market trends have eased the way, such as intensifying competition for the domestic blue-chip market and increasing recognition that small business lending makes sense. In many developing countries, for instance, Citibank has built a successful portfolio of emerging local companies that contributes positively to its bottom line.

In the Philippines, PlantersBank is a profitable, privately owned institution that focuses solely on SME lending and has a healthy \$400 million loan portfolio. Its long-term local currency financing helps thousands of small businesses grow, setting a good example for others. IFC recently invested \$27.3 million to scale up its operations and has also begun using it to train banks in Vietnam as well. Planters will also be a shareholder in a planned IFC-backed commercial microfinance institution in the Philippines' poorest province, Mindanao.

In Senegal, where microenterprises and SMEs provide income to more than 90 percent of the employable population, IFC has provided a package of partial guarantees to Senegalese banks designed to spur up to \$40 million in market rate, CFA franc-denominated SME loans over the next five to seven years. Subloans will range from \$30,000 to \$450,000 equivalent and carry maturities of three to five years, and will be targeted at Senegalese companies with annual revenues of \$3 million or less.

The Senegalese and other regional banks will work with IFC to build their capacity for SME lending and strengthen the overall environment for it. One component, expected to be funded by a grant from the SME Department's new SME Capacity Building Facility, will help them adapt credit scoring models that significantly lower the appraisal costs of small business loans.

IFC's initiative was conceived to complement an upcoming World Bank private sector development project in Senegal that will focus on improving the broader business climate by promoting legal and judicial reforms, vocational training, and local business associations. If successful, the twin punch from both sides of the World Bank Group should go a long way toward improving the competitiveness of SMEs, the key source of Senegal's private sector-led growth.

"We are seeing a great response to this new strategy to foster greater private sector growth and thus reduce poverty," says IFC's Hany Assaad. "We will be doing everything we can to work with external donors and partner organizations to learn from each other and collaborate in this effort to stimulate greater growth of small and medium enterprises." ■



ALEXANDER AMUAH
Ghanaian
Current position: Knowledge management officer, SME Department.
Recent experience: Knowledge management officer for World Bank Rural and Micro Finance/Small Enterprise Thematic Group.



IRENE ARIAS
Spanish
Current position: Investment analyst, SME Department.
Recent experience: Research assistant, Central Asia - Caucasus Institute.



RAJIV KOCHAR
Indian
Current position: Team leader, metrics and evaluation program, SME Department.
Recent experience: IFC Financial Markets Group; Extending IFC's Reach Program; World Bank Poverty Group.



ERIKA RHOADES
American
Current position: Program officer, SME Department.
Recent experience: Investment analyst, IFC Central and Southern Europe Department; consultant, IFC Southeast Asia Department.



WENDY JAGERSON TELEKI
American
Current position: Program officer, SME Department.
Recent experience: Consultant on SME development, World Bank; project manager, IFC Europe Department; also held positions with Finca International, Fuji Bank and Trust, and Eurasia Foundation.



ROB WRIGHT
American
Current position: Communications officer, SME Department.
Recent experience: Editor of IFC's quarterly magazine, *Impact*.



World Bank Group
Small and Medium Enterprise
Department

2121 Pennsylvania Avenue, NW
Washington, DC 20433 USA

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CALENDAR

Seminars

GLOBAL CONFERENCE ON MICROENTERPRISES.

September 26–28, 2000, in New Delhi, India.

Sponsor: World Association for Small and Medium Enterprises.
E-mail: arun@wasmeinfo.org (Arun Agrawal)

NETWORK ON POVERTY AND INEQUALITY MEETING.

October 11, 2000, in Rio de Janeiro, Brazil.

Sponsors: Latin American and Caribbean Economic Association;
World Bank; Inter-American Development Bank.
www.iadb.org/sds/eve.cfm/0/english/
E-mail: arianna@iadb.org (Arianna Legovini)

III INTER-AMERICAN FORUM ON MICROENTERPRISE.

October 17–20, 2000, in Barcelona, Spain.

Sponsors: Inter-American Development Bank and Agencia Española de Cooperación Internacional.
<http://www.iadb.org/sds/utility.cfm/159/english/general/1595>
E-mail: ricardoe@iadb.org (Ricardo Esteves)

NEW OPPORTUNITIES IN THE KNOWLEDGE-BASED ECONOMY: THE ROLE OF SMEs IN THE NEW MILLENNIUM.

October 29–November 1, 2000, in Seoul, Republic of Korea.

Sponsor: International Small Business Congress.
<http://isbc2000.kfsb.or.kr/>
E-mail: isbc2000@kfsb.or.kr

2ND OECD CONFERENCE ON WOMEN ENTREPRENEURS IN SMEs.

November 29–December 1, 2000, in Paris, France.

Sponsor: Organization for Economic Cooperation and Development.
www.oecd.org/dsti/sti/industry/smes/news/women2000.htm

In the World Bank Group

OPENING OF BALKANS ENTERPRISE FACILITY.

September 21–23, 2000.

WORLD BANK GROUP/INTERNATIONAL MONETARY FUND ANNUAL MEETINGS.

September 19–28, 2000, in Prague, Czech Republic.

Press room opens: September 18.

Program of seminars: September 23–26.

Plenary sessions of the Boards of Governors: September 26–28.

DONORS' COMMITTEE MEETING.

October 24–27, 2000, in Vienna, Austria.

Sponsors: Committee of Donor Agencies for Small Enterprise Development; Donors' Working Group on Financial Sector Development; Austrian Development Co-operation.
E-mail: mdutch@worldbank.org (Mary Dutch)

RURAL AND MICROFINANCE

BEST PRACTICES:

HOW TO DESIGN OPERATIONS

CONSISTENT WITH BANK POLICY.

Fall 2000 (dates to be announced), in Washington, D.C.

Sponsors: Private Sector Development;
Financial Sector Development;
Rural and Microfinance Thematic Group.